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ITEM #10
FINANCE
07-11-11

MEMORANDUM

TO: FINANCE COMMITTEE

FROM: ERIC STUCKEY, CITY ADMINISTRATOR
RUSSELL TRUELL, ACA FINANCE and ADMINISTRATION
VERNON GERTH, ACA COMMUNITY and ECONOMIC DEVELOPMENT
STEVE SIMS, Asst RECORDER and COURT CLERK

DATE: JULY 1, 2011

SUBJECT: UTILITY BILLING – STANDARIZATION OF BUSINESS RULES

PURPOSE: The purpose of this is to inform the Board of utility service delivery and billing challenges resulting from inconsistencies and lack of specificity for certain issues in the Municipal Code and to obtain guidance for future actions.

BACKGROUND: The Franklin Municipal Code provides policy for the application of service delivery and utility billings for Water and Wastewater in Title 18, for Solid Waste in Title 17 and for Stormwater in Title 23. Rates are covered in Title 22. The utility billing business rules developed from provisions required to bill and collect revenues for the water and sewer systems. We added services and started billing for Solid Waste and Stormwater services the last decade. In addition, we are now billing for Berry's Chapel Utility District, wastewater services provided by the City in other water districts, and recently the Sewer Assessments. The business processes and rules did not keep pace with these changes and were not integrated which resulted in disconnects in the provisions of the various titles. Many of these disconnects were resolved administratively with the development of business practices for the specific issue. For example – partial payments are not allowed for Water but are specifically allowed for Stormwater. Since statements contain both a business practice was developed allowing them under certain circumstances.

This initiative will bring to the forefront those issues by (1) identifying inconsistencies (2) explaining the impacts to the customers and the City (3) presenting alternatives and (4) providing recommendations for Board guidance and approval. This will be done thru various presentations and discussions as follows:

- Overview
- Customer Segmentation – service delivery rules and pricing is established by classifying the customer as (1) residential or (2) nonresidential but the various titles define each differently which has led to inconsistent implementation practices
- Customer Service Manual – it is recommended that a model similar to that used for Zoning be used and that broad policy be enumerated in the Code and that implementing instructions be set in a separate administrative manual
- Specific issues would be addressed in detail

FINDINGS: The Franklin Municipal Code serves us well for broad policy guidance. However, the billing model has evolved into a more complex application that is expected to weave together business



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process rules for the various services. Going forward, this allows us to have a business model that supports standardization. The deployment of Hansen 8 as our enterprise application will require standard business rules across the City. The greatest inconsistencies are for those customers who are in attached residential dwelling units especially those who are served water thru a “master meter”.

FINANCIAL IMPACT: There will be some financial impact to the City and to some customers but it is difficult to predict precisely as customer behavior could impact the outcome. The biggest impact is to prevent future adverse actions resulting from the deployment of inconsistent business standards.

RECOMMENDATION: It is recommended that the Finance Committee accept this status report and that the Board be provided the opportunity to obtain information so that policies can be approved to eliminate those inconsistencies and prevent adverse actions. It is anticipated that the business rules standardization project will occur over the summer to allow for the integration of business rules necessary for the deployment of the Hansen 8 application. Changes to the Municipal Code are expected to come from guidance obtained by the Board.



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The purpose of this is to provide a standard framework for identifying changes to the Franklin Municipal Code (“Code”), policy and/or practices for billing and collection of utility services.

WHY CHANGE - Utility services are provided by the City of Franklin (City) and are authorized by Code. Each of the authorizing Titles have slight differences and that presents opportunities when issuing consolidated bills. The customer is billed for these utility services using a standard statement for services. Although the Code allows for us to bill and collect for these services, the supposition is that this is best done under a contractual agreement should there be issues with service or payment. Therefore, there should be consistency of application in the authorizing codes for servicing the customer.

WHAT ARE UTILITY SERVICES - The following are considered utility services. Each is billed as a line item on the statement. Moving to Hansen for Utility Billing will allow us to expand billable service offerings.

1. **Water** – covered in Title 18, Chapter 1 and has a 10% penalty for late payment (18-114); customers are segmented as Residential or Commercial; disconnection is allowed for nonpayment (18-114) and fee applies (18-116); sewer charges apply to all metered water (18-210(1)); minimum bill applies (18-129); estimated bills authorized (18-114).
2. **Irrigation water** – covered under Title 18, Chapter 1 and has a 10% penalty for late payment; billed as a separate line item; sewer charges do not apply (18-106).
3. **Reclaimed water** – covered in Title 18, Chapter 4; 10% penalty for late penalty applies (18-415); disconnection is allowed for nonpayment (18-416) and fee applies (18-417); billed as a separate line item; sewer charges do not apply but cannot find specific reference (using 18-106 which says “irrigation meters”); very limited availability.
4. **Sewer** – covered in Title 18, Chapter 2 and has no penalty for late payment; disconnection is allowed for nonpayment (18-210); billed based on water



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- usage (18-204(5 a)); uses COF water reading values; minimum bills apply if sewer is within 200 feet of property (18-204).
5. **Metered sewer** – covered in Title 18, Chapter 2 and has no penalty for late payment; same provisions as sewer; water readings provided by non-City water provider and City provided services are billed by City; City does not bill/collect for Milcrofton water district customers of City services.
 6. **Solid Waste** – covered in Title 17 and has no penalty for late payment; two customer segments (Residential and Commercial); Residential customers are billed a fee for service as a line item on the utility bill; there is some ambiguity on requiring each residential customer to pay the fee as 17-110(1) says “all residents shall provide sufficient city issued...containers...” and in 17-113(1) the Code provides that Residential...shall be paid to the city for...every household container...”; Commercial customers obtain service from vendor of choice.
 7. **Stormwater** – this service is covered in Title 23 and has a 10% penalty applied for late payment; customers are segmented as Residential or Nonresidential; Residential is two tiered rate and charged to tenant as line item on utility bill; authorized to collect in 22, chapter 2; Nonresidential is billed to property owner in 23-202; provision for collection and bill issuance spelled out in 23-203; payment less than full is to be “...applied pro-rata to each account billed on the consolidated statement...” in 23-203.
 8. **Backflow Inspections** – are billed as authorized in 18-305; reinspection fees apply.
 9. **Connection fees** – are billed as authorized in 18-103.
 10. **Meter fines/fees** – are billed as authorized in the various titles if so warranted.
 11. **Berry’s Chapel (BC) sewer** – is sewer service provided by BC and billed/collected by the City; we use BC rules/rates; this is done thru a contractual agreement between the City and BC.



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12. **Assessments** – we bill and collect for sewer assessments as authorized under Ordinances approved for each district; these are billed on a separate bill issued to the property owner; provisions are different for each district.

WHERE DO WE PROVIDE SERVICES - The City provides water and sewer both inside and outside the city limits of Franklin while it provides solid waste and stormwater services inside the city limits. In addition, there are four water districts that provide water to the residents of Franklin – each of which have their own rules and requirements. The water application and resultant contract is considered the primary document for service delivery.

WHAT OPPORTUNITIES EXIST FOR STANDARDIZATION - Following are the major areas where we provide additional clarification thru modifications to the Code, policy and/or practices. Guidance is requested to modify those standards and unique documents on each subject are being prepared to guide the decision making.

- A. In all cases, **Customer Segmentation** or classification dictates pricing for utility services. Rates are in Title 23 and are stated as either (1) Residential or (2) Nonresidential. Historically, utility services for residential solid waste and stormwater were “added to” the water bill as a unique line item. We started billing for those services over the last decade but the rules in effect for water/sewer drove issuance of bills. Therefore, we did not apply rules consistently to all services due to (1) inconsistent classification of what determines a “residential” property (2) the water district and (3) the party contractually responsible for the bill. Rules that made sense when we billed water/sewer only did not stand up when we extended the billing to solid waste and stormwater. This issue is addressed in more detail in a CUSTOMER SEGMENTATION document.
- B. Not all of our business rules, practices and policies are covered by Code and it is recommended that we issue a **Customer Service Manual**. Since the Code does not provide for all aspects of customer interactions, we developed



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additional internal guidance that may not be in accord with Code. Generally, the Code provides little ability to approve variances or grant waivers by BOMA, management or staff. BOMA has certain leeway and can always amend the Code by Ordinance but management and staff is not authorized to deviate from the Code. Certain provisions do apply as identified below but generally there is limited ability to waive or authorize variances within the Code. However, since many administrative challenges related to dealing with customers and matters related to billing, then one could assert that if not covered, then it is not prohibited. However, that does not mean it is approved. It is recommended that we develop an Administrative manual, similar to our Zoning Administrative Manual, that would identify those and the manual be approved by BOMA. That allows changes to be performed more quickly to meet emerging service issues, including ones covered in this document below.

Specific provisions related to responsibilities follow.

- a. Water and sewer (Title 18) – There are no provisions for City staff and management to exceed or deviate from what is provided in Code. Section 18-109 provides that the Board of Mayor and Aldermen (BOMA) may grant a variance or waiver. Variances to the Code are allowed by BOMA “only upon finding that a strict application of such requirement would result in confiscation of the property”.
- b. Solid Waste (Title 17) – The Solid Waste Director is given certain administrative responsibilities relative to application of the Title in 17-102 but BOMA has no such specific authorities or limits relative to any waiver as is identified in Title 18 above.
- c. Stormwater (Title 23) – The City Engineer is give authority for administration and enforcement of the stormwater provisions in Title 22 in 23-104. A Stormwater Appeals Board is authorized in Title 23, Chapter 3 to recommend changes to BOMA of Title 23, hold hearings



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from appeals, review the user fee accuracy, revocation of the permit and grant variance from the requirements of Title 23.

- C. The applicability of **Fees** applied for electronic tools is not specifically addressed in the Code. That does not mean they are disallowed only that they not specifically allowed. One issue that immediately comes up is our Online Payments. We are currently allowing payments using various electronic payment channels (draft, ACH, RPPS, web, IVR, online banking, and lockbox). Customers have indicated they want choice when dealing with the City, including payment channels. The use of electronic payment tools to make payments to the City subject the financial transaction to fees by the financial institutions. The question is “who should pay the fees”? Even face to face cash transactions incur a financial transaction fee as we pay for deposits in addition to staff time for processing the transaction. The applicability of cost recovery models and fees will need to be addressed as we move to tools to present bills electronically as well as collect monies and inform and interact with our customers. Our current policy addresses only online web payments made thru a third party and provides for the customer to pay the transaction fees as a convenience fee. The card issuers have significantly reduced our ability to recoup those fees in a face to face transaction. Payees using other payment channels are not charged a fee for making their payment but do incur expenses for postage, time and possibly gas to make those payments. It is recommended that we move to accept credit cards and debit cards in a face to face channel and absorb those costs as part of our administrative overhead. It is further recommended that certain non face to face methods would still incur a convenience fee (online web, IVR, remote payment kiosks) for certain payment methods that incur a significant fee (e.g. credit cards). Secure PIN payments using debit cards and other minimal cost transactions (draft, echeck, RPPS, online payments, ACH) would allow fees to be absorbed in our utility overheads with certain “caps” on fees to be absorbed.



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- D. The **Contract for Service** – There are some challenges since (1) the Code does not necessarily provide for a contract/agreement (2) differences exist in billing provisions based on customer segmentation (Residential or Nonresidential – see below) and (3) we have different billing provisions based on water provider.
- a. There is an “Application for New Connection” signed by the builder when a new delivery point connection is requested in our water district. This is not signed by builders in other water districts for connection to our sewer system. This is authorized under 18-203 and is done so for each parcel/lot (\$25 fee applies).
 - i. The builder has service in their name and billings occur as follows.
 - ii. We bill water/sewer user fee based when water is connected (available for consumption)
 - iii. Trash is billed with delivery of the container, typically when the first tenant signs for service (below).
 - iv. Stormwater starts when Certificate of Occupancy is issued using values obtained from the initial permit for the impervious area. The builder is billed if classified as Residential or owner if classified as Nonresidential.
 - v. Round up is not specifically covered in the Code, but is
 - b. The initial customer account and all subsequent customers apply for service by completing the appropriate application for service (Residential or Nonresidential), including a temporary meter or fire line.
 - i. Title 18-203 requires an application for service for water in our water district which serves as our contract agreement of service when accepted by the City. In other water districts, the application with the water provider has a rider/addendum for City service.



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- ii. Sewer is provided under the agreement for water for those who have access.
 - iii. Solid Waste Code requirements do not specifically provide for an agreement. It is implied on the Residential water application but not explicitly stated that signing up for water service means you are signing up for trash service. We bill Residential as a line on the City utility bill and have separate agreements for Commercial trash. However, Title 23 defines Residential customers differently than Title 18 (see PRICING below).
 - iv. Residential stormwater is treated as the same as Solid Waste but classified customers differently. Nonresidential stormwater does not have a contract agreement but is billed under 23-203.
- c. It is recommended that we update the applications and there only be one application in our water district based on customer class definitions determined from PRICING below. Currently, we have one for Residential and one for Nonresidential. We could do this in conjunction with Use Reviews. The City has a contractual relationship with each customer but that customer is not necessarily the end user (consumer).
- i. For those customers who have multiple tenants (e.g. apartments, duplexes, mobile home parks, condos, strip centers, office buildings), the customer is typically the developer, builder, building owner, or HOA.
 - ii. In some cases we have contracts with property management firms and are issuing bills to Accounts Payable firms. We should not have contracts directly with those entities, but could have agreements with the owner designating the property management firm/accounts payable entity to act on the owner's behalf.



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- iii. That needs to be changed to reflect their relationship to the “owner” as the designated agent (see OWNER ACCOUNTS below). Often these are not changed when a development moves from the building state to the occupied state. When customers sign up for service in other water districts, we use their application with a separate addendum for City services. Customers who seek Nonresidential (Commercial) solid waste service use another application. There is no agreement for Nonresidential Stormwater and we should bill the property owner.
 - iv. Tying service agreements to Use Reviews will better align City service delivery among various departments in the City.
- E. We have **Owner Accounts** that have grown significantly the last few years. Currently, 18-103 requires an application (and \$50 fee) for each tenant change. Owner accounts are for Residential properties that are designated as rental by the owner and tenants change frequently. Once a tenant move out, the responsibility for the utility service bill returns to the owner during periods of vacancy. The “Owner Accounts” categorization provides for individual owners to not pay the application fee each time the property changes tenants. The economic downturn has resulted in the growth of rental properties among single family detached homes. We have allowed tenants to obtain service upon presentment of a Lease Agreement signed by the property owner. It is recommended that “owner accounts” be modified with a fee more reflective of the costs and that we move to an Owner Contract that requires annual renewal. Our bad debts are driven primarily by residential properties rented out. Currently, we have about 700 owner accounts.
- F. In certain cases, the water is provided thru a **Master Meter**. That is defined as an application where water is provided to multiple tenants thru a single water service line delivery point. There is no provision for billing to



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individual tenants (no agreement) and we have no good mechanism to bill customers when we cannot keep up with changes or use. Title 18-113 specifically prohibits this practice and says “No customer shall supply water service to more than one dwelling or premise from a single service line”. Customers who are provided water thru a master meter should be not be classified as Residential but should be classified as Nonresidential. It is recommended that we reevaluate our use of residential master meters and allow only in situations where the services are provided under Nonresidential provisions. This currently includes apartments, some condos, and most duplexes. We are particularly challenged for mixed use developments. These fall into the following categories.

- In most cases these are of a similar use and on a single parcel (e.g. multiple tenants of a high rise building or apartment complex).
- Some have multiple tenants on multiple parcels (e.g. condos where an individual residential property is served by a meter on another parcel).

- G. We currently allow **Inactive Accounts**, but these are not specifically authorized by Code. Inactive accounts occur when a tenant vacates the property and the next tenant has not occupied the property. A few years ago these were not an issue, but as the economy sagged we saw longer periods of vacancy. Seasonal disconnects are provided in 18-105 for water but minimum bills suggest that each customer should be subject to the monthly user fee minimum. It is recommended that we apply a monthly minimum bill to each service as someone owns the property and the City incurs expenses for that capacity. Every property is owned by some entity.
- H. We also had some unique practices for **Multiple Minimums**. Both Residential and Nonresidential customers have billings applied using multiple minimums and is not specifically accommodated by Code but was done to apply charges to master metered customers. It is used for all services. Multiple minimums result in applying fees as if we charged each dwelling unit or business suite separately. This results in a water/sewer



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charge that can be higher since more units result in a higher minimum. This is not done for sewer charges outside our water district but is one of the reasons for the need for standardization. This proposal eliminates residential multiple minimums. Definitions for customer segmentation (Residential or Nonresidential) vary by Title and make it difficult to extend standard business rules using the current definitions due to (1) the contract for service between the customer and the City (2) the ability to apply consistently for those properties which have multiple users (consumers) being served by a single water meter (Master Meter) (3) multiple parcels served by one meter/account and (4) multiple uses on one parcel.

- I. The Code does not authorize **Partial Payment** of less than the full amount. However, inferences are made throughout the Code to partial payments (18-115 and 23-203) that seem to imply that they are recognized. We have developed internal guidelines for payments over time. These are done with supervisory and/or management approval based on dollar thresholds and rationale for the need. These guidelines allow for unusually high bills to be paid over several months in addition to the normal amount and disconnection provisions apply if the terms are not met.
- J. The **Disconnection for Nonpayment** provisions of Code specifically states in 18-114 that “In the event a bill is not paid on or before ten days after the discount date, the customer’s service shall be discontinued without further notice.” We do not follow this and disconnect after two months delinquency.
- K. The use of a **Collections Agent** is not specifically authorized, but is used to pursue terminated, delinquent accounts. Additional costs are incurred and are applied to the customer’s account. We would also need to include Write-off provisions in developing the standards.
- L. We allow bills to be issued on a schedule set by the City (18-114) but we need to better provide **Statement Rendering** provisions to include late notices, electronic media and other notifications of obligations.



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- M. The Code addresses **Bill Due Date** but says it is 10 days (18-114). We allow about 2 weeks due to mail processing and remittance time. We need to clarify the dates, penalty applications and actions to be taken.
- N. We do not have **Billing Adjustments** (e.g. due to leaks, penalty) authorized by Code. We have an internal policy and that needs to be formally codified.
- O. We need to approve **Edit and Notification** guidance for hi/lo bills.
- P. We have allowed Exemptions (e.g. agricultural, SW user fees) in 23-204.
- Q. **Fire lines** are deployed throughout but are not billed for water consumed unless “unusual”. Additional guidance is needed to develop billing standards for these applications within the water code.
- R. **Submetering** is not allowed for purposes of deducting water consumed for determining the sewer charge. In 18-106 it allows for irrigation meters and says “irrigation” and not HVAC) (we need to clarify for HVAC chillers and other type uses). We have about two dozen specifically approved by BOMA on an exception basis that terminate in 2014. It is recommended that we develop our policy in advance of that time.
- S. We have developed internal rules for Water Curtailment that allow for **Medical Necessity**. We need to align internal provisions with rules recently developed by Water Management for Water Emergencies.
- T. We need to define our methodology and provisions for **Appeal**. The Code implies it and specifies for certain services to be thru certain entities (e.g. Stormwater Appeals Board). We need to develop a standard for Appeals irrespective of service.