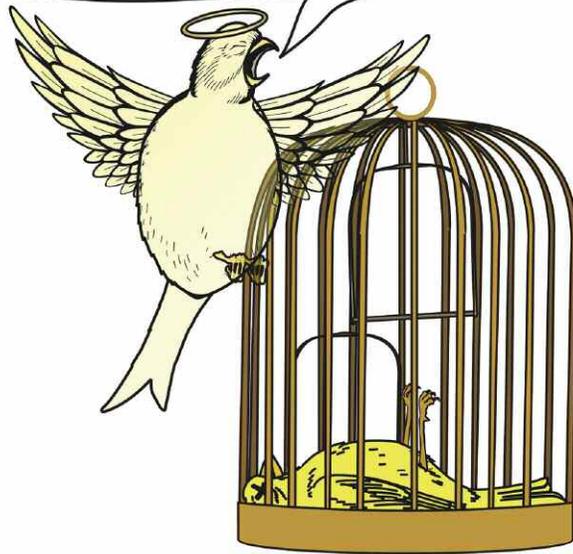


# The Canary in the Coal Mine – Are YOU to Blame for Nonpayment of Bills?

Take heed, rampant late paying customers may warn of greater financial difficulties ahead.



A lot of us may not realize that in the late 1800's Kansas once had a thriving coal industry - mostly in the southeast part of the state. Blue Goose, Buzzard's Roost, Dogtown, Foxtown, Frogtown, Little Italy, Pumpkin Center, Red Onion, and Water Lilly (sic) all started out as coal camps. In order to dig the black, oily bituminous coal, miners had to go deep below the surface, where there was a constant threat from methane and carbon monoxide. So the tradition was to carry a canary in a cage as a gas detector. Canaries are highly susceptible to these gases and they will die from exposure to them before the levels of the gas reaches those hazardous to humans. That's where the saying "Like a canary in a coal mine" comes from. It means that there is an advanced notice of danger. Believe it or not, late payments can be a canary in a coal mine. I had the opportunity to spend the day with the 50 lucky folks who attended John Hawley's workshop on board management at this year's KRWA conference in March; I learned a lot from them. One of the many comments on topics that I heard from board and council members was that customers didn't pay bills on time and that disconnects and late payment fees were a constant source of friction, plus they impacted cash flow. This led to board members feeling unappreciated and office staff feeling stressed. But is

nonpayment of bills a symptom of a bigger problem? Are utility systems really to blame (at least partly) for nonpayment of bills? I'm going to discuss two main areas where utilities may be partly to blame for non-payment of bills: failure to create a culture of payment and confusing or inconsistent nonpayment policies that actually discourage customers from paying on time. You're probably shaking your head right now in disgust and thinking that it is not your job to convince customers to pay their bills, that they should realize how hard you and the staff work to get them water/sewer, and that that's why disconnect policies exist!

Well, I respectfully disagree. It's better and cheaper to make some effort on the front end to encourage customers to pay their bills, then to create residual discontent by forcing them to pay.

### So where do we start?

Well, first of all, how about some data? When I chatted with folks at the KRWA conference, I didn't hear about any data. Folks were convinced that late payment and disconnects were a problem, but no one was clear on how many disconnects each month, quarter, year; how many late pays each month, quarter, year; how much "revenue" was generated from late

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fees and disconnect fees; how many customers were chronic late pays; and the true cost of disconnects in man hours and equipment. It is relatively easy to capture that data and that is the first step in addressing this issue. If you are already capturing this information, then take a deeper look at it. Do you have wide-spread nonpayment by multiple individuals? Repeat nonpayment by a core group of customers? Seasonal non-payment? (One utility noticed a spike in non-payment after Christmas, which it so happens is also common with credit card companies.) Understanding this data will help you address development of both a culture of payment and clarification of policies.

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**Culture of payment**

Rural utilities work hard to comply with state and federal regulations for sampling, testing, water quality, etc., etc. However, rural utilities often do nothing to “train” customers to pay bills on time and just assume that enacting late fees and disconnect policies will magically work, because customers “should” pay their bills. Rural utilities should actually work just as hard on creating a culture of payment as they do on complying with water quality regulations. A culture of payment will also have secondary benefits, because it can create cohesion with your customer base and that can come in very handy when you face rate increases.

One small water utility with fewer than a thousand customers really struggled with late payments because their

cash flow was so tight. Some months, the utility literally had trouble paying its own electric bills. They even contemplated increasing rates so that they would have enough revenue based on the customers who did pay on time! We discussed the fact that it wasn’t really possible to do a rate increase calculation based solely on the average number of customers who did pay their bills on time. But we flipped that idea upside down and decided that

we would offer a “prompt payment” credit to customers who paid their bill on time three months in a row. Who doesn’t love a discount? And offering that credit was still better than going in the hole from underpayment.

Another smaller utility started a 100 percent payment campaign. They posted a flip number card in the office, where most folks still stopped by to pay their bills, and listed the total number of customers. Think OSHA “\_\_\_\_\_ days of work without an accident”. When customers came in to pay their bill, the staff praised them and flipped over the number, which brought the total closer to 100 percent. Sound silly? Well they had a dramatic increase in the number of customers paying on time and cash flow improved dramatically.

Another rural system started sending out specific email notices reminding customers that paying their bill on time would allow the system to avoid dipping into cash reserves and losing interest on investments. Kind of a take on “Uncle Sam wants YOU” meets “Only YOU can prevent forest fires.” It made customers feel more personally accountable and also that they were “bought in” to the district. And speaking of email,

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## CLARIFICATION OF DISCONNECT POLICIES

Now we all know that no matter how much we encourage people, there will still be folks who just flat don't pay their utility bills. So penalties, shut-offs and disconnect fees will always be a tool in your tool box. But what if those policies themselves discourage people from paying on time? What of those policies also cause frustration and a – no pun intended – disconnect with your customers? Unfortunately, many rural utilities have bylaws, rules and regulations, and rate schedules that are incredibly confusing. Sometimes the staff aren't even sure how to apply them. A customer shouldn't have to have a degree in calculus to figure out their bill. Below I have listed an excerpt of language from some actual rules and regulations of a district that has a lot of issues with late payment:

**MONTHLY BILLING:** Meters will be read on the first day of each month and payment of the amount due for water used is due by the 15th of the month.

**DELINQUENT ACCOUNTS:** A penalty of five percent on the balance due will be added if payment is not made by the 15th of the month. All accounts overdue after the 15th will be sent a past due (delinquent) notice. Balance due date of the 15th of the month is considered the date of failure to pay as noted in the Bylaws.

**NOTICE OF TERMINATION:** If, after 30 days from the past due date, payment has not been received, the district will send a request for payment along with a notice of intent to terminate water service. The notice of intent to terminate service is to be within the provisions of the Bylaws of the District. The date of termination is to be 26 days from the date notice is mailed, or nearest working day thereafter. The notice is to be sent to owner, and renter if applicable, by certified mail with return receipt requested and a copy sent by 1st class mail. The account will also be charged for the mailing of the certified letters.

**RESTORATION OF SERVICE:** Once water service is terminated, all water used along with accumulated monthly

minimums, penalties, taxes, etc. plus a \$25 reconnection charge must be paid in full before service can be restored. Restoration of service is also subject to the guidelines set out in the Bylaws.

I am pretty experienced at reading corporate governance documents, and even I am confused by this policy. Here are some of the areas that caused confusion with customers because the written policy didn't match reality.

- Is payment made the same as payment received? What if the check really IS in the mail? But apparently if payment isn't received it was overdue, because that was how staff treated accounts. But this district had a drop box that wasn't checked until about 9:00 each morning. So there was a de facto grace period for drop box users and not really for those who mailed their payments.

- So payment needs to be received (maybe) by the 15th, and then at some unspecified point, but apparently after 30 days from the 15th, the district will send out a termination notice that states that service will be shut-off 26 days from the date that notice is mailed, i.e., post-marked. So when exactly is that shut-off notice supposed to be sent? And when does actual shut-off occur? It looks like service could be shut off anywhere between 30 days plus 26 days after the 15th of the month, depending on how soon after the 30-day grace period the shutoff notice was mailed and how many attempts to deliver the certified mail were made. And will the district wait until it receives the certified mail receipt before scheduling a shut-off? That can take days.

- "The shutoff notice gets sent to the property owner and the renter, where applicable." And this is the only reference anywhere in the rules and regs (and the bylaws) on landlords and tenants. Who gets the initial bill? Some of the landlords kept the water in their name and forwarded the bills to the tenants. Tenants frequently complained that they shouldn't have to pay a late fee if they didn't get the bill from the landlord on time. Landlords also used

intentional nonpayment of the bill as a way to force out tenants and the district got sucked into some consumer affairs disputes over that. Some landlords had the tenants sign up and pay directly for service but the district had previous boards with an unwritten policy that it looked to the landlord for ultimate payment. So shut offs were a nightmare, with field personnel trying to mediate landlord-tenant disputes.

- Even though the 5% late fee was on the balance due as of the 15th, as the rules are written, it got lumped into the overall total of accumulated "monthly minimums, penalties, taxes, fees" that had to be paid in order to reconnect service. So sometimes 5% was added to the total additional amount of water used between the 15th and the shut off date. Sometimes it was added to the reconnect fee too. Sometimes it wasn't. It also isn't clear if the 5% continues to accrue, if it is compounded, and how it is added to additional monthly usage of the shut-off takes the full 56 days. Customers were confused and unhappy.

- When new customers signed up, they were not given a copy of the bylaws, and even if they were, there was no direct language in the bylaws that addressed bill payment.

This district would have been benefited from a review of their bylaws and rules/regulations. Once that was accomplished and the payment/disconnect policies were clarified, they needed to write up a simple postcard and hand it to new customers. This postcard would outline in simple and clear language the actual procedures that would be followed in the event of nonpayment. This would have gone a long way towards encouraging customers to pay on time.

If you combine creation of a culture of payment with simple and clear nonpayment policies, you stand a much better chance of reducing nonpayment and fostering happier customers. You can complain about customers not paying, or you can listen to that canary in the coal mine and make sure that it keeps singing!

another system set up email reminders that went out automatically a few days before payments were due. The reminder contained a short, clear and concise statement of when the payments were due and how much late fees would cost. Credit card and cable companies have figured this out a long time ago. How many payment reminders do you get via email every month and how often does that prompt you to make a payment?

You don't have the ability to send emails to customers, you say? Not to worry! One system that had their office located on the main drag in town started putting up a sign on the outside of the office every month – "Don't forget! Water bills due on the 15th". Their on-time payment rate improved drastically. So did the payment rate for the district that put up a sign reminding its customers to read their meters. Yes, plenty of small systems don't have a meter reader or some automated meter reading system and they have a two-step process. The customer reads the meter and sends in the reading and then the bills are calculated and sent out. This particular utility had a strange hybrid process, which got really confusing and was probably not legal. They had one rate for customers who read their own meters and a default flat rate for customers who did not read their meters. This was followed by a mind-alteringly complicated annual meter read performed by the utility and a reconciliation process, which resulted in credits and debits and – customer confusion. This came to light when the system applied for a USDA loan and had to do a rate analysis. Needless to say all meters needed to be read every month, so they launched the "Read your meter!" campaign. They mailed out flyers, posted signs in the office and a sign on the building. This definitely helped reduce the number of folks who simply forgot to read their meters. They also implemented a "Read your meter" fee. So that if the customer read his/her own meter, then the customer was not charged a \$10 default fee. This was really the same as a penalty for not reading a meter but the utility was smart and spun it as an incentive.

And it is important to figure out who is paying late or not paying. Is it just a general failure to pay by multiple individuals? Or is it a core group of customers who repeatedly pay late? If it is the latter, why not reach out to them individually and see if there is a root cause. Maybe they are unclear about when to pay. Or maybe they are on a limited budget and could use some guidance in finding state or local programs that might help with utility bills. Do you want to consider offering them a waiver of late fees and setting up a fixed payment plan? Could you offer to do a free meter check and/or recommend water saving appliances? That would establish goodwill even if they didn't actually do it. (Due to drought impacts, one small water utility in California offered to cost share with customers on the installation of low flush toilets. It turned out to be less expensive to do that than pay ever increasing wholesale water costs. Many water systems

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So as you can see, some utilities are willing to think outside the box and use social incentives in order to encourage their customers to pay their bills on time. And using an incentive-based approach can be a great solution. It also helps build a more positive relationship with

customers, so that tough decisions such as rate increases or borrowing money for system expansion will have more customer support.

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