

# Agenda Report

April 12, 2021

**TO:** Honorable Mayor and City Council

**FROM:** Water and Power Department

**THROUGH:** Finance Committee (4/12/2021)

**SUBJECT: PROPOSED ACTIONS TO ADDRESS MOUNTING ARREARAGES IN UTILITY BILL COLLECTION; AUTHORIZE ONE-TIME COVID-RELIEF BILL CREDIT FOR ELECTRIC CUSTOMERS; AND AMEND THE FISCAL YEAR 2021 WATER AND POWER FUND OPERATING BUDGETS**

**RECOMMENDATION:**

It is recommended that the City Council:

1. Find that the proposed actions are not projects subject to the California Environmental Quality Act ("CEQA") pursuant to Section 21065 of CEQA and Sections 15060 (c)(2), 15060 (c)(3), and 15378 of the State CEQA Guidelines and, as such, no environmental documents pursuant to CEQA are required;
2. Authorize the City Manager to increase the maximum one-time per year electric bill relief for low income customers facing shut-off for non-payment from \$100 to \$200;
3. Authorize the resumption of late fees and service shut-offs for non-payment commencing as follows:
  - a. Resume assessment of all late fees and penalties on City-provided services including but not limited to municipal services (water, power, refuse) and applicable taxes effective July 1, 2021;
  - b. Resume utility shut-offs for non-payment, consistent with City/utility policies and procedures, effective September 7, 2021, for large and medium commercial and October 4, 2021, for small commercial and residential customers as described herein, or as soon as practical thereafter consistent with applicable law and executive orders issued by the Governor; and,
4. Amend the FY 2021 Operating Budget to appropriate \$2,400,000 and \$800,000 from the unappropriated fund balance in the Light and Power Operating Fund (401) and the Water Operating Fund (402), respectively, for increases in utility bad debt expenses.

**EXECUTIVE SUMMARY:**

Pasadena Water and Power (“PWP”) provides billing services for all City utility services including refuse, sewer, electric, and water utilities, and applicable taxes including the Utility Underground Surtax and utility user’s tax. Due to the effects of COVID-19, many utility customers have been financially impacted through loss of work, income, sales revenues, and local health emergency orders to close or reduce business operations.

On February 17, 2021, staff presented an information item titled, “COVID-19 Impacts and Potential Follow-up Actions” to the Finance Committee which included a summary of the economic relief measures approved by the City Council specifically related to Utility Underground Surtax refunds and waivers for late fees, penalties and shut-offs for nonpayment of utility bills to help residents and businesses during the pandemic. Staff also presented the fiscal impact of those measures and potential actions to maintain the stability of the water and power funds. This report includes the updated fiscal information, and addresses comments and suggestions from public and the Finance Committee in Attachment 1.

In two separate actions on March 17, 2020 and April 6, 2020, the Pasadena City Council authorized the following actions to provide financial relief to PWP customers:

- Refund past two years of Utility Underground Surtax collections totaling approximately \$11.4 million;
- Suspend collection of Utility Underground Surtax for six months totaling approximately \$2 million;
- Suspend collection of late fees until further action by the City Council; and,
- Suspend utility service shut-offs for non-payment until further action by the City Council.

Cumulatively, the financial relief provided by Pasadena well exceeds that provided by the surrounding utilities. Additionally, the current and the previous federal stimulus packages have provided individuals with stimulus checks, unemployment benefits, child tax credits, rental assistance and payment of utility bills. Similarly businesses and self-employed individuals have received loans with loan forgiveness provisions. Currently, low income renters experiencing financial hardship due to COVID-19 can apply through the state-run CA COVID-19 Rent Relief program to pay their unpaid utility bills accumulated between April 1, 2020 and March 31, 2021.

Despite requests for aid, there is no proposal in COVID-19 stimulus funding by the state or federal government to directly reimburse water or power utilities at this time, nor is it expected in the foreseeable future.

While the suspension of late fees and utility shut-offs provides a temporary measure of relief, it does not relieve customers of their obligation to pay utility bills. Since the end of March 2020, the amount of unpaid utility bills has increased from about \$1.3 million to over \$8.4 million as of March 31, 2021. These arrears are over five times higher than that was experienced in pre-pandemic times and are still increasing considerably

## Authorize Actions to Mitigate Utility Account Arrearages

April 12, 2021

Page 3 of 8

(approximately \$0.5 million) each month. As the utility bill arrears increase, it will become even more difficult for some customers to pay the outstanding amount.

With some businesses closing and residential customers moving out of Pasadena, PWP will likely experience considerably higher bad debt expense. While PWP is continuing to incur expenses to provide water and power to all customers irrespective of their payment status, the increasing amount of unpaid bills is making this arrangement fiscally unsustainable, and will further burden the majority of customers who do pay their bills with higher rates in the future if left unaddressed.

It is necessary to have fiscally-healthy utilities to continue to serve the community, to be able to make general fund transfers (approximately \$18 million annually), to maintain a good credit standing with the existing bond holders, and for future borrowings to fund infrastructure investments.

Therefore, staff is making the following recommendations subject to compliance with the state and federal laws:

1. Increase the maximum one-time per year electric bill relief for low income customers facing shut-off for non-payment from \$100 to \$200;
2. Resume assessment of late fees effective for bills issued on or after July 1, 2021;
3. Resume utility shut-offs for:
  - Large and Medium Commercial customers effective September 7, 2021;
  - Small Commercial and Residential customers effective October 4, 2021; and,
4. Amend the FY 2021 Operating Budget to appropriate \$2,400,000 and \$800,000 for the Light and Power, and the Water Operating Funds respectively, in anticipation of higher bad debt expenses.

In addition to the recommended actions, the General Manager, acting within his authority plans to:

- Extend the time period for utility bill payment plans from the currently offered maximum of nine months to up to twelve months for customers who are financially impacted by COVID-19 and where evidence of particular hardship is provided; and,
- Apply deposits to outstanding utility bills.

### **BACKGROUND:**

Unpaid utility bills, or "Utility Accounts Receivable" that have aged over 61 days are considered delinquent or "in arrears." As shown in Table I, the total amount of unpaid utility bills has grown to about \$8.4 million as of March 31, 2021. In recent months, arrears have been increasing by approximately \$0.5 million each month. As the utility bill arrears increase, it will become even more difficult for some customers to pay the outstanding amount.

**Table I – Utility Accounts Receivable Aged 61+ Days as of March 31, 2021**

Service type	March 2020	March 2021	Change in \$	Change in %
Refuse	\$42,257	\$322,473	\$280,216	663%
Sewer	\$9,215	\$76,682	\$67,467	732%
Electric	\$990,873	\$6,318,105	\$5,327,232	538%
Water	\$285,274	\$1,658,470	\$1,373,196	481%
<b>Total</b>	<b>\$1,327,619</b>	<b>\$8,375,730</b>	<b>\$7,048,111</b>	<b>531%</b>

Table II shows approximate delinquencies (aged 61+ days) by Customer Class:

**Table II – Utility Accounts in Arrears by Customer Type - as of March 31, 2021**

Customer Type	# of Accounts in Arrears	\$ Amount in Arrears
Residential	7,524	\$4,771,000
Commercial	1,394	\$3,605,000
<b>Total</b>	<b>8,918</b>	<b>\$8,376,000</b>

As a reference, Table III provides information related to total customers and retail revenues for each water and power utilities.

**Table III – FY2020 Water and Power Accounts and Annual Retail Revenue**

Service Type	Total # of Accounts	Retail Revenue
Water	38,193	\$60,615,000
Power	67,440	\$192,210,000

**Public Outreach**

PWP has sent reminder letters to approximately 7,000 customers with delinquent accounts, advising them that the suspension of late fees and utility shut-offs is intended to provide a temporary measure of relief and does not relieve customers of their obligation to pay utility bills. Outreach messages also noted that customers can keep their utility bills more manageable in the future by continuing to make payments or entering into payment plans. This message has been included in a broad messaging campaign including the Pasadena in Focus and PWP residential e-newsletters, and other media.

The City is reaching out to low income families to promote the state-run “Housing is Key” CA COVID-19 Rent Relief program available to Pasadena residents for rental and utility assistance. Furthermore, a broad outreach initiative will be implemented to advise customers about the resumption of late fees and shut-offs once these actions are approved.

**Recommended Actions**

To maintain fiscal sustainability for the City's utilities, the following actions are being recommended or implemented to mitigate mounting delinquencies:

**1. Increase One-Time Utility Bill Assistance Amount**

Under Project APPLE, PWP currently provides one time bill assistance in the amount of up to \$100 per year for income-qualified Residential Customers that receive a shut-off notice. This amount has not been increased in over 20 years. Staff recommends increasing the Project APPLE annual rate assistance to a maximum of \$200 per customer per year when shut-offs for non-payment are resumed. Project APPLE is funded with donations from utility customers and supplemented by authorized expenditures from the Public Benefit Charge Fund for low-income rate assistance.

**2. Assessment of Late Fees and Charges**

Staff recommends that the City Council approve the resumption of late fee assessments as the first step in returning to normal utility billing procedures. Effective with bills issued on or after July 1, 2021, late fees will be applied if timely payment is not received by the due date. Late fees will appear on the subsequent bill. Table IV summarizes the effective dates for the assessment of late fees. The effective dates shown are the earliest dates these actions may occur, and the actual date late fees will be assessed for a given customer will be determined by their billing cycle (monthly or bi-monthly) and the actual billing date.

**Table IV – Earliest Possible Dates for Late Fees**

<b>Collection Activities</b>	<b>Earliest Date</b>
Billing Date (process begins)	7/1/2021
Payment Due Date	7/31/2021
Late Fee Assessed	8/4/2021
Final Notice Sent	8/13/2021
Final Notice Payment Due	9/2/2021

Resumption of late fees and utility shut-offs for non-payment will encourage those customers that have the financial means to pay their utility bills to do so. It will also further motivate those customers that are experiencing financial difficulties to enter into a payment plan, sign up for the recommended COVID relief credit programs for which they are eligible, and avoid further assessment of fees or shut-off notices. Staff recognizes the hardships that many customers are enduring, but believes fee assessment is an appropriate action to reduce the mounting arrears that the customers eventually must pay. These actions are necessary steps to restore revenue collection that will allow PWP to maintain its operations and services to the community.

**3. Utility Shut-Offs for Non-Payment**

To complete the return to normal utility billing operations, staff recommends that the City Council approve the resumption of utility shut-offs for non-payment. As shown in Table V, electricity service shut-offs will resume starting September 7, 2021, for Medium

and Large Commercial customers, and October 4, 2021, for Small Commercial and Residential customers. Water service shut-offs are currently not allowed based on State regulation, but will be resumed when the statewide prohibition ends. Utility shut-offs are a last resort action taken only after all other mitigating measures in the shut-off policy and procedures have not led to sufficient payment action by the customer.

Due the unprecedented number of accounts that are likely to remain delinquent, it may not be possible to process and implement shut-offs for all customers immediately on the schedule outlined. To extent feasible, staff will prioritize shut-offs based on a variety of factors (including the magnitude of amounts owed and customer type) when initiating the shut-off notification process.

**Table V – Earliest Possible Dates for Shut-offs**

<b>Collection Activities</b>	<b>Earliest Date*</b>
Resume Medium and Large Commercial Shut-Offs	9/7/2021
Resume Small Commercial Customer Shut-Offs	10/4/2021
Resume Residential Customer Shut-Offs	10/4/2021

*\* For clarity, the dates shown above reflect the earliest possible schedule when PWP will initiate these processes for electric service shut-offs. Water service shut-offs have a longer process in compliance with state law. As is customary, shut-offs will not be performed between the start of Thanksgiving week and New Year's Day in consideration of adverse impacts on customers during the holidays and the New Year's moratorium. Furthermore, shut-offs for delinquent accounts may be suspended during the implementation and stabilization of the new customer information and billing system.*

Current state law (specifically, Senate Bill 998, the Water Shutoff Protection Act of 2018) places many restrictions and conditions on residential water service shut-offs for non-payment. Thus, the timeline for water service shut-offs is longer than that for electric service shut-offs. Furthermore, on April 2, 2020 Governor Gavin Newsom signed Executive Order N-42-20 that restricts water shut-offs to homes and businesses that are in critical infrastructure sectors. This executive order has no specific end date and is still in effect. Therefore, it is unlikely that water service shut-offs can be legally implemented until such time that the executive order is rescinded. However, the City Council approval for late fee and shut-offs for water utilities will provide the opportunity to recover overdue bills from entities not covered by the executive order at this time and all others as and when the state law allows.

**4. Amend the FY 2021 Operating Budget to Reflect Higher Bad Debt Expense**

Amend the FY 2021 Operating Budget to appropriate \$2,400,000 and \$800,000 from the unappropriated fund balance in the Light and Power Operating Fund (401) and the Water Operating Fund (402), respectively, for increases in utility bad debt expenses. Currently approved budget provides for \$612,000 and \$103,000 for Light and Power, and Water utilities respectively for bad debt expenses.



***Additional Actions Implemented by the General Manager within His Authority***

***Extend Payment Plans from 9 to 12 Months***

PWP is currently offering payment plans of up to nine months; however payment plans of up to twelve months will be considered in circumstances where evidence of COVID-19 caused a hardship is provided. To be on the payment plan, customers must make the first installment payment upfront and continue making payments towards arrears and remain current on all new charges incurred to avoid late fees and potential shut-offs.

***Use of Customer Deposits***

Pasadena Municipal Code (“PMC”) Sections 13.04.140.C (Electric) and 13.20.030.D (Water) provide the General Manager with authority to collect deposits when new utility accounts are opened to guarantee payment for subsequent electric and water services. PWP routinely assesses deposits as provided under this authority, and typically these deposits are refunded to the customer upon request after a good payment history has been established or after the account is closed in good standing. PWP has retained deposits for many customers, including some that now have delinquent utility account balances. PWP plans to apply deposits on hand to both delinquent and non-delinquent utility account balances starting in April, 2021. This will serve the dual purpose of reducing arrears and returning deposits for customers who have developed good payment histories.

Going forward, PWP will implement a new practice whereby deposits for electric and water utility services that have been held for more than 13 months for customers demonstrating good payment records will be routinely applied to the respective electric and water utility account balances. This will reduce the bills for affected customers for the period when the deposit is applied. Deposits will be retained for customers who have not established a good payment history until such time as this condition is corrected.

**COUNCIL POLICY CONSIDERATION:**

The recommended actions are consistent with the City Council's goal of maintaining fiscal responsibility and stability.

**ENVIRONMENTAL ANALYSIS:**

The proposed actions are not projects subject to the CEQA pursuant to Section 21065 of CEQA and Sections 15060 (c)(2), 15060 (c)(3), and 15378 of the State CEQA Guidelines. The resumption of late fees, the authorization to increase once-per-year bill relief, and amendments to appropriate additional funds to compensate for increases in bad debt expenses are government fiscal activities which do not involve any commitment to any specific project which may result in a potentially significant physical impact on the environment. Therefore, the proposed action is not a “project” subject to CEQA, as defined in Section 21065 of CEQA and Section 15378 of the State CEQA Guidelines. Since the action is not a project subject to CEQA, no environmental document pursuant to CEQA is required.

Authorize Actions to Mitigate Utility Account Arrearages

April 12, 2021

Page 8 of 8

**FISCAL IMPACT:**

The estimated cost of this action will be approximately \$3,385,531. \$200,000 of this cost will be addressed by utilization of existing budgeted appropriations in Public Benefits Fund (41609140-821600) for Project APPLE low income rate assistance. The remaining cost will be addressed by increases in appropriations of \$2,400,000 and \$800,000 in Light and Power Operating Fund (43009040-887600) and Water Operating Fund (43007750-887600) respectively for increases in bad debt expenses. To the extent that the recommended actions result in full or partial utility bill payments that otherwise may not have occurred, implementing the recommended actions will likely increase cash collections and reduce anticipated levels of bad debt expense.

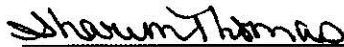
Respectfully submitted,



---

GURCHARAN S. BAWA  
General Manager  
Water and Power Department

Prepared by:



---

Shari M. Thomas  
Assistant General Manager,  
Finance and Administration  
Water and Power Department

Approved by:



---

STEVE MERMELL  
City Manager

Attachment A: Answers to questions and suggestions raised at the 2/17/2021 Finance Committee meeting