ACKNOWLEDGEMENTS

State of Alaska
Department of Commerce, Community and Economic Development
Division of Community and Regional Affairs
Rural Utility Business Advisor Program (RUBA)

2016
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2018 Revision
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# TABLE OF CONTENTS

<table>
<thead>
<tr>
<th>Section</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>INTRODUCTION</td>
<td>1</td>
</tr>
<tr>
<td>RATE SETTING BASICS</td>
<td>2</td>
</tr>
<tr>
<td>COLLECTIONS BASICS</td>
<td>2</td>
</tr>
<tr>
<td>COLLECTIONS TOOLS</td>
<td>4</td>
</tr>
<tr>
<td>Tool 1: Utility Ordinance, Procedures, and Policies</td>
<td>4</td>
</tr>
<tr>
<td>Tool 2: Customer Agreements</td>
<td>5</td>
</tr>
<tr>
<td>Tool 3: Regular Billing</td>
<td>6</td>
</tr>
<tr>
<td>Tool 4: Bundling Services</td>
<td>7</td>
</tr>
<tr>
<td>Tool 5: Customer Education</td>
<td>8</td>
</tr>
<tr>
<td>Tool 6: Advance Payment and Discounts</td>
<td>9</td>
</tr>
<tr>
<td>Tool 7: Payment by Credit Card</td>
<td>9</td>
</tr>
<tr>
<td>Tool 8: Delinquency Notices</td>
<td>9</td>
</tr>
<tr>
<td>Tool 9: Fines, Penalties, &amp; Interest</td>
<td>10</td>
</tr>
<tr>
<td>Tool 10: Payment Plans</td>
<td>11</td>
</tr>
<tr>
<td>Tool 11: Public Assistance Funds</td>
<td>11</td>
</tr>
<tr>
<td>Tool 12: Voluntary Deductions from Payroll</td>
<td>12</td>
</tr>
<tr>
<td>Tool 13: PFD Garnishment</td>
<td>12</td>
</tr>
<tr>
<td>Tool 14: Public Recognition/Shaming</td>
<td>12</td>
</tr>
<tr>
<td>Tool 15: Service Disconnection</td>
<td>13</td>
</tr>
<tr>
<td>Tool 16: Small Claims Court</td>
<td>13</td>
</tr>
<tr>
<td>Tool 17: Collection Agencies</td>
<td>14</td>
</tr>
<tr>
<td>Tool 18: Liens</td>
<td>14</td>
</tr>
<tr>
<td>ADDITIONAL RESOURCES</td>
<td>15</td>
</tr>
</tbody>
</table>
INTRODUCTION

The state and federal governments have spent more than $1 billion to construct or improve water/wastewater utilities in rural Alaska. These utilities have improved health and sanitary conditions for rural residents, but they also present great challenges to small communities. The Rural Utility Business Advisor (RUBA) program was created by the Environmental Protection Agency (EPA), Department of Environmental Conservation (DEC), and Division of Community and Regional Affairs (DCRA) to help communities meet these challenges by providing utility management training and assistance to utility governing bodies, managers, and staff. Each community is responsible for managing, operating, and maintaining its utility for the life expectancy of the facilities (generally at least 20 years). ADEC and the RUBA program, in collaboration with the Alaska Native Tribal Health Consortium, have identified specific “Best Practices” that promote sustainable water and wastewater utilities. Those Best Practices include:

- establishing customer rates and fees that recover the cost of providing service
- achieving a 100% collection rate from utility customers.

This manual was created to help with the second of those two tasks – achieving a 100% collection rate. RUBA staff is available to help implement any of the ideas and recommendations in this handbook, and to provide assistance in many other areas of utility management. For additional information, contact RUBA staff at the office nearest your community:
RATE SETTING BASICS

To be sustainable, utilities must charge customers enough to recover all costs for providing service. The amount utilities charge should be based on accurate information about actual operating expenses – including the cost for administration and to set money aside for repair and replacement of equipment. The best way to make sure the utility is charging enough to cover those costs in a fair way is to conduct a “rate study”.

A rate study identifies the total cost of operating, maintaining, and managing the utility - and of establishing a reserve fund - and divides that cost among all utility customers. This manual does not focus on the rate setting process, but rather on the collections process. We recommend contacting your community’s assigned RUBA staff person for assistance with conducting a rate study. The RUBA program also provides a Plain English Guide to Sanitation Utility Accounting and a Water Rate Calculator Guidebook, and offers various utility management training courses that address the rate setting process in detail. The publications and information about the RUBA training classes are available online at the DCRA-RUBA web page.

COLLECTIONS BASICS

Once utilities establish their rates for service, they must bill customers and collect payment on a regular basis (typically monthly). Many utilities plan their annual operating budget based on the amounts billed to customers. For example:

40 customers x $100 x 12 months = $48,000.

Unfortunately, not all utilities collect everything that is billed: some customers do not pay in a timely manner, and in some cases, they fail to pay at all. A utility’s revenue is influenced by its “collection rate”, which is the percentage of the amount billed that is actually collected. For example:

- If 40 customers are billed and only 20 customers pay, the collection rate is 50 percent (20 ÷ 40 = .50).
- If $48,000 is billed and only $24,000 is paid, the collection rate is 50 percent. ($24,000 ÷ $48,000 = .50).

Determining the collection rate requires accurate and up to date recordkeeping and good accounting practices. RUBA staff is available to provide advice and assistance on developing such practices.
If a utility has a poor collection rate, it will have difficulty generating enough revenue from customer fees to cover all its expenses, and one or more of the following is likely to happen, any of which can cause more trouble for the utility:

- The utility will have to increase rates to customers who are paying their bills. This isn’t fair because those customers will be paying more while others are paying nothing. Eventually, some paying customers may become resentful and they too will stop paying, further reducing the utility’s collection rate.

- The utility will have to find other sources of revenue, such as the State’s Community Assistance Program, or local sales taxes. This can work temporarily, but can eventually deplete available financial resources. It also means money that could have paid for other necessary services is being used to subsidize the utility instead.

- The utility will have to cut back on services, maintenance, and other operating costs. As a result, the utility is less likely to be operated or maintained properly; more likely to experience equipment failures, service interruptions, and other problems; and less likely to be sustainable.

Instead of subsidizing non-paying customers, or cutting back on services and maintenance, the better option is to improve the collection rate so that every customer is paying a fair share for water and wastewater utilities.

Utilities that are not able to collect sufficient revenue from customers place themselves at risk: the lower the collection rate, the higher the risk. Failure to collect sufficient revenue from customers is one of the single greatest risk factors rural utilities are faced with that is within their control.

**REAL LIFE EXAMPLE.**

A utility in rural Alaska sent customer bills on a regular basis but did not enforce collections. Many customers failed to pay on time, and utility staff did nothing to encourage delinquent customers to pay, so even more customers stopped paying. Eventually the utility did not have enough money to pay the operator more than a few hours a week: as a result, basic maintenance tasks were left undone, there were frequent equipment failures and problems, and there was no money to pay for necessary repairs. The utility was struggling to provide service. It applied for capital improvement grants but did not qualify because of its failure to collect customer payments. The utility is now working with RUBA staff to address these deficiencies and to improve its utility management practices.
COLLECTIONS TOOLS

There are various management tools that can help improve collection rates and even collect on past due accounts: this handbook describes many of them. Each utility and community is unique, and can apply as many of these tools as needed to meet local conditions and goals and to get the job done. The handbook also includes real life examples (minus actual place names) of communities using these tools to improve utility collections and overall utility management.

**Tool 1  Utility Ordinance, Procedures, and Policies**

Cities and boroughs in Alaska are required to establish their utility departments by ordinance. An ordinance is a local law approved by the municipal governing body. Tribal governments and community associations are not required to establish utility departments by ordinance, and will often do so by adopting utility bylaws or policies and procedures instead: for our purposes, we will refer to these documents as the utility ordinance.

The **utility ordinance** establishes the rules for the utility. It should describe the:

- organizational structure of the utility (e.g. the owner, governing body, staff)
- services to be provided by the utility and who will have access to those services
- utility and customer responsibilities
- costs of service
- billing and collection policies and procedures

**Billing procedures** should identify when customers are to be billed (e.g. on or before the third business day of each month), what information to include in the bills, and who is responsible for payment.

**Collection policies** should identify when payments are due (e.g. 25 days after the billing date), procedures for dealing with past due and delinquent accounts, and consequences for customers who do not pay. Including these policies in the utility ordinance gives collection procedures the power of law, and enables the procedures to be enforced through the State of Alaska Court System if necessary.

If the utility contracts with another entity to manage or operate the system, any agreement between the two parties should clearly identify billing and collection roles and responsibilities of each party. RUBA staff is available to help develop, review, or amend utility ordinances and collection policies, and can also share examples of ordinances from utilities similar to yours.
Tool 2 Customer Agreements

A customer agreement is a document signed by the customer, establishing the relationship between that customer and the utility. Each agreement should include:

- contact information for the utility and the customer
- a description of the service(s) to be provided
- a statement of customer responsibilities, including the responsibility to pay for service, along with a statement of the consequences for failure to pay as required
- a signature by the customer to confirm he or she has read, understood, and agreed to the contents of the agreement.

The agreements should be written in plain, understandable language and should reference the utility ordinance. Once signed, the agreement is a legal document to be kept on file, with a copy given to the customer. The signed agreements help to:

- avoid misunderstandings by clearly identifying customer responsibilities
- ensure fairness by providing the same rules to all customers
- protect utility finances by having customers confirm they are aware of their responsibility to pay for service in a timely manner and
- establish legal authority and defense by providing evidence customers were made aware of their responsibilities, and
- demonstrate professionalism by using a formal process to protect the utility and its customers.

If your utility does not yet have signed agreements from all customers, it should take steps to get them. Any new customers should sign the agreement before receiving service.

REAL LIFE EXAMPLE

A small rural Alaskan utility decided to establish customer agreements in order to improve collection rates and address customer responsibilities. The utility's goal was to have all current customers sign the agreement within two months. The utility clerk mailed the agreement along with a letter of explanation to all customers. Some customers signed and returned the agreement, but many did not. After one month, the utility manager and clerk visited the home of every customer who had not responded, and were able to get signed agreements from every customer. Many customers thanked the manager and clerk for their personal contact and for explaining the customer responsibilities.

RUBA staff can help create customer agreements appropriate for your community. Do not simply copy another community's customer agreement – every community and utility is different!

NOTE: Both the utility ordinance and customer agreements are discussed more thoroughly in RUBA's Organizational Management for Rural Utilities training class. Check the DCRA-RUBA web page for information about RUBA trainings and schedules.
Tool 3 🛠 Regular Billing

The utility ordinance should identify when bills will be sent to customers and when payment is due (e.g. Bills must be mailed out by the third business day of each month and payment is due within 25 days of the billing date). Consistently following approved billing procedures is vital to establishing a good collection rate.

The ordinance should also identify what to include in the bill. The billing information will vary from community to community, but generally should include the:

- customer contact and account information
- service address
- utility contact information
- previous balance and payment
- balance forward
- current charges
- total amount due
- due date
- payment options

You can use your accounting software to create customized forms for statements and bills that suit your utility’s specific needs. When billing customers, be sure to double check the bills for accuracy before mailing them.

If the utility is not sending bills in accordance with its own rules, customers are less likely to make payments consistently, and the utility is more likely to experience cash flow problems. Timely and regular billing allows customers to budget their financial resources, and helps prevent unpaid bills from accumulating. Be sure to keep accurate records of invoices and customer accounts: failure to do so will make it difficult to collect customer payments.

REAL LIFE EXAMPLES

1. A utility clerk failed to bill customers on a regular basis, and would go for months at a time without sending a bill. Often, by the time customers received their bills, the amount was more than they could pay at once, and many customers fell behind in their payments. Not surprisingly, the utility had a low collection rate and significant cash flow problems.

2. After a small utility experienced turnover of administrative staff, the new utility clerk discovered there were no customer agreements in place, that the previous staff had not been billing customer on a regular basis, and that there were thousands of dollars in delinquent customer accounts. The utility was unable to collect on past due accounts and was forced to forgive them and subsidize the lost revenue with money from the general fund. Once the new clerk implemented the regular billing procedures, customers began paying on a regular basis and there were fewer delinquencies.
Tool 4 Bundling Services

Many entities that own water/wastewater utilities provide other services in the community too (e.g. electric service). RUBA has seen successful examples of communities that “bundle” billing for services, so that if payment is not received in full for all services, service will be stopped to whichever is easiest to discontinue, or to whichever service is most valuable to customers. For example:

- If you operate gaming activities such as Bingo, you can require participants to make a payment on past due or delinquent water bills before allowing them to participate in the gaming activities: if they don’t pay, they don’t play Bingo. One community required that for every $10 spent on Bingo, $20 had to be paid toward past-due utility bills. Some communities have been quite successful using these methods to collect on past due accounts.

- If you provide electricity or other services such as cable TV in addition to water service, you could send a single bill each month, itemizing the amount for each service. Your collection policy could state that if payment is not received in full for all services, any delinquent amount would result in loss of one specific service, then another, in order of a predetermined priority. Customers are likely to pay their bill in full if they know the services they value the most are the ones most likely to be disconnected first. From a practical standpoint, services such as electricity and cable TV are often much easier to disconnect than water and wastewater service.

- If you provide electric service and use a pre-pay-for-use system such as AMPY, you can add water payments to that pre-pay system. This has been a successful tool for collecting water utility payments in many communities.

- If you provide sales of oil or gasoline, you can require payment on delinquent water bills as a condition for oil or gasoline service. You can do the same with any other products you sell in the community.

Each community is unique and may have different bundling opportunities, including some that are not be covered here. RUBA encourages you to explore all options. If you decide on bundling, be sure to clearly explain why utility payments are so important that you are bundling them with other services. Also, make sure ordinances, customer agreements, and bills are all consistent and in compliance before bundling utility bills with other services.

RUBA staff can help brainstorm bundling options and review or amend existing procedures if needed.
Tool 5        Customer Education

Many customers do not understand why they are billed “so much”, where the money goes, or what it takes to run a water utility in rural Alaska. We frequently hear comments such as Why am I paying more than people in other villages? Why is my bill so high when I hardly use any water? Why am I paying as much as my neighbors when I use less water than they do?

Customers are more likely to pay their bills on time when they understand the cost of running a safe and sustainable water utility, when feel they are being treated fairly compared to other customers, and when they understand the importance of clean water to personal and community health.

It is vital that utility rates and procedures be approved at meetings of the utility’s governing body that are open to the public and utility customers. Open meetings provide an opportunity for people to know what the governing body is doing and to provide input about utility matters. In city-owned utilities, meetings are required to be open to the public. Tribally owned utilities do not have this same requirement in state law, but RUBA recommends they too hold open meetings whenever discussing utility matters.

Utilities should be proactive in promoting customer awareness, support, and participation. Here are other ideas for doing so, in addition to open meetings:

- Use public notices, newsletters, and flyers to provide information about the utility.
- Hold informational workshops or an annual meeting to discuss utility budgets, plans, or changes in rates, with food and door prizes.
- Include information about utility services in the annual Consumer Confidence Report.
- Establish procedures for responding to customer concerns and complaints.
- Provide a handout with answers to Frequently Asked Questions.
- Include “helpful hints” along with the monthly utility bills (e.g. how to prevent clogged sewer lines and frozen water lines; how to minimize water consumption).
- Offer tours of facilities to show the water/wastewater treatment process.
- Work with the school to provide information to students and their parents about safe water, wastewater, and public health.

REAL LIFE EXAMPLE

One small utility had a very poor collection rate. When a new manager was hired, he started a campaign to promote customer awareness and support. He provided regular flyers with information about the utility and helpful tips to utility customers. He also held meetings and community activities to educate the public about why customer payments were vital for success: the utility consistently saw a boost in payments immediately following such events. Within a few years, the collection rate was nearly 100%, and the community was able to use general funds to pay for other community needs rather than to subsidize non-paying customers. The improved collection rate also helped the utility qualify for a grant to upgrade the water treatment plant.
Tool 6  Advance Payment and Discounts

Some utilities give an option of paying bills in advance, and offer discounts for advance payments and for prompt payment of monthly bills. For example:

- a 10% discount to customers who make a 6-month lump sum payment in advance;
- a 5% discount to customers who pay a monthly bill within 10 days of the billing date.

Discounts are positive strategies to encourage timely payments. They help utilities improve collection rates and maintain adequate cash flow, and can save time and money on billings and collections. On the other hand, when customers receive a discount, the utility must find some other way to recover all of the costs of providing service, whether by improving efficiency, reducing expenses, or generating additional income from other sources.

REAL LIFE EXAMPLE

Some customers at a small rural Alaskan water utility took advantage of an offer to receive one month of free service by making an annual lump sum payment in advance. The utility received less money from them, but the discount resulted in a higher collection rate, fewer delinquencies, and less time and money spent on billings and collections. In the long run the utility was better off financially, and customers and staff were happier.

Tool 7  Payment by Credit Card

With advances in technology, more and more rural utilities are accepting payment by credit card. While the utility pays a fee for using this service, this option provides customers with a convenient payment method, and typically improves collection rates while also reducing costs associated with handling cash and personal checks.

Tool 8  Delinquency Notices

Customers should be notified promptly when a bill becomes past due or delinquent. The notice should include requirements and options for payment, and consequences for non-payment, based on procedures adopted by the governing body. Multiple notices may be necessary. For example:

- a past-due notice included with the following month’s bill
- a delinquent notice mailed if payment is not received within two weeks of the past-due notice
- a notice to disconnect, posted on the customer’s door if payment is not received within 10 days of the delinquent notice.
Be sure to follow-up delinquency notices by taking whatever action was described in them, and doing so in a timely manner, (for example, disconnection if payment is not received within one week of the notice to disconnect), otherwise it will be difficult to enforce collection procedures. Whatever process you have for notifying customers of delinquency, make sure it is consistent with procedures approved in the utility ordinance.

REAL LIFE EXAMPLE
A utility clerk failed to send past due or delinquent notices in a timely manner. As a result, many customers neglected to pay, and accumulated accounts that were up to 12 months delinquent: total utility accounts receivable exceeded $100,000, and some customers had already left the community without paying. When a new utility clerk was hired, she sent past due and delinquent notices to customers. Many customers were surprised and complained about not being informed sooner. Most customers eventually paid, but the utility spent considerable time and effort trying to collect, and some customers took more than a year to pay the amount in full. A few customers failed to pay and were eventually disconnected.

Tool 9  Fines, Penalties, and Interest

Some utilities assess fines, penalties, and interest on past due and delinquent bills. These charges are typically assessed as a flat dollar amount (e.g. $5 per month), or as a percentage* of the total bill. This strategy tries to force customers to pay on time by imposing negative consequences for late payment. The penalties and fees also help compensate the utility for the extra time staff needs for dealing with late and delinquent customers.

It should be noted that many customers are delinquent because they struggle to make the monthly payment. Tallying additional costs to their bill is not likely to help their situation, or the relationship between the utility and the customer. However, the utility must treat all customers the same, regardless of their income level and perceived ability to pay. For that reason, many rural communities are reluctant to assess fines, penalties, or interest on delinquent bills.

If the utility decides to assess fines, penalties, or interest on delinquent customers, the utility’s accounting software should be able to assess those fees. RUBA staff and the RUBA QuickBooks Hotline can help you with this process!

* AS 45.45.010 establishes a maximum allowable interest rate of 10.5 percent a year except as otherwise provided by law.
Tool 10  

Payment Plans

Utilities should not continue providing service to customers who fail to pay their bills. For customers who are not able to pay past-due or delinquent accounts in one lump sum, many utilities have had success offering the option of a payment plan before taking harsher measures such as disconnecting service or pursuing collection through small claims court. Payment plans allow a past due or delinquent customer to avoid disconnection by agreeing to pay a specified amount on a regular schedule (as agreed upon in writing) until the balance is paid in full, in addition to paying any new charges before the regular payment due date. The agreement should include a statement of the consequences for non-compliance with the terms of the payment plan, and should be signed by the customer.

REAL LIFE EXAMPLE

A utility had many customers who owed several thousand dollars each. The utility began enforcing shut-offs on customers who were delinquent. Many customers said they would pay the amounts due, but could not pay the full amount in one lump sum. The utility offered a payment plan option: customers had to agree to pay the regular monthly bill plus a specified amount toward their debt each month, otherwise their water service would be discontinued until the full amount was paid. All delinquent customers signed the agreement, and most are keeping up with current bills while paying off their debt. The utility disconnected service to customers who failed to comply with the agreement and handed their accounts to a collection agency.

Tool 11  

Public Assistance Funds

In some cases, utilities can offer customers the option of voluntarily assigning public funds they receive toward their water bills. This option has worked well in at least one community. We encourage utilities to explore this option, and to work with customers and assistance providers to identify funding.

REAL LIFE EXAMPLE

A village was able to negotiate its Native American Housing Assistance and Self Determination Act (NAHASDA) contract so that eligible residents could apply their NAHASDA allowance to their monthly water bills in addition to other housing costs. This method significantly improved the utility’s collection rate and cash flow while reducing time and money spent on collections.
Tool 12  Voluntary Deductions from Payroll

Employees can voluntarily agree to have the amount of their water bill withheld from their paycheck. Many employees appreciate this option to have their bill paid on time with no hassle to them. RUBA staff and the RUBA QuickBooks Hotline can help you set up this option in your accounting system. Employers may NOT garnish wages without the written consent of the employee, thereby ensuring the employee understands it is voluntary and not a requirement for employment, otherwise garnishing wages would be a violation of federal law!

Tool 13  PFD Garnishment

Utilities can use the State of Alaska court system to garnish a delinquent customer’s Permanent Fund Dividend (PFD) check - with or without the customer’s permission, although voluntary garnishment is the preferred option. To use the court system, the utility must be in compliance with its own ordinances and other legal requirements. Information on PFD garnishments can be found on the State of Alaska PFD Division website. RUBA staff can help you learn more about the process and whether or not this is a viable option for your utility.

Tool 14  Public Recognition/Shaming

Information about whether customers have paid their bills is not necessarily confidential. In some communities, the utility promotes timely payments by publishing a list of customers who have paid their bills. In a few communities, the utility discourages late payments by publishing a list of delinquent customers: customers pay because they don’t want their name to be on the list. If you decide to use one of these options, make sure the utility has the full support of its governing body before publishing a list.

REAL LIFE EXAMPLE
A small utility owned by a community association bills customers for water service on an annual basis. Every January, it posts a list of all customers on the community bulletin board. As customers pay their bills, the utility checks off the customer’s name on the list, which is available for everyone to see. The community checklist recognizes those who have paid, and serves as a reminder to those who still need to pay.
Tool 15  

Service Disconnection

RUBA has found the single most effective way of ensuring customers pay their water bill is to cut off service when they do not pay. To be effective, service disconnections must be consistent, timely, and equitable in accordance with procedures defined in the utility ordinance. When customers understand the requirements for payment and realize the utility will enforce them, they will know they must pay their utility bill in order to receive water service.

If the utility has not been disconnecting delinquent customers, and decides to start doing so, it should notify customers in advance: otherwise, the change will initially come as a shock to the customers.

Some rural Alaskan utilities do not have shut-off valves, and cannot afford to install them to all customers. One option in such cases is to install shut-off valves to one or two of the most delinquent customers, and add shut-off valves to other customers as funding allows.

REAL LIFE EXAMPLE

A utility that did not have shut-off valves purchased three such valves and notified the most delinquent customer a shut-off valve would be installed and service would be disconnected to him if the account balance was not paid. After the valve was installed and his service was disconnected, the customer promptly came in to pay the amount due. The utility began the same process with the next most delinquent customer, but before it even installed the shut-off valve, the customer paid his bill. This action by the utility quickly led to a much-improved collection rate, as customers realized the utility could install shut-off valves and disconnect service.

Tool 16  

Small Claims Court

One option for collecting delinquent accounts even after service has been disconnected is to take delinquent customers to small claims court. To use this option:

- the claim cannot exceed $10,000
- the utility’s ordinance must be in compliance with state law
- utility’s actions must be consistent with the utility ordinance
- the utility’s accounting records must be current and accurate
- the utility must provide evidence of the customer’s responsibility to pay and their failure to do so.

For more information about the small claims court process, see the Alaska Small Claims Handbook, available on the State of Alaska Court System website.
Tool 17  

Collection Agencies

Collection agencies are federally and state certified entities that specialize in getting delinquent customers to pay their bills. In return, the agency will take a portion of the amount collected as its fee. For example: if an agency's fee is 30% and it collects $1,000 on a delinquent account, the utility will receive $700 and the agency will keep $300. Collection agencies should be a near-to-last option because the utility does not receive the full amount of the customer's payment. The advantage of using collection agencies is that they can be more effective than utility staff in collecting delinquent amounts: even if the utility does not receive the full amount, $700 is still better than $0. Another advantage is that once a delinquent account is handed over to a collection agency, utility personnel are freed from the hassle of dealing directly with the delinquent customer.

REAL LIFE EXAMPLE

A second class city in rural Alaska worked with its municipal attorney to take out liens on the homes of several delinquent utility customers. If and when the customers sell their home, the city will receive the money due for many years of delinquent water payments. Although the money is not available now, the utility knows it has a method to collect it in the future.

Tool 18  

Liens

A lien is a legal claim on the property of a person as security for the payment of a just debt. If the utility has customers with large delinquent amounts, it may be able to take out a lien on their property for the amount due. This tool can help deal with longer-term delinquencies when you do not anticipate being able to collect on the bill in any other manner.

REAL LIFE EXAMPLE

A remote Aleutian community used a collection agency in Anchorage to collect bills on delinquent customers who had left the state. Each customer owed the city just over $1,000, and the collection agency was able to collect the full amount. The agency kept 35% of the amount collected, but the community felt the cost was worth it, because it received a large portion of the amount owed that it had previously been unable to collect.
ADDITIONAL RESOURCES

As previously mentioned, every rural utility has a designated RUBA staff person available to assist with anything discussed in this handbook and with other water utility management issues as well. If you are not already in contact with RUBA and would like information about the RUBA program, you can start by visiting the RUBA page on the DCRA website.

Utilities are also encouraged to take advantage of other sources of support and assistance available to help address water/wastewater issues.

- The Alaska Department of Environmental Conservation (DEC) sponsors a Remote Maintenance Worker (RMW) Program in partnership with five Alaska regional health corporations to provide technical assistance and training to operators of water and wastewater utilities in rural Alaska. Information about the RMW Program is available on the Division of Water page of the DEC website.

- For communities seeking water/wastewater capital project funding, the Alaska Native Tribal Health Consortium (ANTHC) and the Village Safe Water (VSW) program have engineering staff who can help assess the community's capital project needs.

- The Alaska Native Tribal Health Consortium (ANTHC) has various programs to assist rural Alaskan communities with water and wastewater utility management issues, including the Alaska Rural Utility Collaborative (ARUC) and the Alaska Utility Supply Center. Visit the ANTHC website for information about these programs.

A list of each community’s project engineer, RMW, and RUBA staff person is available on the Division of Water Operations Assistance page of the DEC website.

Feel free to contact the RUBA program for more information. We look forward to working with you and helping you promote the long-term sustainability of your water and wastewater utility.