

Memo

Thru: Mark Gorman, Municipal Administrator

To: City and Borough of Sitka Assembly

From: Jay Sweeney, Chief Financial and Administrative Officer 

Date: February 15, 2016

Re: Credit and Collection Policy

Mayor McConnell and Assembly Members,

Issue: The Sitka General Code (SGC or “Code”) does not presently contain a comprehensive credit and collection policy applicable to all aspects of the Municipality; bits and pieces of such policy are scattered through Titles 4, 13 and 15 of the Code. As a result, there is no comprehensive set of policies which set forth how the Municipality extends credit to its customers, how and when such credit is revoked, and how and when the Municipality will seek to collect past due amounts from its customers. The attached credit and collection policy, presented to you in the form of an ordinance, seeks to remedy the problem by establishing a comprehensive set of regulations.

Background:

The lack of a comprehensive Municipal credit and collections policy has been a long-standing problem which has manifested itself in inefficient operations; inconsistent procedures; and staff, Assembly, and citizen frustration with the inability of the Municipality to prudently manage its fiscal operations.

As a general business policy, the Municipality extends credit to all of its customers. While not apparent, this is intuitive; in almost every sense, the Municipality provides a service, then bills the customer for the service. The provision of services before payment, based on the customer’s commitment to eventual payment, is the act of extending credit. If credit is not extended, then business is conducted on a cash basis wherein payment is tendered before goods or services are provided or sold.

Most organizations which extend credit to their customers have some type of official credit policy. Such a policy usually specifies when and how credit will be granted, how much credit will be granted, normal trade terms under which customers are expected to remit payment in full for goods or services sold on credit, circumstances under which credit may be revoked, what transpires when credit is revoked, and how revoked credit may be restored. The Municipality has no such comprehensive credit policy. The closest the Municipality comes is in the Electric Utility Policies contained in SGC 15.01.030.

In addition, most credit policies either contain procedures pertaining to collections of past due amounts, or, exist in tandem with a separate collection policy. Collection policies detail when and how past due balances owed by customers are subject to various collection procedures. Such policies often detail exactly when past due balances are turned over to collection agencies; the levying of fees for collection efforts, and the reporting of delinquencies to credit bureaus. Collection policies are usually tied closely to collection policies, as a normal collection tool is the revocation of credit. Again, this makes intuitive sense, as it is fiscally imprudent to continue to advance credit to a customer who can't pay. Again, the Municipality has no such comprehensive collections policy. The closest the Municipality comes is, again, in the Electric Utility Policies contained in SGC 15.01.030, and, in Title 4 of the SGC, Chapters 4.35 and 4.40.

Ramifications:

As a result of not having a comprehensive credit and collections policy, the Municipality operates inefficiently and inconsistently. Credit is often extended to customers in one respect who have past due accounts owed to the Municipality in another respect. Collection efforts have been piecemeal, with different staff elements of the Municipality having responsibility during different parts of the collections process.

Efforts by the Municipality to collect large debts owed have been hampered by the lack of procedures which would allow for both rapid collection efforts, and, the ability to limit the degree to which a customer or business could build up past due balances owed the Municipality.

Finally, efforts to manage credit and collections has been hampered by the absence of defining law in the Code which would serve as the underlying legal basis for actions the Municipality might seek to take. More defining policy is needed.

Recommendations And Proposed Actions:

The issue of Municipal credit and collections is complex. We are breaking new ground with our recommendations for establishing a comprehensive credit and collections policy. Thus, staff anticipates that development and implementation of an effective, comprehensive credit and collections policy will be an evolutionary process. The proposed policy is a starting point. We anticipate that much public debate will take place over our recommendations.

The attached credit and collections policy has the following key elements:

- 1) It is comprehensive, in that it defines each customer's over-arching credit relationship with the Municipality as a whole. It moves away from the concept of a customer having separate credit with various elements of the Municipality, such as utilities, harbors, and general government.
- 2) It firmly establishes that all citizens and customers are granted credit, but, that such credit can be revoked, placing customers and citizens without credit on a cash-only basis.
- 3) It establishes what happens when credit is revoked, and, what actions a citizen or customer must take to restore credit.
- 4) It streamlines and clarifies the collections process, specifying at what point past due balances are turned over to collection services.

- 5) It ties the concepts of extension of credit and collections together, in that credit is formally revoked at the point in time in which past due balances are turned over to external collection agencies.

Summary: A comprehensive credit and collections policy is badly needed by the Municipality, in order to improve its fiscal management. Existing policies are piecemeal and fragmented. Credit and collections are complex topics, however, and development of an effective credit and collections process will be an evolutionary process. Passage of the attached ordinance, containing the initial proposed credit and collections policy for the Municipality would be an important first step.