



MUNICIPAL UTILITY BASICS

The Alexandria Utility System Basics, Assumptions and Needs

November 14, 2023

State of the City Series



- The Alexandria Utilities System (AUS) is an enterprise fund of the City of Alexandria. By law, it is run as a private business would be. AUS is not part of the general fund(ed) operations of the City. It is a separated activity.
- Fixed-income households are hurt by chronic, intentional nonpayment. Consumption includes choices. Assistance through AUS's payment plans etc., as well as by churches and others, must educate regarding consumption. Rewarding the chronic, intentional non-payers with bill forgiveness does not limit consumption choices like paying customers practice every day.
- By state law, if utilities are consumed (used) by customers, they must be paid for by that account holder—which explicitly does not allow free utilities or outright bill forgiveness. RESTOR found a way to help.
- And, very importantly, bill forgiveness hurts bill payers, unfairly and significantly (without their permission by subsidizing non-payers). Because the costs of commodities are borne by customers—as required by law—those customers who refuse to pay and remain chronically late negatively affect paying customers in several ways, and some ways will bankrupt the system.

RESTOR Ordinance Mayor Roy passes the RESTOR ordinance(s) one week into office. These were introduced by the Mayor-elect through concerned City Council members by unanimous consent, before the Mayor took office. Each member was carefully briefed with as much opportunity for additional understanding and material as needed.

Past Due Balances (12/5/2022) Mayor Roy assumes office at noon—AUS past-due balances, those past-due extending beyond net 30 days and which by law were due for cut off, were \$9.05 million across 7400 accounts of 26,000—that’s 28% of all accounts. That statistic represents a fatal crisis to AUS, with total balances that day in excess of \$16 million in total receivables. In February 2023, an FAQ outlined the process in detail. RESTOR grants were available through a defined application process with remaining delinquent balances placed on installment.

Past-Due Balances (11/14/2023) AUS notes RESTOR has provided to qualified families over \$1 million in fully free grants and restructured 7200 delinquent accounts into payment arrangements totaling over \$7.8 million to assist families, including with some terms from well over six months up to twelve months. Except for RESTOR, these families would have been subject to disconnects for nonpayment the Spring of 2023. People who say “no” to RESTOR can simply pay.

As of this date, delinquent ratepayers owe AUS \$4.864 million plus about \$522,208.30 in “current (past) due.” RESTOR works and helps people who are willing to work with the City. The misinformation being spread is designed to take advantage of paying ratepayers and blame the fix for the problem. Independent auditing shows the AUS net position decreased \$10.5 million because of the previous administration’s mismanagement. The threats were existential to the system.

- ◉ Your utility bill isn't an "electric bill"—it is all your utilities! Stop unfair comparisons.
- ◉ We did not create the utility issues, but are required by law to fix them. The City cannot give away utilities, charge people different rates, or forgive already consumed (used) services. We cannot make paying customers pay bills not being paid by others.
- ◉ Surveys asking "if utilities are high" are completely invalid both statistically and as a matter of addressing the problems. Utilities are based on consumption (use), not some flat charge; elements of choice and control exist. Surveys do not address past due bills, usage choices, or fraud. And the idea all cut offs for nonpayment mean those persons remain without utilities is invalid and nonsensical—i.e. the "\$100-account" claim.
- ◉ At no time ever did the total number of disconnected customers approach 5,100 unique accounts. To mislead, utility attacks included using the estimated total number of cut off tickets over an undefined period of time as somehow permanent disconnects. Think about it: people pay, or pay the same day as a cut off, or as with most within 24 hours. This is historically normal, proving it is not the inability to pay but avoiding paying altogether by a few chronic, intentional non-payers. These numbers include fraud, tampering, stranded accounts, evictees, etc. Subsidized housing recipients lead chronic nonpayment, physical threats to city employees, and while receiving vouchers for utilities. This is part of what is meant by chronic, intentional acts.

What we've heard

- ◉ I pay taxes, so I am not paying utilities on top since it is a city utility
- ◉ I think utilities are "too high"; and how can fuel cost be higher than my electric portion Why are they raising our rates?
- ◉ Why estimate? And then I was charged too much
- ◉ Hey—they did not bill me, so that is their fault
- ◉ I heard businesses got RESTOR and I didn't
- ◉ They are making me pay back my RESTOR grant
- ◉ I did not even apply and they are making me pay it back; they put me on a payment plan I did not want—I didn't ask for a loan
- ◉ The entire system is a fraud and bills calculated illegally, so I just will not pay
- ◉ What happened to RESTOR money not used

False narratives created by well meaning people:

- One of the pressing issues resonating in our community lately is the "high cost of utilities." Alexandria utilities are just too high
- CCAC cannot help me because of the City's RESTOR program
- My church member was cut off when she paid this month's bill I saw the receipt for a small amount

Customer Question Responses

- ◉ My bill is too high. We have explained this comment has no meaning unless compared to other utilities. Think about it: have eggs, bread, milk, etc. remained at 1986 pricing?
- ◉ My fuel cost is higher than my electricity bill. Yes. That is because gas costs are market driven but your rate has not been adjusted by the City Council like non-municipal utilities would be. There has never been an association of rate and fuel cost—that is made up! The Mayor has no authority to change your rate.
- ◉ Hey—they did not bill me, so that is their fault. If you use it; you pay for it. You used the utilities. This is a metered service that accrues on the amount of consumption. It is against the law to forgive use.
- ◉ "They stole RESTOR money"; and put me on a payment plan I did not want. Nonsense. If you do not want a payment plan, AUS would love to accept your full payment catching up all past-due amounts. Then your RESTOR amortized balance goes away. That amount on your bill is not an addition—it is the amount you never paid.
- ◉ They are making me pay back my grant. Nope. This is an organized effort to threaten the AUS by many non-customers or chronic non-payers. You received counseling to receive RESTOR or had to fill out an online application indicating your choice. No one has been asked to pay back a RESTOR grant. Ever. Ironically, principal sources of this lie told people most in need of RESTOR not to take it.
- ◉ The entire system is a fraud and calculated illegally, so I just will not pay. So, this is a bad choice if you need utility services. Fraud is a big allegation—it requires you to prove it. Prove it!
- ◉ I pay taxes, so I am not paying utilities on top of that since it is a city utility. If you live in any other City, and you pay taxes to keep up roads etc., do you still pay for the utilities YOU CHOOSE IN THE AMOUNTS YOU USE THEM, i.e. you pay for what you use (consume)? This is a nationwide phenomenon post-COVID.

Charged too much Customers may dispute meter readings at any time; we will go out and make adjustments if required by verified readings. Most of the time, AUS is accurate (by the time averaged bills are reconciled with actual use), but mistakes can occur. We are happy to fix them. It happens with every utility. Regarding times when bills are estimated, these should be and are limited to a select few reasons—animals, locked gates, reader shortages. But you still must pay any undisputed portion! You cannot fail to pay **ANYTHING** at all and use utilities. That amount on your bill is not for repaying RESTOR grants—that is the amount customers never paid but used.

Fault; Mistake AUS experienced harm to the system because of the last administration's management decisions, not because of meter reader shortages or the hack of the City servers. These management decisions directly harmed the AUS, led to gross underbilling, needlessly increased costs through an ill-advised bond refinancing, modified upset limits on collections without legal authorization, and were aggravated but not caused by reading issues. The blame on the hack assigned by the prior administration is provably misleading and overall a false narrative. This Administration addressed the issues with RESTOR—which is working to return the AUS to proper function. RESTOR will work unless the threats to the AUS continue unabated through chronic, intentional abuse by non-payers.

Fraud The AUS will investigate any actual claims of fraud. Any claimant's allegation of fraud must include evidence. The Alexandria City Council publishes its enacted ordinance setting utility rates. AUS uses that council-adopted algorithm to calculate your entire utility bill. The AUS and Administration cannot alter it, not legally, anyway. Customers are not being overcharged; instead, AUS under the previous administration failed to accurately collect utility income due the City, *when due*, and placed the AUS in clear and present danger of system failure. It was malfeasance.

RESTOR The City Council adopted the RESTOR plan to help overcome the management decisions of the prior administration that led to massive accumulated past-due balances. “Too high,” as discussed, routinely includes accumulated past-due balances. One council person stated 100% of those complaints received in 2023 by that member included significant accumulated past-due balances. Others say the same.

1. Customers are not owed RESTOR. In fact, even if the City misbilled or underbilled customers, payment for the *use* of utilities is still *owed*. If you receive a commercial item from a vendor you did not pay for, by mistake, you do not get to keep it without paying. That would be considered theft.
2. RESTOR was designed to balance help caused by the contributive mismanagement by the prior administration with your pocketbook. This Administration chose to balance the law that prohibits giving away city services to anyone against the risk of non-collection and failure of the entire system by massive accumulated past-due accounts. We used a fund for the express purpose of helping the utility.
3. You owed ALL your past consumption regardless of billing. But RESTOR provided a grant portion (not owed back) subject to a fairness formula we determined using national criteria (called *LiHEAP*).
4. RESTOR also, *i.e.* in addition to the grant but not in lieu of it, converted any portion owed from past-due amounts that **WAS NOT** provided by the grant to a payment plan. Customers did not have to agree to it —if you do not, pay your entire past-due balance immediately. You are not owed any grant or plan—as no other utility we can identify provides this level of assistance to customers. And if you did not seek assistance, your past-due balance had to be accrued somehow to avoid just cutting customers off!
5. Despite documentable efforts to get every qualified customer on RESTOR (we want you to), many eligible customers failed to apply. Application was necessary due to so much customer account fraud mainly through interpositioning (opening accounts in names of ineligible persons to avoid past-due accounts). In fact, some of these persons and organizations misleading customers about RESTOR told eligible customers not to apply—think about that.

Too high

“Too high”? Well, what does that mean? Compared to what? We are not too high compared to other utility providers—our rate has not changed since 1986. We are not too high with regard to our fuel cost—we rely on a resource plan centered on natural gas with other diverse components.

When people say “too high”—do they mean all utilities are just too high in the nation, that natural gas markets are too expensive, or that AUS is making theirs too high? Utilities are a necessary part of life—but in no comparative sense is AUS too high. Or, do they mean the City margin-to-retained earnings is too high (even with no rate change since 1986)? Historically, our retained earnings year over year range between 10-17%, hardly improper to pay for future infrastructure and needs. But not now—we are using prior year earnings based on the prior administration’s actions to cover the vast uncollected receivables.

Perhaps customers assert AUS is too high based on fraud, fault, or being mathematically overcharged. Luckily, these are third-party audited every year. And the new Administration ran special procedures to discover why the AUS is in such a struggle to exist. We know those answers. They are listed in part in RESTOR FAQ #1 (2/20/23) and will be addressed in additional detail in this RESTOR presentation and any future FAQ.

Utility Resourcing

Fuel (the price of the commodities purchased from the market to supply or generate your electricity; this is passed through to you at no mark up—except the “line loss” variable—and is a function of forces outside of City control—except as controlled by proper hedging and forecasting)

Fuel Cost Adjustment (the Fuel plus variable monthly costs required to recoup transmission charges for our purchases and assets; the City does not profit from the variable monthly costs ratepayers and the City itself bear to have electric and gas utilities)

Rates (this is the only charge to pay for your services—to plan for infrastructure, build new transmission, pay employees, make repairs after storms, and generally operate the system; your electric rate has not *increased* since 1986, but in fact this Administration lowered the electric rate since that time)

The Market (Commodities like the natural gas—the principal Fuel—we use to run our generating assets and deliver electricity to your homes and businesses are determined by national—and international—forces, not local ones; the local force we can apply to help you is by having (i) a smart, capable hedging and forecasting program, (ii) a customer service department that collects payments timely, and (iii) our AUS operators and partners trained to repair and provide you with a safe and reliable product)

AUS charges a Rate to customers

AUS recoups its Fuel Cost Adjustment from customers and from the City's use, itself

- **Bonds** (this represents borrowing for large capital projects which allows upfront use of funds paid back through the rate structure)
- **Grants** (this represents usually one-time funds made available through the federal and/or state governments)
- **Donations** (AUS does not receive a material amount of donations)
- **Annual Adjustment** (adjustments required by law to account for the purchased versus billed power cost after third-party audit which we commit to and make happen within a fiscal year)
- **Line loss** (this recaptures the imperfection of loss-of-delivery efficiencies through operations delivering electricity from Point A to Point B)
 - When we deliver power from the generating source, it arrives less than it started because conduction is imperfect
 - This loss runs about 10% annually

AUSP to the AUS (audited and auditable claims)

- **Bonded Projects** (after an extensive review through the Commission on Utility Reform and Equity executed the Alexandria Utility Sustainability Project, the City elected to build and acquire assets through bonded projects that decisively demonstrated owning substantial generation was the least-cost option when compared to any of the many other models reviewed—from this the Alexandria Utilities System was launched, avoiding demand charges for owned assets)
- **Comparison** (the AUS as compared to ALL other models demonstrated that ownership allowed the City to build and pay out asset costs over time, along with normal customer billing, cheaper than solely buying from others; the City's all-in payments to create the AUS were cheaper than paying others and paying their demand charges; multiple Cleco-purchase options were considered and rejected as higher in all-in cost; the City now owns its assets and avoided paying a demand charge to Cleco or others that would have been charged back to customers)
- **Ownership** (by owning our assets, we created a physical hedge against the market, power pricing spikes, and other uncertainties; it was the right move then, and remains far and away the right arrangement now, with a “sweet spot” achievable when the assets are fully amortized)
- **PILOT** (in lieu of franchise charges, the City may receive from AUS critical assistance pumped right back into City needed infrastructure, programs, and services)

Your Bill

- Your AUS bill is consolidated. The final number is NOT only your electric bill—it covers all your utilities—sanitation, water, gas, sewer, and electric. No other utility customer outside the City has the entire consolidated services presented on one bill. These customers outside Alexandria pay each separately making comparisons apples to oranges.
- For example, each electric and gas listing of charges on your bill has a rate and a fuel cost portion. AUS provides the two portions on your bill. The City Council elected to provide this break down. All other utility companies have these two portions as part of their bill, but may choose not to separate that information.
- Commodity costs drive the fuel cost portion of your bill.
- We compare our four-delivered utility costs to the costs to receive the same all-in utility costs in 11 other cities across Louisiana, monthly. Our all-in value remains one of the very lowest month after month.
- The so-called “high costs” of utilities is a function of chronic non-payment (leading to large unpaid past-due balances), not a comparison of AUS to other providers.

AUS Failure

RESTOR The City Council adopted RESTOR. It represents a well-thought-out plan to help overcome (not cure) the management decisions of the prior administration that led to massive non-collection of accumulated past-due balances.

Payments Outstanding AUS must collect millions of past-due monies to continue to operate. If AUS fails, the receivership that would result ends Alexandria's quality-of-life initiatives: bus transportation, the Alexandria Zoo, and some large-scale recreation programming. Also, AUS concludes operations by another utility will result in no less than a 25% increase to your overall utility cost. A state takeover (really dumb idea) would result in collections fees to you on top of what is owed.

Existential Threat The threats to the AUS are existential—meaning they affect whether the AUS survives in the immediate future. It is illegal to forgive people's bills and have some customers pay and others have utilities free—equally, it is immoral and unfair, based on no objective criteria or legal basis. The continued belief paying for utilities is an OPTION, or through community organizing, can be avoided must be stopped by paying ratepayers. False claims and allegations must not be credited by customers who enjoy the benefits of the AUS.

Fixing Avoidable Problems

Enterprise Funds

In the Enterprise Funds, Bonded Long-Term Debt decreased \$3.4 million; the result of scheduled payments of principal. For further information on debt, please see Note 11 to the financial statements.

Bonded Long-Term Debt

	Governmental		Business	
	2020	2019	2020	2019
Sales Tax Revenue Bonds	\$ 11.1	\$ 13.4	\$ -	\$ -
Utility Revenue Bonds	-	-	165.8	147.4
Total Outstanding Debt	\$ 11.1	\$ 13.4	\$ 165.8	\$ 147.4

Future Outlook

The City faced some difficult financial challenges in FY 2022-23, and will face these and other challenges in the foreseeable future.

In governmental activities, an increase in Fund Balance of \$2.1 was previously noted. However, the General Fund saw a decrease in Fund Balance of \$3.6 million. This is due to a variety of factors including expenditures being up in most major categories and Sales Tax Revenue being relatively flat. The greatest single factor is the absence of the Transfer from the Utilities System Fund, which has recently been \$5.2 million. That transfer as originally budgeted for FY 2022-23 was over 9% of the total revenues and transfers for the General Fund. The justification for its absence will be discussed under "business activities".

In business activities, a decrease of \$9.0 million in Net Position was noted in Enterprise Funds, the majority of which is attributable to the \$10.5 million decrease in Net Position in the Utilities System Fund. As noted, revenues were up from the prior year, but most of the increase was due to fuel cost recovery. Expenses went up much more sharply contributing to the results. There was a steep increase in Receivables in the Utilities System Fund. This was due to the lack of timely cutoffs for non-payment in the prior administration. Uncollected cycle billings rose from \$9 million in the prior year to \$16.2 million at the end of FY 2022-23. Consequently, the Allowance for Uncollectibles, an estimation used by the City to determine how much of the receivable will never be collected, rose by \$4.2 million. This estimation would have been higher if it were not for considerable efforts and success in collections in FY 2023-24 thus far. The effect on the Utilities System Fund's cash flows has been devastating, as evidenced by examining the Statement of Cash Flows. FY 2022-23 shows net cash provided by operations at \$12.5 million, compared to \$18.3 million in FY 2021-22. This is further evidence of the Utilities System having to pay its obligations to suppliers, employees and the like in full, while not being paid in full for the services it has provided to customers. Balances of cash and equivalents dropped \$5.6 million during FY 2022-23, even with the suspension of the Transfer to General Fund of \$5.3 million mentioned above. This situation will require considerable attention in order to put the Utilities System Fund, and the City as a whole, back in a favorable financial condition.

**2022-23 Audit is for 2022 activity.
Mayor Roy assumed office December 2022;
100% of the issues were inherited.**

This page is unmodified except the Note added in red provides clarity and context but is not part of the original page. This is a management discussion item, but its underlying mathematical data is found in the Independent Auditor's Report. Highlights in blue.

The report and management discussion are provided under penalty of law to the State Legislative Auditor.

See independent auditor's report.

Just avoid these issues . . .

2. Why was it necessary, if it is not owed?

Without extraordinary intervention, the City's utility customers would be faced with near-insurmountable past-due balances that could take months or years to pay down. By taking so long, the utility cannot properly plan for improvements to the system and would be at real operational risk if customers bankrupted or ceased being customers. Moreover, as a matter of fundamental fairness, these exceptionally large accumulated past-due customer balances resulted in large part from previous management decisions, made prior to December 5, 2022, and discovered during the new administration's auditing processes, including:

- A. improper relocation of customer service assets and decision-making (i.e. decisions about accounts were moved from dedicated professional civil servants to the office of the mayor),
- B. improper collection of balances and cut off limits (i.e. collections practices were discontinued as existed under ordinances and policy and moved from professional civil servants to the office of the mayor, with additional devastating arbitrary cut off limits),
- C. failures to use available management metrics (i.e. software and tracking methods to gauge and report of past-due and other balance and billing were not used), and
- D. failure to maintain adequate meter-reading staff, creating even longer billing cycles and accumulation and/or repetition of errors.

What we do differently

- Properly hedge, resource plan, and monitor commodities.
- Continue with proper management and training.
- Timely collections.
- Proper application of the fuel cost algorithm.
- Proper, consistent collection policy.
- Private sector partnering to continue RESTOR's help for needy, qualifying customers.
- Nehemiah-assisted customer training and better consumption practices.
- Automated Meter Reading.
- Avoiding bond rating loss and refinancing mistakes.
- Infrastructure investment priority.
- Housing assistance and weatherization, overcoming the rental roadblocks and other challenges to use of public funds.