



## Fiscal Estimate Narratives

PSC 7/11/2011

LRB Number	11-1393/1	Introduction Number	AB-0182	Estimate Type	Original
<b>Description</b> Assignment of income, prizes, and earnings to pay a municipal court judgment and prohibiting municipal electric or water utilities from collecting certain utility arrearages from owners of rental properties as property liens					

### Assumptions Used in Arriving at Fiscal Estimate

The proposed legislation prohibits municipal utilities from recovering unpaid utility bills on rental dwelling units through property taxes, as currently permitted under s. 66.0809, if the owner provides the municipal utility with the names and addresses of the owner(s) and tenants(s).

The immediate impact of the proposed legislation will likely be a decrease in revenues for municipal utilities. In the longer term, the Commission anticipates the proposed legislation will increase costs to municipal utilities as the utilities implement collection methods that are more costly than the one prohibited under the bill. The proposed legislation is expected to result in higher water and electric rates for all utility customers as municipalities seek Commission approval for rate increases to offset increased collection costs and replace lost revenues from uncollectable bills.

All municipal water utilities, and most municipal electric utilities, currently collect unpaid utility bills through property taxes. The Department of Revenue has identified the 2010/11 statewide amount of unpaid utility bills placed on the property tax roll as \$61 million for all properties. The Department of Revenue does not have data identifying amounts for renter- versus owner-occupied properties, but if the number and amount of unpaid bills are distributed evenly across all housing units in Wisconsin, then the amount of property tax collection for rental dwelling units would be \$19.5 million. 2010 Census data identifies rental units as 32% of total housing units in Wisconsin. However, rental properties may account for more than the \$19.5 million, since rental agreements can require tenant responsibility for utility bills, and tenants may have fewer resources and less incentive to pay utility bills compared to owners.

Besides the property tax method, disconnection of service is the other method most used by municipal utilities to collect unpaid bills. However, it is a more complex process, and therefore more costly, than collection through property taxes, and not all utilities use this collection method — including many large city water utilities (Milwaukee, Madison, Green Bay and La Crosse) — as the volume of disconnections paired with the complexity of the disconnection process make it prohibitive. To disconnect service, utilities must follow a specific process and take action within certain deadlines. For a customer to be reconnected, utilities require a customer to make a down payment on the past due balance and set up a payment plan, allowing the utility to recover the balance due. In addition, administrative code requires utilities to reconnect service under certain circumstances. If collecting unpaid bills through property taxes is no longer permitted for rental properties, then utilities will likely add disconnections of service to augment their collection methods. This will increase utilities' costs.

Municipal utilities could also employ collection agencies to recover unpaid water and electric bills. Municipalities currently use collection agencies to a very limited extent. One could assume that they are not used more frequently because they are less cost effective than property tax and disconnection methods. Increased use of collection agencies as a response to collection method changes proposed under this bill could also increase municipal utilities' costs.

Any increased cost incurred by municipal utilities due to changes in collection practices required by this bill would result in these utilities requesting rate increases from the Commission. Municipal utilities generally must cover their costs through rates. In addition, if revenues decrease because the collection methods permitted under the proposed legislation for rental properties proved less effective than the property tax method, utilities would seek rate adjustments.

Municipal utilities would not likely be able to recover, through a rate increase, losses incurred between the enactment of the proposed legislation and a request to the Commission for a rate adjustment, as this would constitute retroactive rate making. The Commission could investigate allowing the utilities to defer the losses and recover them in the next rate case, but it is unclear if deferring losses would be permitted. Depending on how quickly municipal utilities can respond to the proposed legislation with alternative collection methods

and requests for rate adjustments, utilities could incur unrecoverable losses. The amount of the unrecoverable losses cannot be estimated at this time, but the potential annual impact could be significant given annual amounts of unpaid utility bills currently placed on the property tax.

### **Long-Range Fiscal Implications**

The long range fiscal effect of the proposed legislation is estimated to be an increase in water and electric rates for municipal utility customers. Utilities will seek rate adjustments to offset increased costs and decreased revenues due to changes in collection practices for rental properties required under the proposed legislation.