



Municipal Technical Advisory Service
INSTITUTE *for* PUBLIC SERVICE

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Customer Accounting / Billing

Dear Reader:

The following document was created from the MTAS website ([mtas.tennessee.edu](https://www.mtas.tennessee.edu)). This website is maintained daily by MTAS staff and seeks to represent the most current information regarding issues relative to Tennessee municipal government.

We hope this information will be useful to you; reference to it will assist you with many of the questions that will arise in your tenure with municipal government. However, the *Tennessee Code Annotated* and other relevant laws or regulations should always be consulted before any action is taken based upon the contents of this document.

Please feel free to contact us if you have questions or comments regarding this information or any other MTAS website material.

Sincerely,

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Customer Accounting / Billing

Reference Number: MTAS-1382

Customer Accounting

Customer accounting consists of several different issues. A good customer accounting system will reduce bad debt loss and improve internal control, cash flow, and net income.

Customer Billing

Customer billing for water and sewer services is usually done on a monthly basis. Billing may be done "in house" by the city's computer system; billing software packages are readily available. Some cities may choose to use an outside billing service. In that case the city will read the meters and provide the information to the vendor for billing.

In smaller systems all of the billing may be prepared and mailed at one time. Larger systems may want to do cycle billing. Meter reading routes are divided into groups called cycles. Bills are prepared and mailed using these cycles based on a monthly schedule. Cycle billing can help the city have a smoother work flow and provide a better cash flow. Whether billing is done all at once or in cycles, care should be taken to send customers their bills at approximately the same time each month. This cuts down on customer complaints and allows them to better budget for the utility payment.

As a part of the billing and accounting process, cities should maintain proper accounts receivable records. Billing totals and payments should be recorded and balanced to accounts receivable totals. One way to accomplish this is for cities to maintain an open balance that reflects outstanding balances on each customer's account. The open balance would contain an "aging" of account balances so that past due accounts could be flagged for collection. Accounts receivable should be balanced monthly.

Collections

Reference Number: MTAS-1383

Normally, cities collect water and sewer billings through walk up/drive up collections or through the mail. These payments usually consist of cash or personal checks. In recent years cities have added alternative payment methods that take advantage of current technologies. Bank drafts, credit cards, and Internet banking are ways to speed collection for the water and sewer fund and provide convenience for the customer.

Cities should establish policies regarding collections of past due payments and bad debts. Generally, a customer will be given a reasonable amount of time to pay the bill without incurring any penalties. For example, a customer's bill would be mailed to him on the 10th of the month and he would have until the 25th to render payment. If the bill is not paid by the due date, a penalty amount, normally a percentage of the outstanding balance, is added to the customer's account. If the bill remains unpaid the customer will be notified that payment is past due. Cities sometimes mail a notice that states that the customer's bill is past due and gives a date by which the bill must be paid before further action, up to and including termination of service, is taken. Care should be taken that customers are informed of their right to dispute the past due amount. Any disputes should be handled before a service is terminated. This will save the city legal problems and perhaps public embarrassment.

Deposits

Reference Number: MTAS-1384

Customers can be charged a deposit adequate to ensure that the city will not lose appreciable amounts of money from unpaid bills and bad debts. A deposit should be sufficient to cover the amount that would be outstanding before the service would be cut off for non-payment. In calculating deposit amounts remember that the customer is still using the water/sewer service from the time the meter is read through whatever time period the city uses for cut offs. The deposit amount needs to be enough to cover this usage period as much as possible.

Some utilities have policies that provide for the waiver or refund of deposits if the customer meets certain requirements. For instance a homeowner who provides a notice of good payment history from a previous utility provider may have the deposit waived, or all residential customers who maintain a good payment record for two consecutive years of service will have their deposits refunded. If you establish these types of policies, remember that the purpose of a deposit is to ensure payment for outstanding bills if the customer is unwilling or unable to pay.

Non-Refundable Connection Fees

Reference Number: MTAS-1385

Instead of deposits cities may want to use nonrefundable connection fees. A deposit is recorded as a liability on the statement of net assets and will need to be accounted for as long as the customer has the service. A non-refundable connection fee is recognized as revenue when it is received, and no records need be maintained to keep track of the payment as with a deposit.

DISCLAIMER: The letters and publications written by the MTAS consultants were written based upon the law at the time and/or a specific sets of facts. The laws referenced in the letters and publications may have changed and/or the technical advice provided may not be applicable to your city or circumstances. Always consult with your city attorney or an MTAS consultant before taking any action based on information contained in this website.

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