

Item IV

SALT LAKE CITY COUNCIL STAFF REPORT

DATE: January 7, 2003

SUBJECT: Returned Check Service Charge
Update of Ordinance to Reflect Current Fees

STAFF REPORT BY: Gary Mumford

REQUESTED ACTION:

The City Treasurer is requesting that the ordinance setting the fee for returned checks be updated from a \$10 service charge to the "maximum charge allowed by state statute," which is currently \$20. In about 1987, the City increased the service fee to \$15 when the State Code was updated from \$10 to \$15. In the early 1990s, the City increased the fee to \$20 when the State Legislature increased the limit. At both of these times, City officials failed to realize that the ordinance needed to be updated when the City's fee was increased. The City Treasurer noted the inconsistency during a recent search of City ordinances in response to an unrelated inquiry. The Council may wish to consider this amendment a housekeeping item since the \$20 fee has been charged by the City since the early 1990s, since the fee has been posted for the public in the Treasurer's Office and in other City government offices where payments or fees are received, and since a \$20 fee is generally charged by other governmental agencies and by utility companies and businesses.

MATTERS AT ISSUE:

The service fee is intended to recover actual costs incurred in processing and seeking to collect on checks that have been returned by the bank for insufficient funds or for other reasons. The City's processing steps and collection efforts are as follows:

- The City's bank attempts to redeposit non-sufficient-fund checks a second time about two days later. This allows extra time for deposits in transit by the issuer of the check to be recorded at the bank. After two attempts, the bank returns checks that have not been paid to the City's Accounting Division. A bank fee of \$1.25 is charged to the City for each check that is returned unpaid.
- The Accounting Division reverses the entry in the accounting system and forwards the returned checks to the Treasurer's Office.
- The Treasurer's Office enters the returned check information into a computerized system and forwards checks to the Justice Court with the exception of payments of public utility bills and payments relating to home rehabilitation and first-time home owners loan programs.

- The Department of Public Utilities reverses the payment on the customer's account and sends a letter to the customer. If a customer doesn't respond, a representative goes to the address and attempts to make arrangements to bring the account current. Water shutoff procedures eventually apply to delinquent accounts.
- The Housing and Neighborhood Development Division reverses a loan payment when a check is returned and sends a letter to the loan recipient. The next monthly statement shows the reversal of the payment and the \$20 service charge. A lien on the property guarantees eventual repayment.
- The Justice Court issues a letter notifying the issuer that the check was not honored by the bank. The Court's computer system automatically issues this letter from information entered by the Treasurer's Office. After 10 days, the computer generates a second letter notifying the issuer that nonpayment will result in a filing in Small Claims Court. After an additional 15 days, a claim is filed, and the court serves an affidavit to the issuer of the returned check. When the Small Claims Court is involved, the issuer is responsible for a \$45 filing fee and a \$7 to \$12 affidavit service fee in addition to the \$20 service fee. After a judgment is awarded, collection steps may include garnishment of wages and holding up of state income tax refunds.

cc: Rocky Fluhart, David Nimkin, Dan Mulé, DJ Baxter
