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Company

A Guide to Resident Utility Billing for Property Managers

How to recoup utility expenses & increase Net Operating Income



Summary

Apartment investors and property managers in the multifamily market are challenged with rising costs, budget constraints and persistent competition. Managing utility expenses, (which according to ENGIE Insight¹, are the third-largest budget item for many property management companies), is a major operational challenge. Utility prices are rising steadily at best or downright volatile at worst. Due to resource and operational constraints, many property managers cover these costs as part of their operating budget and do not pass them on to residents separately from rent. As a result, property managers are unable to predict what utility costs will be in any given month, making it difficult to manage their budget.

While multifamily companies are recognizing the value in billing residents for their portion of utility expenses, not all companies have the resources to perform this task in-house. An alternative is to charge residents a standard monthly flat fee based on each unit's size. While this process eliminates the need for monthly calculations, it typically does not recoup 100% of their expenses and may lead to rent inflation. To overcome these challenges, many property managers are choosing to allocate and bill residents for their share of utility expenses. This method, which has gained momentum in recent years, eliminates unpredictable utility expenses in an operating budget, increases cash flow, and could even provide an additional source of income for the property.

This eBook will evaluate resident utility billing options available to multifamily investors and property managers, and discuss considerations for working with a partner.





Contents

Volatile utility costs & environmental pressures lead to financial risk	1-4
The hidden (& not so hidden) budget impact of not recouping utility costs	5-6
Utility cost recoupment options for multifamily property owners	7-13
Manage in-house	8-9
Read-bill-collect (RBC) vendor	10-11
Resident utility billing comprehensive solutions provider	12-13
How comprehensive resident utility billing solutions work	14-20
Billing methods	15-20
Best in breed considerations for selecting a resident utility billing provider	21-27
Why Zego	28-30
Next steps	31

Volatile utility costs & environmental pressures lead to financial risk for property managers

It's easy to imagine how covering the cost of utilities such as water, electric and gas as part of the operating budget of a multifamily property can wreak havoc on cash flow and income. The research on utility pricing reflects the growing costs through rates and fees, and/ or unpredictability.

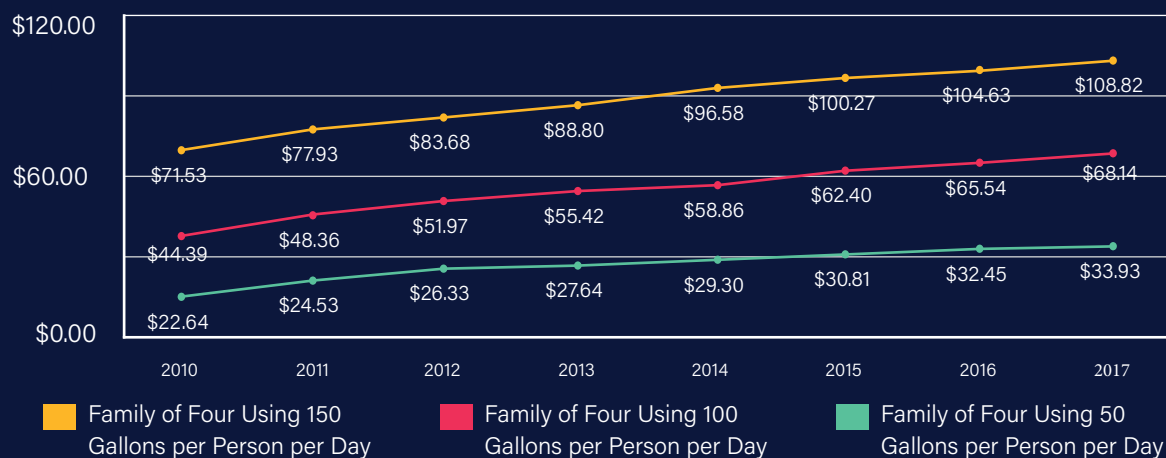


Water

Circle of Blue, an organization founded by Journalists and Scientists, collects and provides data on the world's resources. They reported that water prices in the United States "...continue a relentless, but slowing, upward climb. The average cost of residential drinking water service for a family of four using 100 gallons per person per day rose 4 percent last year, according to Circle of Blue's annual survey of 30 large U.S. cities."⁴

The situation is more critical in drought-stricken areas of the Southwest U.S., where increasing environmental and conservation challenges can put added pressure on property managers and their bottom line. For example, the San Diego Business Journal reported a 6.9% increase in citywide water rates, which took effect in August 2017.⁶

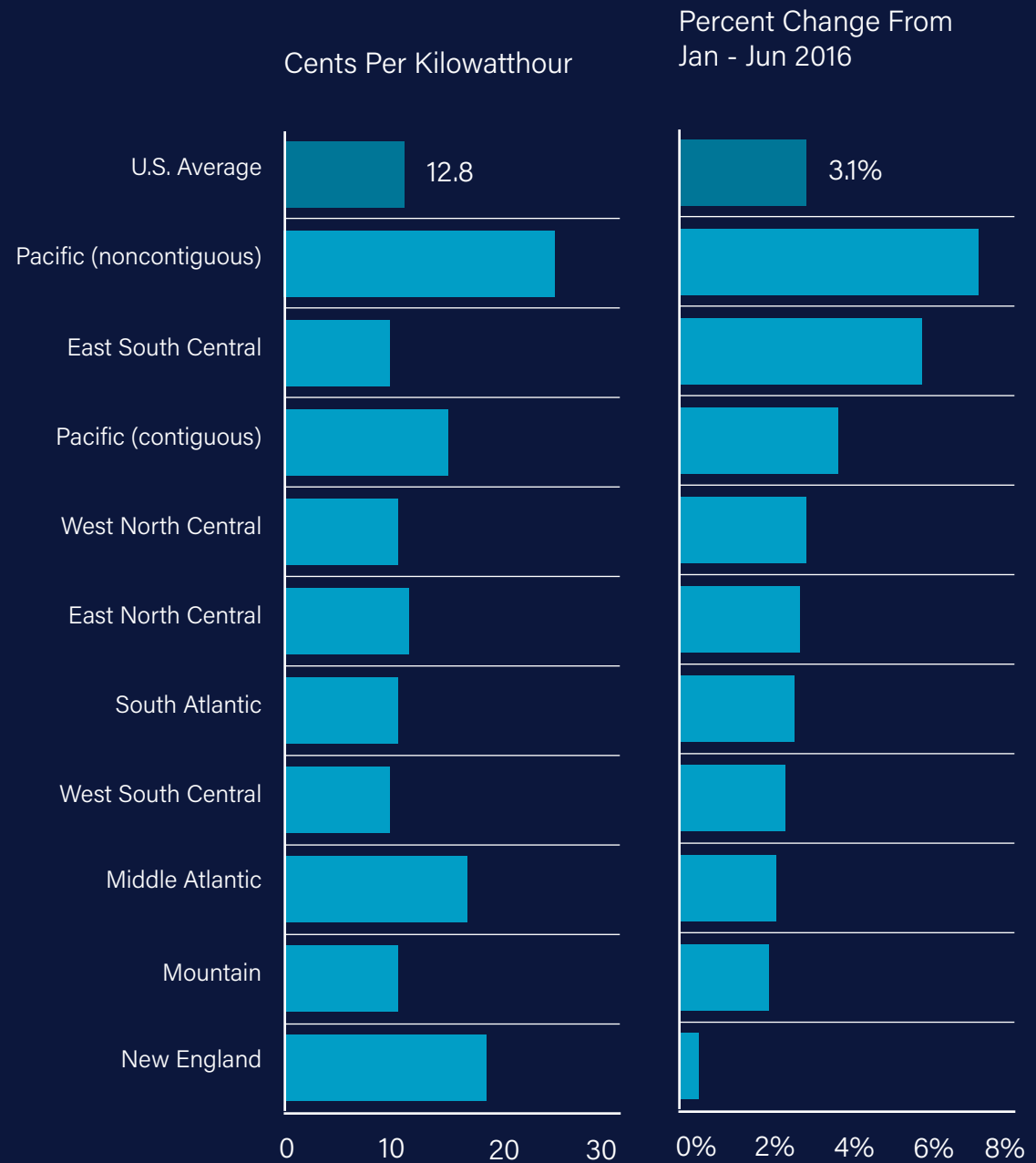
Average monthly cost of water



Electricity

While U.S. residential electricity prices fluctuate, the U.S. Energy Information Administration reported a 3% rise in the first half of 2017.

Average residential electricity prices by census division (Jan - Jun 2017)



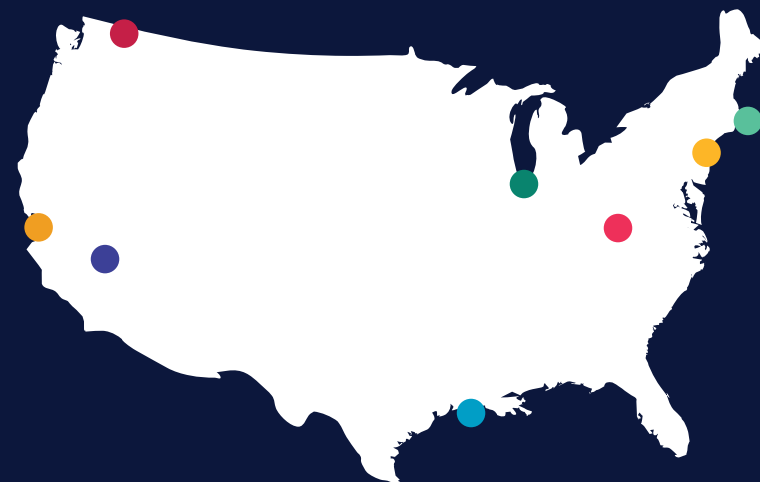
Natural gas

Though natural gas prices in the U.S. regional market have been trending down since the mid 2000's, they "... were volatile in 2016" according to the EIA website - as evident in the natural gas spot prices graph below.³ Natural gas is also a challenging utility because seasonality causes drastic swings in both consumption and pricing.

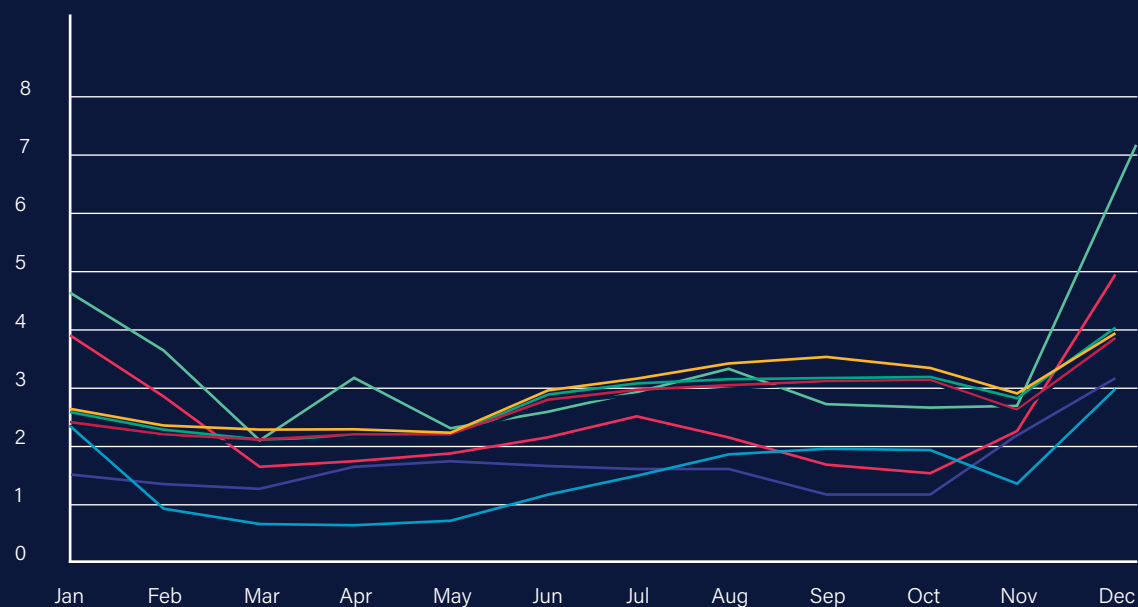
Monthly average natural gas spot prices at key trading hubs - 2016

Regional Markets

- Algonquin Citygate
- Transco Zone 6 NY
- Transco-Leidy Line
- Chicago Citygate
- Northwest Sumas
- PG&E Citygate
- SoCal Citygate
- Henry Hub



Dollars per million British thermal units



The hidden (and not so hidden) budget impact of not recouping utility costs

Without an effective strategy to ensure that residents pay their fair share of utilities, properties that cover all utility costs will be at financial risk and experience a negative impact on their net operating income (NOI). Negative financial impacts can come in many forms, including increased energy usage by residents who are not incentivized to conserve, and failure to fully recoup utility costs for individual units and common area expenses.





Individual units

The most obvious financial impact for a property is the utility expenses incurred in each unit. Without the help of submeters, it becomes difficult to track consumption for individual units in master-metered properties. In addition, when residents are not billed for utilities this impacts their usage, resulting in rising overall utility costs for the property.

Vacant units

Vacant units can present two problems. When the unit is unoccupied, maintenance crews may inadvertently leave air conditioning or heating settings at unnecessary levels when they depart. In addition, when a new tenant moves in, they may neglect to transfer utilities in their name immediately, creating an increased cost burden for the property. Without effective tracking, this cost is difficult to identify, bill and recoup. The process of identifying and recouping un-transferred utility charges is called vacant cost recovery. "The annual vacant unit cost recovery for one multifamily firm that manages 120 communities nationwide is about \$6 million per year" according to Buildings, Smart Facility Management.⁷

Common areas

Property managers typically have no simple way to gather, calculate and bill renters for communal areas. "Depending on the property, common areas can consume significant amounts of energy, particularly if the common space includes interior hallways, large parking garages, or laundry facilities."⁷ While some states require property managers to subtract a reasonable common area deduction from the amount billed tenants, others allow the entire utility bill to be charged back to tenants, including the portion allotted to common areas. Some states allow bill back of common areas as separate line items.

Utility cost recoupment options for multifamily property managers

Manage in-house

Some properties choose to charge a flat fee for utilities, distributed evenly among residents.



Include standard utility charge as part of rent

While this method is simple from a time/resource perspective, it leads to rent inflation. The primary goal of a property manager is to keep their incomes high by keeping units fully occupied. In a competitive rental market, losing residents due to rents inflated by hidden utility fees is not an attractive proposition. In addition, this method once again leads to the potential for lost revenue, especially as utility rates rise and property managers struggle to remain competitive in the rental market. For property managers who do choose to include utilities in the rent, Zego's Market Survey shows that 70% of the time it is for trash, a service that is typically billed at a monthly fixed rate.

Charge residents a flat fee for utilities, some of the challenges of this method include:



Financial risk

As utility rates rise, the flat fees may not cover costs.



Regulatory and legal risk

As utility rates fluctuate, property managers will likely want to increase the fee, but regulations often include stringent notification requirements, as well as parameters prohibiting over-allocation of utility expenses. If a property profits from utilities they may be regulated as a "public utility," which is prohibitively expensive and time/labor intensive.



Resident dissatisfaction

Residents may have wildly divergent usage but are charged the same amount.



Lack of conservation

According to the EPA⁸, "approximately 33 percent of water utilities use a flat fee for drinking water or drinking water combined with other services. While this billing method offers a high degree of certainty for users, it does not provide an incentive to conserve because the quantity of water used has no effect on a user's bill." In fact, a flat fee may encourage overuse by residents.



Productivity loss

Managing utility billing in-house is time-consuming for staff, who will spend countless hours processing and reconciling invoices, plus providing resident support.

Read-bill-collect vendors

Legacy billing vendors follow a model called “Read-Bill-Collect”, which true to its name, reads the property’s utility bills, bills residents using the vendor’s name and manages collections. The RBC vendor acts as the utility intermediary between the property and the residents. In the past, property managers liked the idea of recouping their utility expenses, but they didn’t want to be seen as the ‘bad guy’ for billing their residents. Using a 3rd party, who billed under their own name, provides a sense of separation.



While this model does save the property manager time on the front end, there are some drawbacks that should also be considered, including:

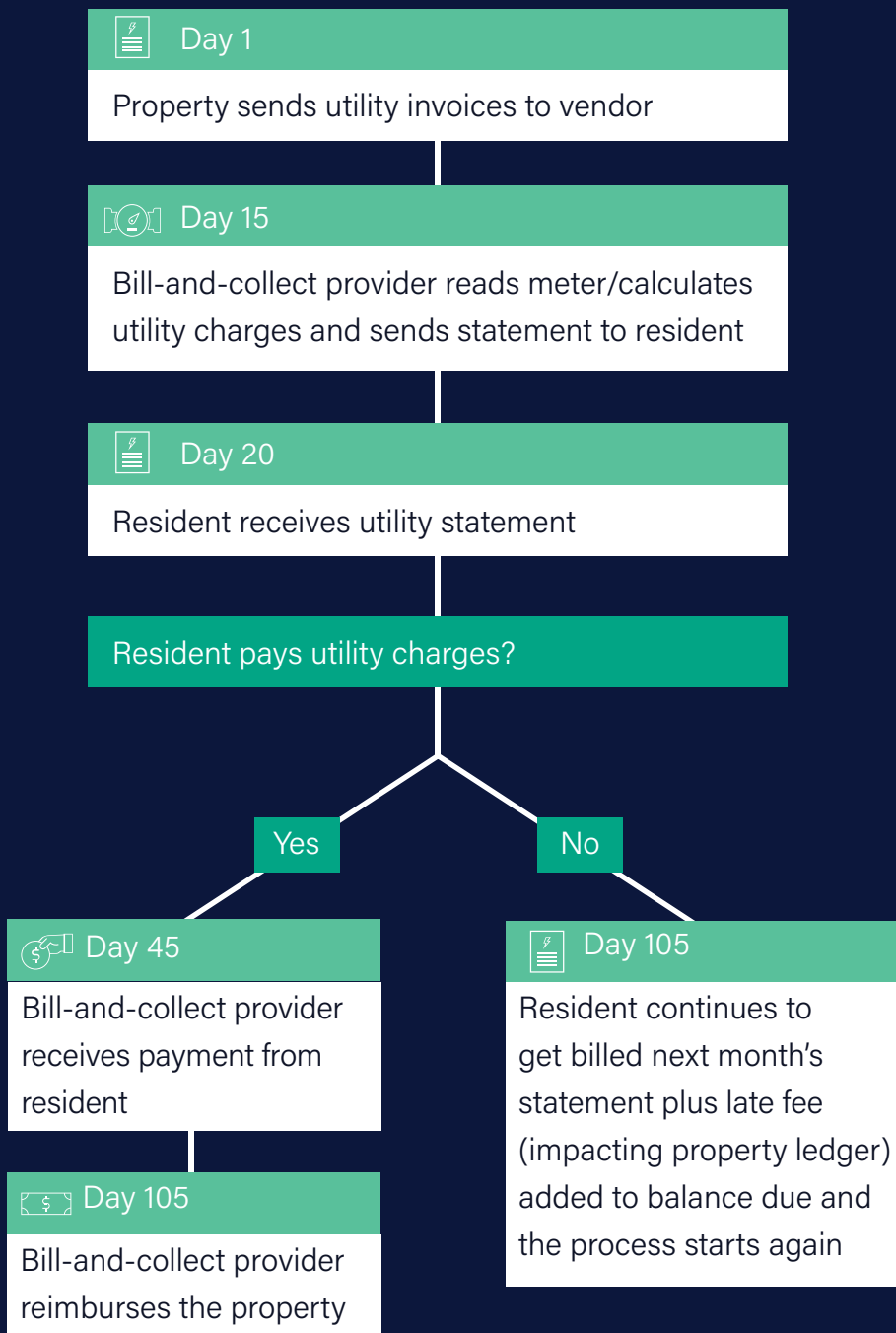
- Slower payments and cash flow lag
- Risk of insufficient payments and lower collections percentages with little recourse
- Process inefficiency leading to resident frustration

The RBC model results in a months-long payment time lag that impacts the property's cash flow. The process of billing residents, collecting payments, following up with residents in case of payment discrepancies and then paying back the property, is highly inefficient. In addition, because the RBC vendor bills residents for utilities on individual invoices separate from other fees the resident owes (i.e. rent and ancillary charges) any late or incomplete payments are difficult to recoup. The property manager has limited options for recovery, and the resident is frustrated and confused in having to deal with a third party. The RBC vendor's only recourse is often a \$15 late fee, which doesn't cover the property's utility costs. In this scenario, the property inevitably ends up taking on the task of collection.

Inserting a third party intermediary in the RBC scenario causes payment and service inefficiencies for both the property and residents. As a result, new full service providers have entered the market with a streamlined service model.

The read-bill-collect timeline

Figure 1



Resident utility billing comprehensive solutions provider

As the prevalence of outsourcing resident utility billing increases, more companies are offering full service solutions with attractive features that resolve the inefficiencies of the RBC model. For example, convergent bills combine rent, utilities and ancillary charges in one simple monthly format.



Visibility, training, & dashboards

An additional benefit of working with a partner is the real-time visibility, dashboards, and trending they can provide. By gathering detailed utility data, they can provide this information back to the property in actionable formats that allow for better forecasting, improving a company's ongoing financial outlook.

Following is an overview of how full-service solution providers work to simplify end-to-end utility management for property managers and increase revenue potential.

A convergent bill results in:



Faster payment & better cash flow

Residents directly pay the property



Higher cost recovery

Collecting all charges such as rent and utilities on one statement improves on-time payments, paid in full



Streamlined process & resident experience

Residents have a direct line to the property as well as to the billing provider to get questions answered

**How comprehensive
resident utility billing
solutions work**

Billing methods

Typically, a resident utility billing provider will offer options for calculating and billing utility costs. Prior to starting the process, the property must decide what methodology will be used, RUBS or submeters.



Ratio utility billing system (RUBS)

RUBS calculates resident utility charges by dividing the property's utility bill based on a number of variables, such as the number of occupants per unit, square footage, etc. How a property calculates each resident's share of the bill is typically determined by state and local regulations. RUBS can be utilized for most utilities including water, wastewater, electric, gas and trash, again, depending on statewide regulations. RUBS is the ideal solution when the constraints of space and/or construction do not allow a property to be submetered.

As it is based on a pre-calculated formula, RUBS requires no initial capital investment. Outsourcing RUBS to third-party experts is a desirable option for property managers because the calculations can be difficult and time-consuming, but also because of the complexity of state-mandated regulations.

Benefits of RUBS

- Allows properties to recover a great percentage of utility expenses
- Can be used for almost all utilities
- Promotes conservation for the community
- Requires no capital investment





Submeters

If desired, submeters can be installed behind the master meter for each residential unit. Submeters precisely track each apartment unit's utility consumption, allowing property management companies to accurately bill their residents for their consumption. Submeters are so effective at driving water conservation that drought-sensitive California recently passed a law requiring new multifamily buildings with four or more units to install submeters.

Even though the California law doesn't apply to existing multifamily structures, older apartment buildings that are master metered can be retrofitted to accommodate submeter installation. The conversion process is not difficult for most properties and leads to longterm savings, a positive ROI, and increased property values. However, it requires an up-front investment that can deter many property owners from making the upgrade. Luckily, as many organizations have realized how submeters aide with conservation, there are several programs multifamily operators can leverage to help with the retrofit process or to install other green upgrades.

Submeters are monitored manually or remotely, either by the owner or the submeter vendor, rather than the utility provider. Paying the utility invoice is still the responsibility of the property manager. However, readings obtained by submeters indicate the precise utility consumption for each unit, making it much easier to bill and recoup charges from residents.

Benefits of submeters

- Accurately pinpoints each apartment's utility usage
- Promotes individual conservation
- Improves cash flow and forecasting
- Reduces operating costs thereby increasing property value
- Detects leaks and issues

Resident utility billing model

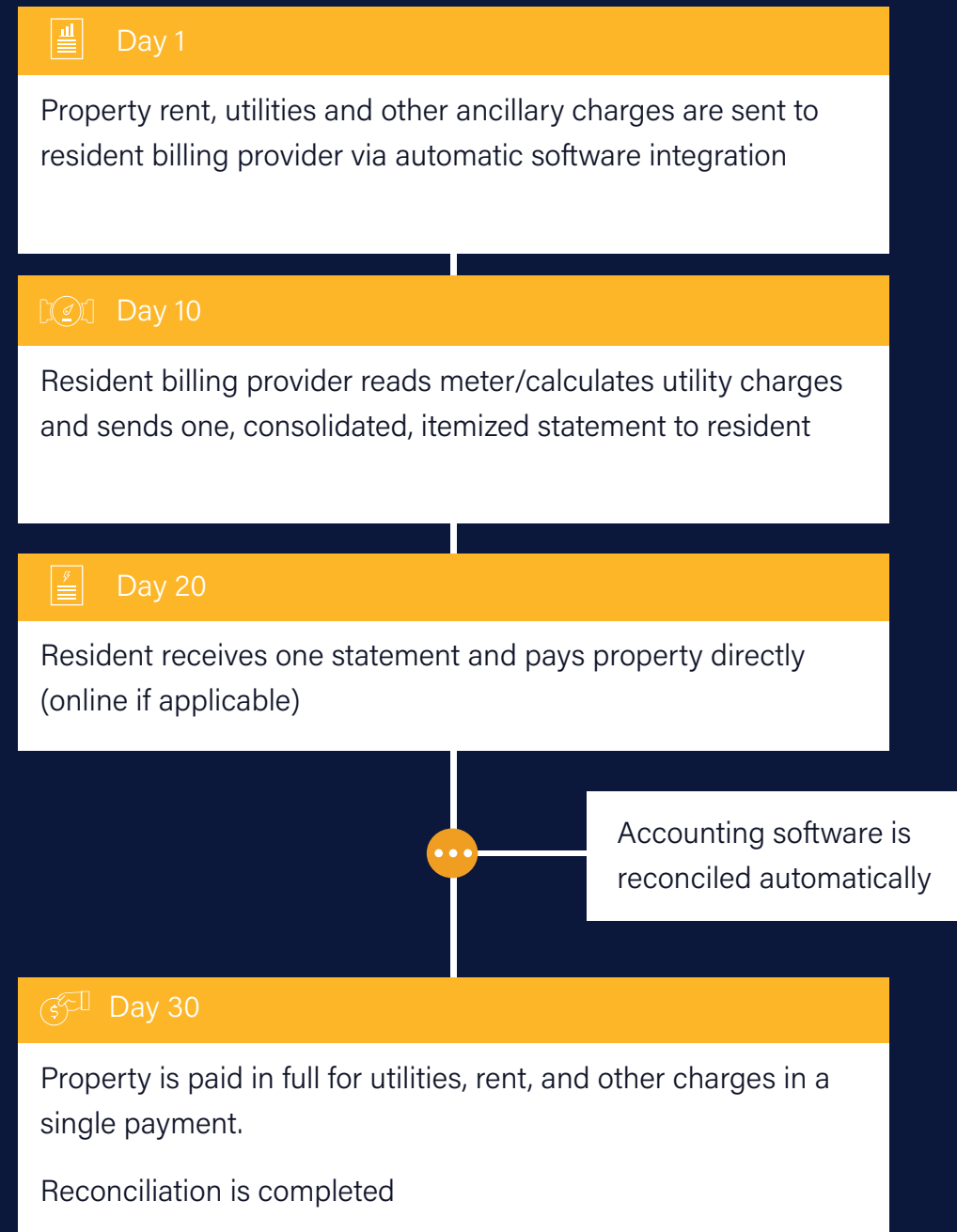
While there may be some variation based on a property's expenses, location, and applicable regulations, the following is a typical process flow once the utility calculation method has been determined.

Comprehensive resident billing model

- More billing visibility
- Faster payments
- Streamlined process
- Better resident experience
- Accurate data & forecasting

The resident utility billing timeline

Figure 2



Zego convergent bill example

Opportunity for Custom Branding



Charge Summary For
 705 Helmsdale Rd #510, Frisco, TX 75035
 See reverse side of this page for bill details.



† As of 05/21/2019, your rental charges include a previous unpaid balance of \$0.00.

Renew your lease today!

Eliminate the cost & hassle of finding a new apartment.

We love having you as a resident and want to see you stay. Stop by the office or call today to discuss your upcoming renewal options.



Pay your statement online at

www.gozego.com



Custom Electronic Payment Link



Dynamic Custom Property Messages (Property Specific)19

Return Service Requested

John Smith
 705 Helmsdale Rd #510
 Frisco, TX 75035

Pay Online and Build Your Credit!

See Reverse Side For Details

\$459.16
 Total Amount Due on 06/01/2019

Total Amount Due on 06/01/2019 **\$459.16**

Page 2 of 3

Billing Date 05/21/2019
 Account Number - 7588

Rental Charges

Outstanding Balance	\$0.00
Tenant Utilities	\$85.00
Internet	\$62.00
Pet Rent	\$120.00
Trash Fee	\$10.00
Storage	\$50.00

Total Rental Charges \$327.00

Utility Charges & Fees

Sewer 04/01/2019 - 05/01/2019	\$17.58
Sewer Base Fee 04/01/2019-05/01/2019	\$17.58
Water 04/01/2019 - 05/01/2019	\$19.51
Wastewater (1970 Gallons) 1970 (Gallons) x 0.00433	\$7.94
Water Base Fee 04/01/2019-05/01/2019	\$10.85
Water 72 (Gallons) x 0.01	
168 (Gallons) x 0.00879	
1730 (Gallons) x 0.00729	\$0.72
Gas 04/01/2019 - 05/01/2019	\$73.19
Gas	\$73.19
Electric 04/01/2019 - 05/01/2019	\$21.88
Electric Base Fee	\$2.00
Electric	\$19.88
Total Utility Charges and Fees	\$132.16

Do You Have Questions About Your Bill?

For questions and support please contact:

Zego
 1-866-540-3246
 1-888-512-8935
 ResidentSupport@gozego.com

Detailed View of All Resident Charges Including Rent, Ancillary Charges, and Utilities

Please detach and return this portion with your check.

Fast and Easy Ways to Pay Your Bill

Pay Online

Login to www.gozego.com/login or download the PayLease mobile app. Payments options include: credit or debit cards, eCheck or PayPal. Set up recurring AutoPay, enroll in paperless billing, or make a one-time payment. Plus, opt in to credit reporting to have rent payments applied to your credit history.

Pay by Phone

Call Zego at (866) 540-3246 to make a convenient payment over the phone.

Pay by Mail

Mail check or money order along with this portion of your bill to the following address:
 Zego
 9330 Scranton Road #450
 San Diego, CA 92121

Pay with CashPay

Use your personal **CashPay** card to make an electronic transaction from one of the **25,000** **CheckFreePay®** locations nationwide including Walmart, Kroger, and more. Talk to your Property Manager to learn more.

Payment Instructions: All payments must be submitted with the attached remittance. Cash will NOT be accepted. Billing amount base reflects account as of time of printing. Any error or omission on this bill does NOT absolve resident of the obligation to pay the correct rent amount and charges in a timely manner. Do not include additional correspondence with your payment. Any correspondence must be directed to the management office.

Resident Support Terms & Conditions

Financial impact of resident utility billing

Recouping utility expenses leads to increased cash flow and net operating income.

Here is a simple example that property managers can use to estimate cost recoupment at their properties:



Estimated monthly bills
\$13,000



Water/sewer
\$5,000



Electric/gas
\$7,000



Trash
\$1,000

Common area deductions
**15% of \$13,000 =
\$1,950**

Positive cash flow impact

Monthly	\$13,000
	- \$1,950
	<hr/>
	\$11,050

Annual	\$11,050
	x 12
	<hr/>
	\$132,600

5-Year	\$132,600
	x 5
	<hr/>
	\$663,000

**Best-in-breed
considerations for
selecting a resident
utility billing partner**

Best-in-breed considerations for selecting a resident utility billing partner

As the prevalence of resident utility billing solutions grows and more providers enter the market, it's useful to know what to look for when selecting a partner. Here are some key factors to consider.





Resident & staff support

When introducing any type of change to residents, it's important to partner with someone who can make the transition as smooth as possible. Common complaints about working with utility billing providers include late and inaccurate bills and poor support. In addition, some jurisdictions have specific resident support requirements with which you must comply.

Make sure each vendor offers the following



Streamlined billing process

Proven process for billing and communicating with residents



Detailed itemized invoice

Clear, comprehensive, itemized invoices that include rent, utilities and any other ancillary charges in one location (i.e. pet fees, etc.)



Improved resident experience

Track record for accuracy to ensure a positive resident experience



Enhanced support

Exceptional customer service and support, not just for staff, but also residents

Operational simplicity and streamlined reconciliation

A key benefit of working with a comprehensive solutions provider is improved efficiency. There are a number of added benefits best-in-breed partners can offer in this regard that are important to consider.

Financial security

"Security" may not be the first item that comes to mind when thinking of utilities, but the fact is that resident utility billing partners are dealing with a property's finances. They are calculating invoices, billing residents, and posting this information to the accounting system. Working with a partner that has monetary expertise and best-in-class security designed for financial interactions is a key requirement. A vendor should have the following certifications:

- PCI compliance
- SSAE certification
- VeriSign / SSL security

Vacant cost recovery

Some providers offer programs to examine vacant unit utility expenses. This process identifies and bills residents who do not have utility accounts in their name, increasing revenue potential. Such programs also increase focus on hibernating vacant units at all times, reducing energy consumption.

Make sure each vendor offers the following:



Seamless integration

Seamless integration with existing property management software for effortless account reconciliation



Quick access to resident data

Ability to analyze resident data from management software, identifying new residents and those moving out for the calculation of prorated charges



Comprehensive statement

Ability to add property charges to the resident bill from the property management software (such as pet fees or parking)



Simple reconciliation

Ability to post the charges, both calculated and flat fees, to the resident account so reconciliation is straightforward and resident questions are easy to answer staff, but also residents

Regulatory expertise

Utility regulations are different by state, municipality, and product, and are subject to change. Expecting daily staff members to keep up with the regulatory changes is not practical. Working with a partner who is well-versed in this area is a key requirement. They guide you in preparing the correct lease language, advocate on your behalf and provide peace of mind.



**Why undertake
a resident billing
program?**



Impact to your NOI

Using a comprehensive solution provider to recoup utility expenses and create additional revenue streams from resident fees (*depending on local regulations) results in a quantifiable positive impact on a property's net operating income and value. Customer research by Hobson & Company showed a 10% increase in value for Zego Resident Billing customers.

Environmental conservation & property value implications

Improved conservation as a result of directbilling residents is not only good for the environment, it can also potentially increase the value of a property. Fannie Mae partnered with the U.S. EPA to develop an ENERGY STAR® score, a tool that makes it easy to understand a property's energy performance compared to its peers. Expert partners can help a property manager benefit from these programs by effectively measuring and reporting on conservation improvements.

“ On average, a 100,000 square foot property spends \$125,000 on energy and \$33,000 on water annually. If this property saved 15% on energy and water costs, it would increase asset value by almost \$400,000, assuming a 6% cap rate. ”

— Fannie Mae⁵



Why Zego?

Zego Resident Billing consolidates each resident's rent/ HOA dues, utility charges, and ancillary fees into one comprehensive statement. As a result, property managers have a more efficient way to recoup expenses, add new revenue streams, improve NOI, and provide a better resident experience. A third-party research study by Hobson & Company measured the impact of working with Zego for comprehensive utility expense management. A summary of the results along with other advantages of working with Zego is provided.





Increased revenue and net operating income

Working with Zego enabled property managers to recoup expenses and potentially increase revenue from a variety of avenues, including:

- 30% increase in vacant utility costs recovered
- Potential to increase revenue from vacant cost recovery penalties by 90%
- Increase in utility conservation by making residents responsible for the cost of their own utility usage

Increased productivity

Among the greatest benefits realized by Zego customers were time savings and efficiency. This included the potential to:

- Reduce time spent managing, supporting and overseeing resident billing by 70%

Increased customer satisfaction

Working with Zego not only helps save time for the management team and money for the property, but it's helpful to residents:

- Consumption-based billing is more accurate and fair for residents
- Convergent bills that display all charges including rent, utilities, and other miscellaneous on one invoice are more convenient
- Resident support teams are available to augment property staff



Reduced risk

Utility billing rules and regulations depend on the city, county or state where a property is located and can also vary based on the process (RUBS or Submetering, detailed previously in this paper.) Policy verifications and amended lease agreements are typically required. Working with experts is a key advantage to reduce risk and ensure the proper regulations are followed. The Zego approach here is twofold: providing deep industry expertise, but also personalized service and attention to marry that expertise to each client's unique situation. A team of experts dedicated to Zego Utility Resident Billing provides each account with the personal attention required in this changing landscape.

Seamless accounting integration

Zego offers robust, deep integrations with many accounting softwares and property management systems, simplifying the reconciliation process, eliminating manual work, and improving productivity.

Conclusions & next steps

Billing residents for utilities is becoming a common practice. According to findings from Zego's recent market survey, approximately 54% of multifamily firms bill residents for at least one utility. The sooner a property manager begins this process, the earlier they will receive the financial benefits. However, the complexity of the billing process and regulatory market, and importance of resident experience requires that the process be well thought out and undertaken carefully. Third-party expertise is of high value in this market.



Sources

1. ENGIE Insight
2. EIA Electricity
3. EIA Natural Gas
4. Circle of Blue
5. FannieMae
6. San Diego Business Journal
7. Buildings, 5 Money Saving Ways to Manage Utility Expenses
8. EPA, Sustainable Water Infrastructure



Powered by
PayLease

Zego is a property technology company that frees management companies and community associations to go above and beyond for residents. We're evolving with the residential landscape, making a difference in how our customers work by building connections and easing friction. We offer technology that creates a sense of community and inclusion while also supporting and empowering on-site staff.

gozego.com | 1.866.729.5327