The property manager's guide to effective utility recoupment

You'll benefit from this guide if you:

- Want to effectively recoup resident utility expenses

- Need to understand the billing models multifamily companies use to recoup utility expenses

- Currently recoup utilities expenses using a legacy bill-and-collect provider but feel the process could be easier or bring better returns

- Want to maximize your utility recoupment rate in the shortest amount of time

- Are concerned resident satisfaction will drop by billing for utility consumption

Here's what you'll learn:

- The financial and operational benefits of recouping resident utility expenses

- The difference between two commonly-used billing methods for recouping utilities

- Why the perceived values of a bill-and-collect-model are inaccurate

- Why resident billing models are a more streamlined and financially beneficial way to recoup utility expenses

- The benefits of sending residents consolidated statements that include rent, utilities, and ancillary charges

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Utility billing partners: friend or foe?

Utilities are one of the biggest operating expenses at multifamily properties. When these expenses are not recouped from residents, they eat away at Net Operating Income (NOI) and make it difficult to forecast cash flow. However, utility expense recovery efforts are time consuming for multifamily property managers to manage in-house.

Plus, it's legally risky since there are so many state, local, and utility regulations involved. To stay in compliance and to maximize recoupment in the most efficient way possible, many property management companies utilize a third-party utility billing company.

Whether or not you currently rely on a utility billing company, it's imperative to recognize the traps that can befall property managers who undertake a utility billing program. Too many billing programs seem clear-cut on the surface but hide fees and complexities that end up costing multifamily companies thousands of dollars a year. Before you know it, your cash flow is in a slump, your property managers have extra tasks on their plate, and you have frustrated residents.

If you're reading this, chances are you already recognize there's more than meets the eye when it comes to utility billing partners. Maybe you're in the midst of trying to implement a utility billing program at your properties. Maybe your residents already receive a bill, but you continually see a big difference between what's recovered and what you shell out to the utility companies each month. Or, maybe the work you are putting into recouping utilities has you questioning if it's worth it at all.

This ebook will educate you on the two main billing programs offered by third-party utility billers and reveal the pitfalls and advantages that come with each.

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Why should I bill to begin with?

Most multifamily companies are already experiencing the benefits of recovering utility expenses.

You can see that the advantages of resident utility billing are compelling. It's why the majority of property management companies have a program in place with the help of a third-party utility billing company. Plus, third-party billers are well-versed in the complexities of utility billing regulations and offer guidance on what rules apply to each property and lease language issues.

53% According to a PayLease market survey, 53% of multifamily firms bill residents for at least one utility using a third party.

But in some unfortunate scenarios, using a third party to collect utility expenses delivers minimal ROI and creates more work for on-site staff. That's because vendors have different billing and collection strategies that produce varying results. Many property management companies don't know better alternatives exist so, if you have an existing billing partner, you may already be using one of these models and not know it.

Next, we are going to show you the two commonly used billing models and compare the impacts each one will bring to organizations.

Most multifamily companies are already experiencing the benefits of recovering utility expenses. Here's why it is becoming so popular:

Strengthen NOI & improve property value
Regularly recouping utility expenses month-after-month results in better cash flow and stronger NOI. After factoring in cap rates, you'll typically see a dramatic spike in property value.

Stabilize rent prices
Billing separately for utilities eliminates the need to pad the price of rent to try and accommodate for these expenses. That makes your lower-priced apartment more attractive to prospects.

Reduce operating costs
When residents pay for what they use, a building's utility consumption goes down and so does your operating cost.

Improve conservation
Billing back based on consumption incentivizes residents to practice conservation.

Utility billing models explained

Model 1: Utility bill-and-collect

Several utility billing vendors use what is referred to as a utility bill-and-collect model, or sometimes, read-bill-collect (RBC). It was the first utility billing model available to property managers and hasn't evolved much in the 15+ years it's been around.

Essentially, it boils down to the vendor being the "face" behind the bill instead of the property management company.

Property management companies – particularly ones who have never billed their residents for utilities – are attracted to this scenario because of the separation it puts between themselves and utility billing. It's understandable to see why. When you're about to implement a utility billing program, it's inevitable to worry about how residents will respond to being responsible for these charges. Or how the new procedures will affect property staff. Will they be bogged down managing this process? Will they look like the bad guy for recovering late payments?
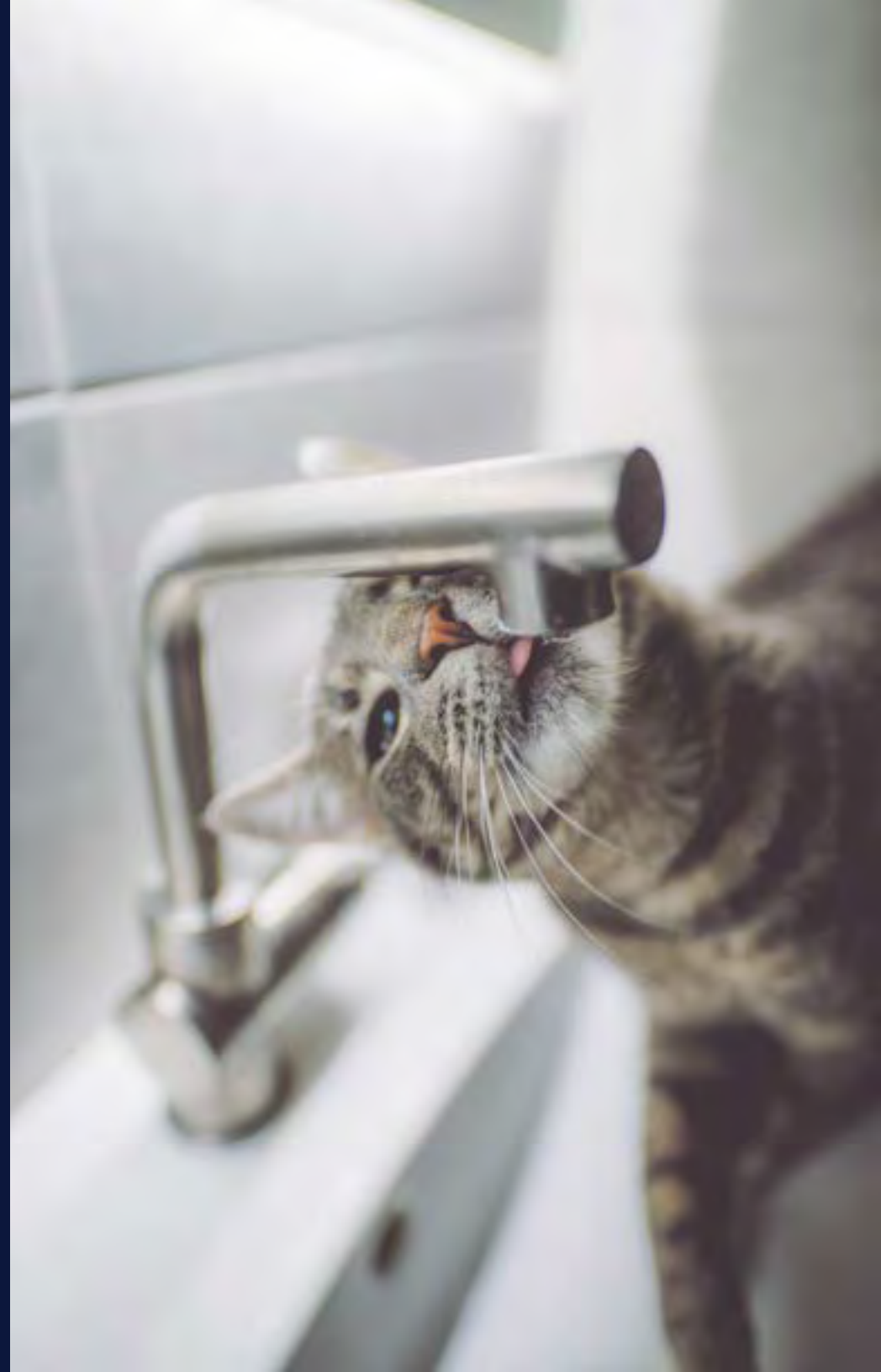
Common misconceptions of utility bill-and-collect models

It's easy to be lured into these perceived values about using a utility bill-and-collect model, especially if you've never billed your residents for utilities. We'll get to why these aren't true later.

Misconception #1: Any unhappiness residents feel about paying for utilities will be directed at the biller instead of the property manager

Some property management companies believe that they'll dodge unpleasant conversations with their residents by enlisting a third-part to take over all aspects of utility billing. There's a perception that if residents are unhappy about their utility charges they will take out their frustrations on the biller, not the property manager.

Misconception #2: White glove service

Handing over the nitty-gritty aspects of utility billing, particularly the collection aspect, sounds like a relief and even a little luxurious.

Misconception #3: Collection efforts will ensure high recovery rates

If your vendor offers collection services, you probably think this will maximize the chance you receive utility payments in full.

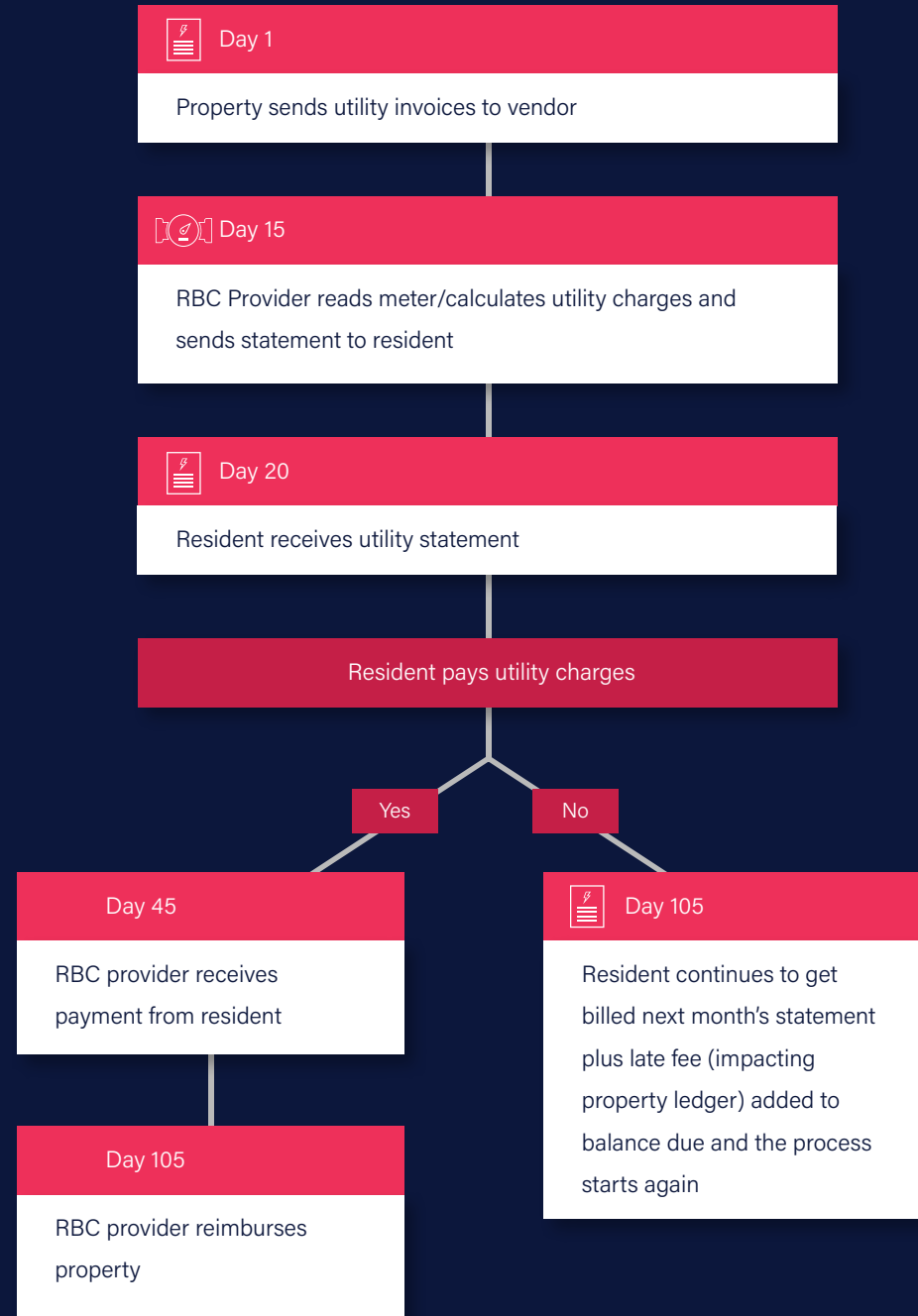## Cash flow timeline in a bill-and-collect model

Since one of the top motives for implementing a utility billing program is to improve property cash flow, it's important to understand the timeline for getting reimbursed. Figure 1 illustrates the timeframe for a utility bill-and-collect model

Take note that the earliest timeframe you can expect to be reimbursed in a bill-and-collect model is approximately 105 days after the property utility bill was received.

Utility bill-and-collect providers assume the following responsibilities:

- Read the property management company's utility bills and calculate charges

- Send residents a statement labeled with the billing company's name

- Collect payments from the residents

- Follow up with residents who don't pay

- Charge late fees for non-payment

- Reimburse the management company after residents pay

Figure 1

Day 1
Property sends utility invoices to vendor

Day 15
RBC Provider reads meter/calculates utility charges and sends statement to resident

Day 20
Resident receives utility statement

Resident pays utility charges

Yes / No

Day 45
RBC provider receives payment from resident

Day 105
RBC provider reimburses property

Day 105
Resident continues to get billed next month's statement plus late fee (impacting property ledger) added to balance due and the process starts again

Model 2:
Resident billing

The modern model of recouping property utility expenses is called resident billing. The process is more streamlined than utility bill-and-collect and affords property managers faster funding time. Another differentiator is that unlike bill-and-collect, residents receive a bill from their property management company. The bill itemizes rent and utilities and the resident pays the property manager directly for their entire balance.
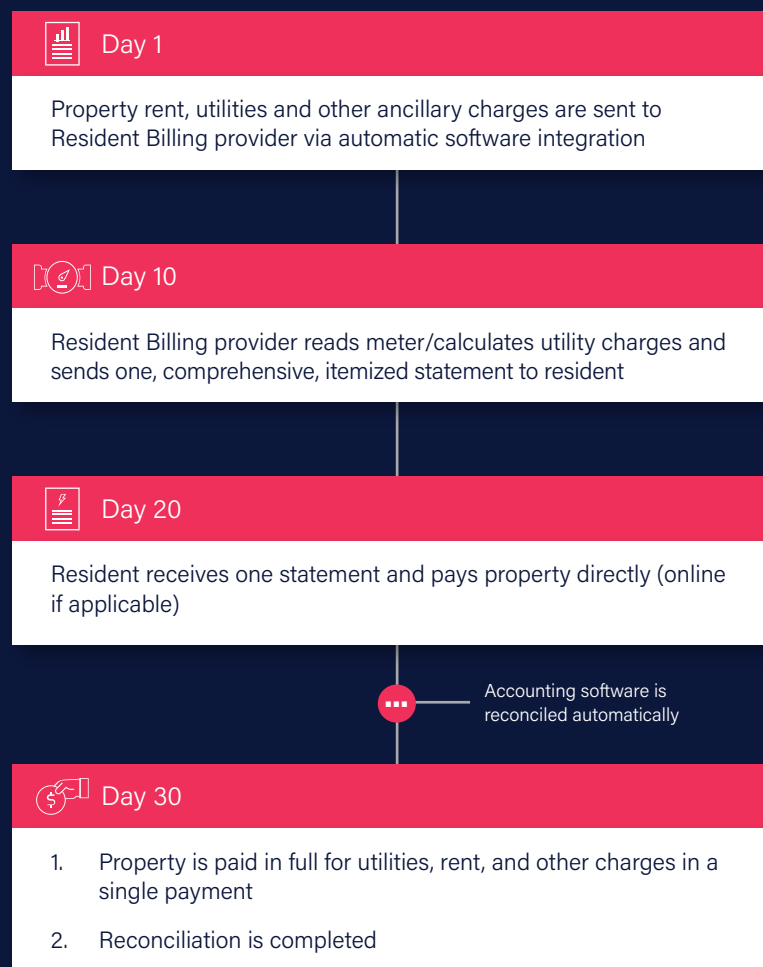
Cash flow timeline in a resident billing model

A key advantage of resident billing is that you are removing the third-party biller from the payment process. Residents pay your company directly so you don't have to wait months to be reimbursed. Removing the middle man out of the equation takes your funding time from 105 days down to 30.

Resident billing providers assume the following responsibilities:

- Retrieves resident data from property management software

- Calculates resident utility charges based on utility bills or submeter reads

- Generates resident statements that includes rent, tuility charges, and any other applicable monthly charges (parking, pet rent, etc)

- Delivers an online payment portal for residents to directly pay their property manager

- Integrates payment data into property mangement software

- Provides business intelligence tools about utility usage. recoupment rates, trends, and potential leaks

Figure 2

Day 1

Property rent, utilities and other ancillary charges are sent to Resident Billing provider via automatic software integration

Day 10

Resident Billing provider reads meter/calculates utility charges and sends one, comprehensive, itemized statement to resident

Day 20

Resident receives one statement and pays property directly (online if applicable)

Accounting software is reconciled automatically

Day 30

1. Property is paid in full for utilities, rent, and other charges in a single payment

2. Reconciliation is completed

Key differences: utility bill-and-collect vs resident billing

	Resident Billing	Bill-and-Collect
How is utility data obtained?	Utility company sends invoices directly to resident billing provider.	Some providers receive bills directly from the utility company; Others require property managers to forward bills to provider.
Who do residents receive a bill from?	Their property management company	The bill-and-collect provider
How do property managers receive the recouped utility expenses?	Residents pay the property management company directly. They pay their entire balance (rent, monthly utility charges, & ancillary fees) in one transaction, typically using online payments	The bill-and-collect provider reimburses the property management company. They remit the recouped funds minus service fees and penalties for resident late fees
How long does it take for the property management company to receive payments?	As soon as the resident pays them– usually within 1 - 10 days after statement is received	45 or more days after the resident pays the bill-and-collect provider
How much gets recouped from residents?	All utility expenses minus common area deductions	The total amount collected minus service fees and penalties for resident late fees
Who handles collection efforts?	The property management company has complete control over collections	The bill-and-collect provider attempts one round of collection phone calls or emails, then it becomes the property manager's responsibility
Overall, what is the outcome of collection efforts?	Property management companies have a high success rate since utilities are tied to rent and eviction can be threatened	Mediocre. Bill-and-collect providers make money from late fees so it doesn't benefit them if a resident pays on time or in full
How does the property manager obtain payment data?	Payment data automatically integrates with their management software	Reviewing a spreadsheet

Beware: the pitfalls of utility bill-and-collect models

The pitfalls of utility bill-and-collect models

You've heard the saying, "If I knew then what I know now." Unfortunately, lots of property managers find themselves uttering this phrase when they are about six months into a bill-and-collect contract. Because of the long timelines associated with a bill-and-collect process (which should be the first red flag), there are disadvantages that are not immediately apparent.

Average funding time

Resident billing model

30
DAYS

Bill-and-collect model

105
DAYS

Pitfall #1: Significant reimbursement delays negatively impact cash flow

One of the biggest drawbacks to using a bill-and-collect vendor is the extended time period that it ultimately takes to be reimbursed for the property's utility expenses. Unlike resident billing, there are extra steps involved in the process that significantly delay the time it takes for utility bills to be generated and received.

And more importantly: the amount of time for the recouped utility funds to make their way back to the property manager. This leads to inconsistent and slow cash flow. And as you know, timely billing and payments are key to optimizing a property's cash flow.

Pitfall #2: Invoices are sent to residents month in arrears

From a resident's perspective, the lag time it takes to get a bill can be frustrating too. Imagine that you're in the middle of a July heatwave. Your resident cranks the AC around the clock to beat the heat. Then come fall, they're taken aback after receiving a sky-high utility bill. So much time has passed they can't quite remember their consumption pattern and probably automatically assume they are being overcharged.

The billing lag becomes especially problematic when dealing with residents who have moved out. When a resident leaves your community, there are several months of utility bills that they haven't even received yet. You may have to return their security deposit well before a bill is even generated, so if they decide to skip out on paying those utility bills, you are out that money.

Pitfall #3: Low recoupment rates are the norm

Another disappointment about bill-and-collect models is the lackluster returns they bring property managers — several months later, of course. Despite billing residents for as much as local regulations permit, utility bill-and-collect vendors only return a meager portion of what was billed. Not only is it taking months to recoup your utility expenses, what you actually recover is far less than what the property has been billed and already paid for.

3 things that eat away at the ability to recoup what's owed:

1. Lack of incentive for residents to pay

Some property management companies think that having separation between themselves and the resident utility bills will be beneficial; mostly to ease any dissatisfaction residents may feel. In actuality, this works against them. The consequences for the resident to not pay the third-party are minimal in comparison to not paying their property manager. In this scenario, the worst that happens for non-payment is that they are assessed a late fee. Months of unpaid utility bills and late fees can amount, but if they don't pay, there's no recourse. And residents take full advantage, leaving the property management company high and dry in the end.

2. Resident late fees are deducted from your returns

You already know that when residents fail to pay on time or in-full they get hit with a late fee. But do you profit from these fees? No. Late fees are pocketed by the bill-and-collect vendor. To make matters worse, you are actually penalized for the late fees that get assessed. Let's say the bill-and-collect vendor imposes $500 worth of late fees to non-paying residents. That $500 is shaved off the total amount of utility expenses that the bill-and-collect vendor reimburses to you

3. Service fees

At the end of the day, they are still attempting to collect utility expenses from your residents. So despite low recoupment rates and being dinged for late fees, you'll also have monthly service fees deducted from what's being returned to you.

Pitfall #4: Utility bill-and-collect vendors profit when residents don't pay

Just like there's not a real motivation for residents to pay, there's also no motivation for the bill-and-collect company to recoup those delinquent funds. They make money from the property management company every time a late fee is assessed. The more delinquencies there are, the more money bill-and-collect providers make, and the less the property mangement company receives.

So even though collection services are part of their package, don't be fooled. It's not in their interest to collect, and therefore not going to benefit your bottom line.

Pitfall #5: Revenue suffers while property managers resort to collections

It's a scenario you'll find yourself in eventually. Several of your residents haven't paid their share of a utility bill that you paid in-full more than five months ago. Your bill-and-collect vendor hasn't been successful in recovering their funds, and instead of crediting you for a service they couldn't fulfill, you are penalized by paying the resident's late fees. What do you do?

You can either take it out of their security deposit (tightening what you'll have available at move-out), eat the amount that's owed to you, or you can attempt to collect it yourself. Most likely, if you're attempting to recoup from a resident that's already moved out, you'll never see that money.

For residents still living in your community, you have a better chance of getting paid. But if some of your motivation for using a bill-and-collect vendor was to put a shield between your company and the awkward conversation about utility payments, your cover is about to be blown.

The unpleasant conversations you were hoping to avoid are inevitable. Since you're already putting in the effort of collecting money from residents why not make them accountable to you to begin with?

Using resident billing to regain control and boost NOI

Using resident billing to regain control and boost NOI

You've seen the problems a utility bill-and-collect model brings property managers. But how will using a resident billing model – which seems to put more responsibility on the property manager – be a better option? It not only works out better financially for multifamily companies, but in the end, it's less work too. Remember, that just because the resident's bill comes from you, and is paid directly to you, doesn't mean your company is doing the work on the back end. It's all being facilitated by your resident billing partner.

Resident Billing partners assume the following responsibilities:

Generating individual, itemized statements

Answering resident questions about their bill

Calculating utility charges for each unit

Providing an online portal on your website for residents to pay you directly (if needed – you may already have one)

Pulling rent and ancillary charges (pet rent, parking, etc.) from your accounting software through an automated integration

Providing business intelligence about recoupment rates, utility usage, and trends

Reconciling payments into your accounting software

Distributing statements, either electronically or by mail to residents

Monitoring submeter health to detect leaks and prevent waste

Increase lease potential by offering lower rent rate

The benefits of billing for utilities directly will come before a resident even moves in. If you are billing directly for utilities, there's no need to inflate rent to accommodate for utilities. In an already inflated market, prospective residents who are on the hunt for an apartment are immediately going to be drawn to your lower-priced apartment compared to the apartment that has to raise rent to accommodate for rising utility costs.

Combining rent & utilities in one statement raises the stakes for residents and gives you more leverage

You'd be suprised how effective itemized resident statements can be. But this process helps to combat all of the problems you find in a bill-and-collect model.

Higher cost recovery

When residents are directed to pay their property management company for all of their monthly charges at the same time rent is due, you are guaranteed to see more complete and on-time payments than you would in a utility bill-and-collect scenario. The consequences of not paying your property management company are far greater (eviction, money deducted from a security deposit) than not paying a third-party bill-and-collect company who isn't motivated to put much effort into recouping that money. Plus, you can even set up your online payment portal to disallow partial payments, so residents are only able to pay you in full.

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Fast payment time and improved cash flow

This is pretty straightforward. Residents paying you directly instead of a third party means money gets into your bank account much, much faster. You don't have to spend months waiting to be reimbursed. Plus, what you're being paid for is only about 30 days in arrears versus 60-90 days. And since statements include a link to pay online, it tends to raise the number of electronic payments a property receives, which afford faster funding time than paper checks.

There's another advantage of residents paying you directly. It hands you control over paying the resident biller. In the utility bill-and-collect model, the vendor automatically deducts their fees out of what's been recouped before they hand it over to you. In resident billing, you pass the fees back to your vendor after it's all been collected.

Streamlined processes

Inserting a middle man into the payment flow adds additional steps for residents and as you know, creates a lag time for getting reimbursed. Having residents pay their entire balance reduces the number of transactions they have to make.

I can see clearly now...into my property metrics!

In a bill-and-collect scenario, it's difficult to monitor or track property utility data. If you're tempted to go with a bill-and-collect model because of the out-of-sight, out-of-mind aspect, you really shouldn't let utility monitoring fall to the wayside. Having access to this data can be a valuable tool to help minimize expenses, detect leaks or inaccurate meter readings, and keep your recoupment rate high.

A considerable advantage of resident billing is that key property utility metrics become more accessible. This reduces time spent looking for data and helps you keep tabs on important business metrics that can impact property performance.

Real-time integration cuts administrative burdens

With bill-and-collect, if you end up needing to research anything (for instance, the details of a resident payment, or what your recovery rate was), you're going to spend a few hours digging through spreadsheets or trying to navigate the bill-and-collect vendor's portal. Using resident billing, all of these things seamlessly integrate with your management software so your team isn't on a wild goose chase looking for data.

Better forecasting abilities

You'll have a more accurate picture of what your property utility expenses will be, and how much you can expect to recoup, if you are using a resident billing solution. Reports that help multifamily operators budget and forecast are automatically compiled in the user's dashboard.

A positive spin on bills will increase resident satisfaction

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If you're still worried that being the bearer of your residents' utility bill will cause their satisfaction with your management company to plummet, take time to consider how you frame it. There are several advantages for a resident that might not be immediately apparent and should be pointed out. And remember, if you are using a bill-and-collect vendor, residents are still paying for their utilities, but everything is shrouded behind a third-party. This doesn't fool residents. Ultimately, they know these bills are being sent at their property manager's request, and to some, this might come off as deceptive.

Resident advantages

Increase visibility into monthly charges

It frustrates residents (or anyone) when they don't have a clear understanding of what their hard-earned money needs to pay for. Monthly statements are an avenue for you to be completely honest and transparent with them, and also allow residents to see item-by-item what they are accountable for. When everything is clearly laid out within a monthly statement, it saves them the hassle of having to get clarification from your on-site staff about their charges.

Control over their monthly costs

You're handing residents the reins when it comes to what they pay for utilities. If they want a lower bill, they can take simple steps to cut their usage. They have the ability to control what their bill is like every month.

It will help stabilize their rent

Never in the history of multifamily living has a resident been pleased about seeing their rent increase. Since fluctuating utility costs are usually a driver behind rent increases, having residents take on the responsibility of these expenses will help keep their rent prices in check.

Dedicated resident support

There's bound to be a time when residents have a question about their bill. Or situations when they want someone to help them make a payment. In these instances you can direct them to your resident biller's support team so they can get fast and accurate assistance.

Conclusion: maximizing recoupment rates with the help of a modernized billing partner

Clearly the advantages of using a resident billing model outweigh a bill-and-collect model. When you leverage the expertise of a resident billing partner, property managers can expect a solid recoupment rate, streamlined processes, faster funding time, and healthier resident satisfaction.

If you want to implement a resident billing program at your communities, make sure any vendor you consider working with offers these services

Top considerations for selecting a resident billing provider:

Compliance consultations

Trying to understand your state and county's specific regulations about utility billing is no joke! It's important to be cautious and make good decisions for your property. That's why it's so important to find a billing partner with a compliance team whose sole responsibility is to keep up with all of the numerous state and municipal regulations, and will inform you right away if new laws will affect your properties.

Staff training

Most resident billing interfaces are fairly intuitive, but you'll still want to make sure all of your staff knows how the process will work and have a solid grasp on how to use it.

Lease update reviews

If you have not been billing residents for utilities, you'll be required to update your lease language. Most resident billers will consult you about updating the lease language and give you best practices for rolling out the updated policies.

Resident support team

Ideally, your partner should also offer a dedicated support team just for residents if they have a question about their bill or want to make a payment. Directing them to a team that will give them assistance in a timely manner will help solidify their satisfaction.

A positive spin on bills will increase resident satisfaction

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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.

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