



The
Multifamily Owner's
Complete Guide to
Resident Utility Billing



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Multifamily Owner's Complete Guide to Resident Utility Billing

Who's this Guide for?

The Multifamily Owners Complete Guide to Resident Utility Billing was written for owners and property managers who want to learn about all aspects of implementing a resident billing or utility cost recovery program. If you are considering transitioning your apartment complex from owner-paid to tenant-paid utilities or are already billing residents, this Guide offers comprehensive information, best practices, and key insights to make your program a success.

How will this Guide Help Multifamily Owners and Property Managers?

This Guide will save you time and effort, and give you the know-how to get your utility billing program up and running quickly. You'll learn how billing impacts cash flow, property values, and vacancy rates. It will help you determine if your property is a candidate for billing and where to find the relevant rules and regulations to follow.

This Guide explains different billing methods, when to use them, and offers a host of success tips. You'll learn about vacant cost recovery and why it's important. If you decide to outsource billing, there's a section on selecting a third party billing provider. This Guide even covers new advances in multifamily billing and several best practices should elect to perform billing in-house.

What is the Financial Impact of Resident Utility Billing?

The benefits of resident utility billing are compelling. Not only will it lower your utility expenses and increase your net operating income (NOI), it directly increases your property's cap rate and its overall value.



A Financial Example

Assume you're paying all the water and gas expenses for your 100 unit apartment complex. The average master-meter water bill is \$3,000 per month and the average gas bill is \$6,000 per month.

If you transition these costs to tenants by implementing a resident utility billing program, you can recoup a maximum of \$108,000 per year. That's an increase in net operating income (NOI) of \$540,000 after five years!

Should you be looking to sell your property in the future, look how the increased NOI impacts your capitalization or "cap" rates.

Cap rate is defined as the ratio between the net operating income produced by an asset and its capital cost. A simple formula is $\text{Cap Rate} = \text{Annual NOI} / \text{Apartment Asset Value}$.

Assume your complex has the following characteristics (**before** utility billing):

$$\begin{aligned}\text{Apartment Asset Value} &= \$4,000,000 \\ \text{Annual NOI (old)} &= \$280,000 \\ \text{Cap Rate} &= \text{Annual NOI} / \text{Apartment Asset Value} \\ &= \$280,000 / \$4,000,000 \\ &= .07 \text{ or } 7\%\end{aligned}$$

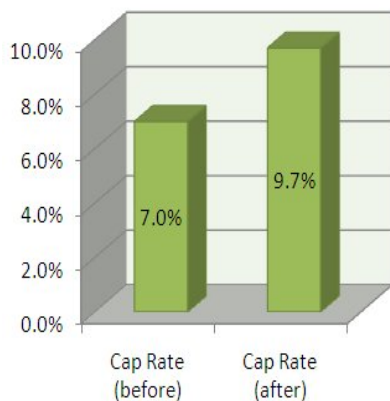
Now look how the cap rate is affected **after** you've initiated a utility billing program:

$$\begin{aligned}\text{Apartment Asset Value} &= \$4,000,000 \\ \text{Annual NOI (new)} &= \$280,000 + \$108,000 = \$388,000 \\ \text{Cap Rate} &= \text{Annual NOI} / \text{Apartment Asset Value} \\ &= \$388,000 / \$4,000,000 \\ &= .097 \text{ or } 9.7\%\end{aligned}$$

That's a 39% lift! Not only are these exciting numbers, they're achievable.

Should you elect to submeter your property, tenants win big because they only pay for their own utility usage and you can expect overall utility consumption at your apartment complex to decline 15-35%. Moreover, the data provided through submetering can help quickly identify maintenance issues, flag water leaks, and prevent costly property damage.

Cap Rate Increase



Now May be the Perfect Time

There may not be a better time to transition your apartment complex to resident utility billing primarily because of the positive trends impacting multifamily owners. Consider the following:

- MPF Research reports that occupancy for all U.S. apartments reached 94.2% in the second quarter of 2011 ¹
- Axiometrics, another provider of data and analysis on the multifamily housing sector, estimates that effective rents will rise 5.9% in 2011 ²
- Data from apartment market research analyst firms indicate that the U.S. apartment sector turned in near-record revenue growth performance in the second quarter of this year ³
- "National vacancy levels fell by from 7.8 to 7.1%. This is one of the sharpest drops in vacancy on record, and pent-up demand from renters opting out of living with their families or other roommates seems to be driving these results," said REIS director of research Dr. Victor Calanog. ⁴

With the rental market strong, vacancies very low, and revenues projected to grow, owners are in strong position to change how they bill for utilities. Moreover, across the U.S. utility costs are projected to increase. For example:

- In 2012 Colorado Springs Utilities will increase rates for water by 12%, wastewater 3-5%, electricity 7%, and gas 5%
- Denver Water officials are discussing plans for a 2011 rate hike of 10.4% and a cumulative 35% increase by 2013. Denver water customers have been subjected to rate increases every year since 2000 ⁵
- According to Alice Walton, City of Los Angeles residents "could see their water bills jump 15.3% and power bills another 16.8% over a three year period." ⁶

If you currently include utilities in your rent, this puts you in a precarious position. Should utility rates or tenant consumption spike, you most likely won't be able to adjust rents fast enough to cover the increased costs. This leaves you holding the financial bag and losing money for an expense you have little control over.



Another interesting dynamic is that renters are still sensitive to high rents. Consider that:

- Apartment residents are less likely to renew their leases, according to Kingsley Associates' Q2 2011 multifamily resident survey. Rental rate was the most frequently cited reason for renters to choose not to renew their leases.⁷

If you still include utilities, a billing program may be the ideal way to increase revenues without increasing rents.

Is Your Multifamily Property a Candidate for Utility Billing?

If your property is "master-metered" for any of the utilities--water, gas, or electricity--and you currently pay these expenses, you're a candidate for a utility cost recovery program. A master-metered complex has a single utility meter recording usage data for multiple apartment units.

Next, you want to find out if utility billing is allowed in the state, county and city where your property is located. Your state's Public Utility Commission is the first place to start. Another resource is your local apartment association. A directory of National Apartment Association Affiliates can be found here: <http://www.naahq.org/about/join/Pages/AffiliateDirectory.aspx>.

If the utilities are owner-paid and resident billing is allowed, we recommend getting started.

Regulations for Billing and Submetering Vary Throughout the U.S.

The regulations covering utility billing and submetering vary throughout the U.S. and periodically change. Some recent changes in submetering rules include:

- On August 18, 2011, the New Jersey Board of Public Utilities (BPU) approved submetering for water in new multifamily rental construction projects
- The State of Georgia became the first state to require by law, the submetering of multifamily, commercial, and industrial buildings that are permitted after July 1, 2010
- Effective June 1, 2010, the City of San Diego passed an ordinance requiring water submeters for newly constructed apartment buildings and condominiums.



The regulations governing residential utility billing are all over the map. For example, if your property is located in the State of Texas, there are specific rules on how much of a common area deduction you must take and how much an owner or billing company can charge for a service fee. *(Note: service fees are assessed for calculating, printing, and mailing utility bills, and collecting payments.)*

The service fee must be paid by the property owner, unless the property is submetered for water. In that case, a portion of the billing fee can be passed through to the tenant.

In the State of Colorado, multifamily owners can allocate the entire utility bill, including common area utility expenses back to tenants. There are no limitations on the service fees that can be charged.

Of course if you operate a tax credit property, RUBS is not allowed at all. If you want to bill residents for utilities, a submetering system must be installed.

An informative article regarding billing and submetering rules is titled, "**Water Billing Laws Affecting Owners/Residents of Multifamily Rental Housing**" and is located on the AmCoBi.com website.

A Proper Lease is Key

You must have a signed lease in place that adequately addresses tenant utility billing. If you are just starting a utility cost recovery program, you may be able to encourage existing residents to sign a lease addendum. If they refuse, however, you'll have to wait until their lease is up for renewal. For a sample lease addendum covering tenant billing, visit our website at www.AmCoBi.com or give us a call.



How Does Utility Billing Improve my Cash Flow?

Utility billing is a rapid way to improve cash flow. To determine the extent that it will increase your bottom line, review your property's master-meter bills from the last twelve months. Assume you paid an average of \$7,000 per month for water and gas.

Estimate an amount to allot for common area utility expenses such as: leasing office and hallway heating, coin-operated gas dryers, landscape irrigation, or a pool. For the purpose of discussion, assume the common area deduction (CAD) amount is 15%.

Here's what you can expect to see from a cash flow perspective:

Monthly utility bill	\$7,000
Common Area Deduction (CAD=15%)	$\$7,000 \times .15 = \$1,050$
Positive monthly cash flow impact	$\$7,000 - \$1,050 = \mathbf{\$5,950}$

This equates to a yearly cash flow increase of \$71,400. That's compelling!

What Other Benefits will Utility Billing Generate?

Utility billing substantially shifts your cost structure for the better. Tenants become financially responsible for the gas, water, and electricity they are using and are therefore incented to use resources more wisely.

As we'll see in the section on submetering, when tenants' individual consumption is measured and they're billed, it's common to see usage fall by as much as 35%. You'll be hard pressed to find another investment that will lower utility consumption by that extent.

Utility billing also insulates owners from rapidly rising utility prices and effectively separates utility costs from the rent structure. This change will make your property more appealing and price competitive.

Although not as significant as the conservation savings created by submetering, even a Ratio Utility Billing System (RUBS) has been shown to decrease consumption by as much as 5%.



What are the Differences Between Submetering, RUBS, and Flat Rate Billing?

If you've decided tenant utility billing is the right course for your apartment community, here are some of the billing methods you can use:

- Submetering
- RUBS
- Flat Rate.

Submetering

Submetering involves installing a water, electric, gas, or heat allocation meter in each tenant's unit that directly measures utility consumption. Meter readings and the monthly utility rates from the master-meter invoices are used to calculate tenant bills.

Submetering is the most equitable way to bill tenants because they only pay for what they use and they are rewarded financially when they conserve. Submetering, however, is not free and requires an initial investment by the property owner. Prices range from \$200 - \$400 per unit depending on the utility being metered. If you operate a tax credit, affordable housing property, submetering is your only option if you want to bill tenants for utilities.

There are numerous examples of multifamily owners who submetered one utility, say water, and the consumption of gas and electricity decreased too. We attribute this to the submetering project making tenants more aware and careful of how they consume all utilities.

RUBS

A Ratio Utility Billing System is very popular because it requires no capital outlay. Tenant utility bills can be calculated based on the master-meter utility charges, and apartment occupancy, apartment square footage, number of beds, or some combination of factors.

Many apartments, for example, have a piping configuration that doesn't support installing individual water meters. Some use central heating systems--e.g., baseboard radiation, fan coil units, furnaces--that don't allow individual gas meters to be installed. In these cases, RUBS is an excellent option.

RUBS isn't as equitable for tenants, however, because those who conserve utilities pay for those who don't.



Flat Rate

With flat rate billing, you decide on a fixed amount to bill tenants for electricity, water, gas, trash, Internet, cable, etc. Owners may charge different fees to tenants who have more occupants or larger apartment units but the amount is known and expected.

Flat rate billing rarely encourages conservation but does allow owners to recover some of their utility costs. It's a simple process to initiate but can cost you money if you don't estimate your yearly utility expenses accurately. Owners also want to be careful of charging more for utilities than what they actually pay.

Will Utility Billing Increase my Vacancy Rates?

Some tenants may leave your complex if you end the utilities-included offering and bill them directly. It's rare though. As long as you inform residents and sell them on the benefits of the change, the transition can be seamless.

In the best of cases, you start a utility cost recovery program, nobody leaves, and your net operating income soars. Let's review the "not-so-best-of-cases."

Assume your apartment complex has 100 units and average rent is \$680. As a result of your new utility billing program, assume 3% of your renters (a very high number) leave and it takes six months to fill those vacancies. The lost rent revenue is:

$$\begin{aligned}\text{Tenants vacating} &= 100 \times 3\% = 3 \\ \text{Lost rent revenue} &= 3 \times \$680 \times 6 \text{ mos.} = \$12,240\end{aligned}$$

Now compare the lost rent revenue to the gain from your utility expense recovery. Assume:

$$\begin{aligned}\text{Monthly utility expense recovery} &= \$3,000 \\ \text{Revenue increase} &= \$3,000 \times 6 \text{ mos.} = \$18,000 \\ \text{Lost rent revenue} &= \$12,240\end{aligned}$$

$$\begin{aligned}\text{Net effect on revenue (with 3\% vacancy)} &= \\ \$18,000 - \$12,240 &= \mathbf{\$5,760 \text{ gain}}\end{aligned}$$

In the above analysis, the percentage of tenants who leave is a "high" estimate and the cost recovery estimate is "low." Even in this extreme example, your financial situation improves with a billing program.



“When submetering is used to measure individual consumption and to bill residents, it's common to see usage fall by as much as 35%.”

Is the Competition Billing?

The multifamily industry is very competitive so checking out competing apartment communities in your immediate area is wise. Observe whether or not these complexes include utilities in their rental fees. Even if they do, implementing a utility billing program can still be a practical move.

Research shows that when a potential renter is deciding on where she/he is going to live, amenities and rental price are bigger factors than whether or not utilities are included.

If competing complexes already bill tenants for utilities, they're reaping the rewards you want for your property. It's ok to be a late to the party, just don't miss it altogether.

Can I Install a Submetering System? Should I?

Most apartment complexes support the installation of a water, gas, heat, or electric submetering system. For example, if each unit in your building has a single water supply line with an individual shutoff valve, or at most one line for hot water and one for cold, odds are high that you can submeter. A plumber is required to install the actual metering device, but it will measure all water consumed in the apartment and can be used for tenant billing.

If on the other hand, apartments in your complex have multiple pipes supplying water, you would need to install a meter on every line to measure how much water each unit consumed. This is cost prohibitive since utility meters range in price from \$200 - \$400, and you'd have to install several of them in every apartment. RUBS is the solution of choice in these cases.

What's my Return on Investment?

If your property supports submetering, the next question is: "Should I install a system?" For a 100 unit complex, estimate \$20,000 - \$40,000 to get the system implemented and ready for billing. Payback periods range from 12 - 24 months. After this time, the amount of money you are generating from tenant utility billing will exceed the price paid for your submetering investment. The financial return on investment (ROI) is hard to beat, and there are other benefits as well.

Conservation Benefits

From a conservation standpoint, there is no more effective way to reduce utility consumption than to submeter. Tenants will use utilities more wisely when they are financially accountable for their consumption. Tens of thousands of properties have proven that after submetering, usage fell by as much as 35% and sometimes even more.

Lower utility consumption is beneficial to you and to tenants. For instance, if you take a common area deduction, say 15%, it is based on the total master-meter bill. If master-meter utility bill declines, you save money.

Submetering is also the fairest way to bill because residents are only charged for the utilities they use. Moreover, with a means to measure actual usage on an apartment-by-apartment basis, you can discover:

- Water leaks
- Malfunctioning HVAC systems and meter problems
- How properties compare from a utility consumption standpoint
- Insights about resident usage patterns.

The value of submetered data is notable and can be used in numerous ways to improve the energy efficiency of your property, ultimately reducing costs.

How to Sell Utility Billing to Residents

If you are transitioning from a "utilities-included" model to one where tenants pay for utilities and you want the process to be seamless, proactively communicate with residents and explain how upcoming changes will impact them. Make sure you have a signed lease in place that authorizes billing and states how bills will be calculated.



“**Billing works best when it’s consistent, repeatable, and expected.**”

Rent Reduction

Some owners will offer a rent reduction to encourage tenants to sign a lease addendum. If, for example, the average monthly tenant bill is going to be \$45, an owner might offer a rent reduction of half the amount, say \$23, in exchange for agreeing to the lease terms.

Tenant Notification

On the other hand, if you have not raised rents recently and you’re apartments are underpriced compared to the competition, reducing rents is probably not necessary. Instead, spend your efforts communicating information that will help residents understand how the billing process is going to operate.

Give advanced notice and provide estimated bill amounts so tenants can prepare. Many owners will schedule resident meetings to explain the changes, discuss how the billing process is going to work, and share utility conservation strategies.

Typical Tenant Concerns

Expect tenants to be concerned with the age and efficiency of the appliances, HVAC and water systems, and other utility-using equipment installed in their apartments. Tenants recognize that inefficient baseboard radiators, leaky faucets, drafty windows, etc., will cause their bills to be higher.

Apartment owners can encourage tenant buy-in by installing more energy efficient equipment in the units--e.g. low-flow showerheads, faucets, and toilets--prior to initiating the billing program.

Billing Best Practices - Accuracy and Timeliness

Whether you send utility bills out yourself or use a third party service provider, billing accuracy and timeliness are critical to a smooth and effective cost recovery program. The easiest way to frustrate residents and spur lots of angry calls is to send out bills that have been calculated incorrectly or are consistently late.

Under- and Over-Billing

If you under-bill tenants, this reduces your cost recovery and you lose money. Over-billing is illegal and can trigger problems with your state's Public Utility Commission (PUC). For more information on under- and over-billing, download this article from the AmCoBi website titled: "**How Much Money is your Multifamily Complex Losing?**"

Late bills also irk tenants because they effectively get less time to pay. Moreover, it slows down your collection efforts.

Billing works best when it's consistent, repeatable, and expected. Create a schedule and stick to it. Establish quality control processes to ensure bills are accurate.

Billing Best Practices - Provide Outstanding Resident Support

Make every effort to deliver on-time, accurate bills but be aware that problems will occur and tenants will call for assistance. Providing friendly, responsive, professional tenant support is critical to a successful utility billing operation. To do so, your support staff will need access to: billing information, master-meter bills, billing formulas, meter readings (for submetered properties), utility rates, and an understanding of the regulations and laws that govern your locale.

Customer Service Should be Timely and Professional

If there is one area that consistently causes tenant resentment, it's not being able to reach a live person, in a reasonable amount of time, who can competently answer questions and fix problems. Using a third party utility billing provider that is unresponsive will quickly lead to residents calling property management staff, taking up their time, and keeping them from other revenue-generating tasks.

You'll likely only hear from tenants if there's a billing issue. With the right tools and training, however, every interaction can be a positive, relationship-building one.

What is Vacant Cost Recovery and Why is it Important?

Vacant cost recovery is a long-winded term for a simple idea. When a tenant moves-out of a unit and notifies the utility company to stop billing, it's routine for the utility to provide "continuous service" to the residence. Bills automatically roll over to the owner. This ensures that the apartment remains heated or cooled, that lights are available, and the freezer doesn't thaw.

When a new tenant moves in, if she/he does not contact the utility company to update the billing information, the owner pays for that person's usage. For owners operating hundreds of units, this can be an expensive loophole.





Vacant cost recovery seeks to actively manage this process by comparing when utilities roll back to the owner, and the move-in/move-out status of tenants. When apartments change hands, it's pressing that the management team follow up and confirm that the utility accounts have been transferred properly.

Managing Utility Billing Data

Resident utility billing requires and generates lots of data. For example, just to calculate monthly bills, you'll need:

- Master-meter bills
- Rent roll information
- Usage data (if the property is submetered; usually downloaded from a meter management application)
- Updated move-in/move-out information.

After the bills are sent, billing administrators must track payments, reconcile bank accounts, integrate online payments, and more. Many owners then want to incorporate monthly billing summary data into their financial or property management applications.

If you have to manually input the same data into multiple applications, the chance for data entry mistakes is high. Furthermore, it's a time and labor intensive process. Since most software applications offer functions for importing/exporting data, there are ways to automate the data transfer process. It may take a little programming, but the investment will significantly speed up and simplify the data exchange process.

Using a Third Party Utility Billing Provider

Even for owners who operate large portfolios, it can be more cost effective to use a third party service company to manage monthly billing. Not only will they substantially reduce owner/manager workload, they can save you money and free up staff members to focus on other duties.

Many billing providers offer other value added services such as:

- Web-based utility billing and reporting
- Online credit card and ACH payments
- Electronic and convergent billing
- Vacant cost recovery
- Utility bill payment
- Data analysis and more.

In states where it's allowable to pass a nominal service fee through to tenants, using a service provider costs the owner nothing. It's important, however, to select a competent provider.

To help you pick a billing company, download the following article on the AmCoBi website, "**Selecting an Effective Multifamily Utility Billing Services Provider.**"

It's also helpful to be aware of the problems tenants frequently complain about regarding third party providers such as:

- Late and inaccurate bills
- Unresponsive management and resident support
- High fees.

Before contracting with a billing company, we recommend asking about these issues, calling their customer support line, and conducting a thorough interview. Be sure to discuss any performance guarantees that assess a financial penalty if the provider doesn't deliver on the terms of their agreements.

New Technologies in Utility Billing

There are some exciting breakthroughs happening in the utility billing industry and they revolve around using statistical data analysis to understand more about the way tenants and multifamily buildings use utilities.

As an example, if your property is submetered for water, there are new tools available to monitor usage patterns and detect water leaks, on a near real-time basis. This prevents property damage, reduces unnecessary losses, and save tenants money.



Another example is a complex that uses a central heating system connected to baseboard radiators, and is metered with heat allocation equipment. You can analyze how tenants use heat and identify "high usage" units that are candidates for weatherization or heating equipment upgrades.

About AmCoBi

American Conservation & Billing Solutions Inc. (AmCoBi) is a quality-focused, affordable utility billing services provider. We help our multifamily clients maximize their profitability by improving cash flow and reducing operating expenses.

We differentiate our business by providing outstanding customer service to owners, property managers, and residents. And we take complete responsibility for the entire billing process...no excuses.

AmCoBi also designs, installs and services water, electric, heat, and gas submetering systems.

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Endnotes

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