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Utility Expense Recovery—The Five Principles

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The goal of any utility cost recovery program is to maximize property income while minimizing negative resident reaction. After years of servicing properties of all types and sizes, we have discovered five principles that achieve these goals and consistently determine the NET financial impact of your program.

THE PRINCIPLE OF SEPARATION

Recovering utility expenses, maintaining rents and retaining residents are the underpinnings of a successful program. Separation helps make this possible. Consider the way residents think about their gas & electric bills. These bills are psychologically separated from rent, because they come from a utility company. This separation is critical to your own program's credibility, and why we advocate using a third party "sub-utility" to bill and collect. Any alternative risks appearing as a camouflaged rent increase.

Paying the landlord for utility expenses also opens a Pandora's box of excuses for non-payment. Any building problem affecting utility cost will invite a challenge, and each new bill provides another opportunity to feel cheated by the landlord. You don't want to be blamed for a high bill or a hike in utility rates. You don't want to give residents another reason to move down the street.

THE PRINCIPLE OF FAIRNESS

There are two ways the multifamily industry bills for utility use. The most

widespread is through submetering. The other is through allocation, or ratio utility billing systems (RUBS). With allocation, a resident's utility bill is based on a formula that typically factors in the number of tenants and total sq. ft.

ing a \$10 water bill will raise few objections, but \$20 or \$30 may be a different story. There is a practical limit to how much people will accept, and pay, before they will demand higher billing accuracy. At some point collec-



In other words, it estimates usage, but doesn't actually measure it, which can fuel resident hostility. Who wants to pay for what their neighbor is wasting?

Submetering bases a resident's utility bill on actual metered consumption. The bill comes from a third party sub-utility, and residents are only billed for what they use. They can lower their bill by adjusting temperatures, turning off lights, or running the dishwasher less frequently. In other words, they feel in control and see a direct correlation between consumption and billings.

A person's tolerance for paying allocated utilities varies with cost. Pay-

tion rates will decline, and trust will evaporate. The result: an occupancy risk.

If you do allocate, it is important to thoroughly explain the basis of allocation. Failure to do so may meet with resistance, because people are suspicious of what they do not understand. And you need to be ready to deal with objections to paying for utilities they did not consume ("I was on vacation last month – how can you charge me for water?"). Faced with these arguments, a prudent property manager will make concessions. Such concessions are a necessary part of every allocation pro-

gram. If the dollars are small, it doesn't matter – if they are big, submetering may be justified.

THE PRINCIPLE OF CREDIBILITY

Utility companies are credible, and no place is their credibility more apparent than on the invoice. Look carefully at what you send your residents – does their water bill achieve the same look of professionalism? Are your explanations of billing methodology as clear? Do you chart historical usage and provide conservation tips? Do you explain the resident's rights and appeal procedures?

The point is simple. Invoice credibility = invoice payments.

THE PRINCIPLE OF CUSTOMER SERVICE

Residents with questions deserve prompt and thorough answers. For example, if a resident doesn't understand his or her bill, it is imperative to:

- Provide an answer 24 hours a day, 7 days a week
- Speak their language
- Explain the charges in detail and provide suggestions for reducing them

The more information you can provide, the higher your credibility. Metering at each point of use -- recording water, energy, time and number of events gives support personnel an arsenal of diagnostic information.

In an ideal world, we would love to respond to a complaint by identifying (for example) that 35% of the complainant's water use took place in the shower, operating at 4.2 gallons per minute, for an average duration of 17 minutes. In addition, it might be helpful to know the same resident averages 3.4 showers a day, at 105 degrees. This level of detail arms bilingual support reps with irrefutable data to explain a bill and provide sound suggestions for lowering future bills.

Residents appreciate the information and applaud the 24-hour availability of customer service reps.

THE PRINCIPLE OF CONSEQUENCES

Your local utility has the ability to shut off services if a bill goes unpaid. An effective expense recovery program should convey the same perception.

Tangible warnings can include "door hanger" notifications - yellow notices hung on the door informing the resident of a bill past due. This usually gets the message across and will likely create embarrassment. A red notice will be seen as more serious, and should indicate that utilities will be paid from the security deposit or the next rent check. Delinquency cannot be tolerated.

Is eviction an option? Of course - it must be. Will you evict for non-

payment? That's up to you...but the threat has to be credible. If there are consequences for non-payment, word will spread. If there are no consequences - word spreads even faster.

IN SUMMARY

Utility expense recovery is important to your bottom line - but a botched program can lower your occupancy rate, increase turnover and force rent concessions. When that happens, you may be proud of the expense recovery account balance - but other costs will undermine your program's NET income. In our experience, following these five principles will serve you well, and keep your residents - and your staff - smiling.

Next month, we will address the five rates to measure your program by - collection rates, complaint rates, conservation rates, occupancy rates and the all-important NET utility cost recovery rate.

Brian Brittsan is president of Wellspring International, the world's only complete water, gas, electric and energy sub-utility. Wellspring offers metering and sub-metering systems—as well as reading, billing and collecting services—for all building types. Wellspring is based in San Diego, California and Mt. Laurel, New Jersey. For more information, call 858-824-0900 or visit www.wellspringwireless.com.