# Proposal to Disband 3rd Party Billing

## What is 3rd Party Billing?

The City provides property owners a service in which the City will help administer a request to assign utility services to a name (at the request of a property owner) that is not the property owner such as a renter or property management company. The assignment of a 3rd party (renter, property manager, trust, estate, etc.) to a property account allows the City to send a utility invoice to the 3rd party in lieu of the property owner. All 3rd party agreements assign the ability of the utility billing invoice to be paid by the third party in addition to the existing property owner. *(Legally, anybody can make a payment to a utility account. For this discussion, we will focus on the property owner and the 3rd party only.)* The City will act on behalf of the property owner and collect payments from assigned 3rd party occupants. All 3rd party billing requests are optional and not required by law.

### Who is responsible for paying utility bills?

The City holds any and all debt against the current property owner for all municipal services regardless of an existing 3rd party agreement. With the final debt residing with the current property owner, the City eliminates the need to "chase down" 3rd party members when trying to collect any outstanding debt for the property.

### What resources does the City commit to 3rd party billings?

Utility Billing Department currently has 1.25 staff members dedicated to the management of 3rd party billings (rental processes) along with the Finance and Water Division's using existing staff to accommodate the administration of 3rd party billing.

### How many accounts utilize 3rd party billings?

City currently has about 5,500 active accounts (or 12% of all utility accounts) that utilize the 3rd party billing process.

### How many staff members are dedicated to the collections of outstanding debt?

City currently has zero staff dedicated to collections since the City hooks all outstanding debt to the property as compared to hooking all debt to occupants. The Utility Billing Manager will conduct monthly reviews of the outstanding debt and determine if any accounts need to be sent to an outside collection's agency.

### How to complete a 3rd Party Billing request?

Current processes allow the owner of a property to authorize the City to place the utility account in a 3rd party occupant's name while maintaining liability of debt with the owner. The City does require documents to be signed by both the Owner/Authorized agent and the occupant. The City assess a $20.00 one-time set up fee for each new unique 3rd party renter and is billed to the account of record.

- The City requires that the property owner complete a Billing Directive to inform the City to whom the utility invoices should be addressed too.
    - i.e. Property Management agreement as applicable
- The City requires that the 3rd party looking to occupy a property via a private party agreement complete a Renter's Addendum to inform the City that they would like to have the utility invoice in their name.

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- A $20.00 one-time set up fee is assessed as account is updated for new 3rd party occupant
    - Annual average total Set up Fee revenue = $25,980

| | | |
|---|---|---|
| FY18 | $ | 26,620 |
| FY19 | $ | 26,000 |
| FY20 | $ | 25,320 |
| **Grand Total** | **$** | **77,940** |
| **Average** | **$** | **25,980** |

## History

Before the early 2000's, the City would only send invoices to the current property owner. The City would not recognize any other person/group living at the property in terms of utility management. During the early 2000's, a group of property owners/landlords brought a request to the City to consider allowing other persons/groups be added to the utility bills so all invoices could be sent to the other persons/groups instead of the property owners/landlords. At that time, Mayor Corrie agreed to work with the property owners (with a large push from Jim Furhman) and try to develop a solution for the property owners' desires to have invoices sent to the other persons/groups utilizing the actual property. The Finance and Legal department worked with Mayor Corrie to develop the 3rd Party Billing process. In the end, the property owners/landlords were requesting the City to become assistant property managers to assist with private agreements between property owners and 3rd party members. The private agreements were to be administered by the City to verify that utility bills were delivered to the 3rd party members as opposed to the property owner managing their private agreements with other persons/groups.

## Policy/Ordinance

9-1-5 Application for Water Supply: Paragraph B3

Third Party Billing: After establishing an account for water service, a property owner may direct that a third party, such as a property management company, or a tenant(s), receive the billing for water, sewer, and solid waste collection services. The third party to whom the billings are sent shall also execute such documentation as is necessary to confirm the billing information. In the event such an account becomes delinquent, the municipal billing department shall send a delinquency notice to the billing recipient, and the owner, at the addresses contained in the agreements. The city will charge a third-party billing account setup fee which must be paid at the time of the application. The fee will be set by resolution of the city council. The third-party billing agreement shall also provide that the property owner remains primarily responsible for charges assessed to the account, and further, that all unpaid charges constitute a lien against the real property. An owner may appoint an agent, to act for the owner, to establish an account, receive billings, or do anything else an owner may do, or be required to do, pursuant to this code.

Case Law for State of Idaho; in order to hold the owner liable to debt occurred by another person, confirmation of terms must be agreed to in writing.

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## Proposal

The Meridian Utility Billing Manager, Chief Financial Officer, Water Superintendent, and Utility Billing staff respectively request authorization to disband the 3rd Party billing system between private property owners and individual private tenant(s). This proposal continues to offer Property Management billing services (as a 3rd party) to any private property owner to contract with a Property Management company to administer their utility billing invoices and tenant(s). This proposal would require property owners/managers to determine how to collect the utility expenses associated to the existing property if they choose to engage in a private agreement with a tenant(s).

This request will have zero impact to properties without a 3rd party agreement (88% of current accounts). This request will have a minor impact to those properties currently under a Property Management 3rd party billing agreement. This request will require a change to existing City Code.

The City will continue to issue delinquent notices to the owner/property manager of record. The City will also attempt to send a copy of any delinquent notice to the tenant(s) at the service address.

- Pros
    - Empower the owners to monitor/manage their own property
        - to better enforce payment from their tenant(s)
        - identify potential issues with their properties such as leaks
        - less likely to be hit with large balances upon renter move-out
        - continue to allow properties to be administered by a paid property management company
    - Staffing resources can be focused on managing our ever-growing number of accounts
        - reduce time spent on account maintenance and management of 3rd party rental forms
        - reduce time spent on explaining the rental final bills between 3rd parties moving-in and moving-out
        - reduce time spent on researching, submitting, and processing refunds due to double payments caused by renter, owner, and property management companies all making payments to the account
        - remove City staff as a "middle man" between owners/property manages and their tenant(s)
        - reduce time and resources of the Water Division for completing final reads for 3rd party move-outs
        - reduction of mileage driven for Water Division vehicles
        - increased time for Water Division resources to be allocated towards maintenance and operations
    - Reduction in the number of final bills to be processed by staff as the property owner is still the property owner
        - final bills will be limited to actual property sales
        - final bill reads will be not conducted for property management companies administering multiple tenant(s) transitions
    - Property owners will not need to pay a $20.00 setup fee as the City setup fee will be eliminated

- Restricting the liability to the current property owner eliminates the need to hire a collections agency to chase-down prior tenant(s)
  - The City has been able to keep the amount of “write-off of bad debt” extremely low.
    - 5-year average of write-offs has been at $11,743 (or less than .047% of all sales)

Companies that grant credit may experience a typical write-off percentage for a year as follows:

- **LOW** – .065% (.00065 x Total Sales)
- **IDEAL** – .2% (.002 x Total Sales)
- **GOOD** – .3% (.003 x Total Sales)
- **HIGH** – .5% (.005 x Total Sales)
- **DANGER** – 1.0% (.01 x Total Sales)

- Cons
  - Property owners without a property management company will be frustrated with the change (11% of current accounts)
    - invoices will be sent to the property owner instead of the tenant(s) which will create an inconvenience for property owners
      - tenant(s) has the ability to make payment on behalf of the property owner
    - forwarding of the bill to the tenant(s) for payment would be at the owners’ expense
      - City will attempt to provide a copy of any delinquency and shut-off notices to the physical property
    - property owners will be accountable for monthly utility fees instead of during move-in and move-out scenarios
  - Property owners/managers will need to determine how much to charge their tenant(s) utilities between transitions of tenant(s)
  - Assuming that the City will increase in properties and population, it is likely that 3rd party billing will continue to grow
    - Growth will force the City to hire more staff to administer
  - The City will reduce annual revenues by $25,980 on average from the elimination of the $20.00 “Set up Fee”

### *Implementation*

The Finance department supports a phased approach will allow for property owners and their managers to adjust to the new way of business.

- Stop accepting new directives
  - Set an effective date that no new directives would be accepted- February 1, 2022
  - Any directives already in place would continue until such time as an update would trigger new paperwork (tenant moves out or ownership changes)

- Communication Prior to transition date

- Targeted notices to Property Managers and Owners that are self-managing (December and January)
  - Hard copy letter via USPS
  - Email as available
- Tagline on monthly bills (January 2022)
- Signature Tag on all communications from rental email account
- FAQ document on Finance/MUBS Webpage
  - Explain bill breakdown, read dates, etc.

- No Set end date
  - Allow for natural transition
    - Long term renters not forced to revert account

## Cost Impacts

The Utility Billing department currently assigns 1.25 FTE's to manage the 3rd party billing process. Based on the FY2022 budget, this estimated cost for 1.25 FTE's is roughly $79k in staffing costs. The Utility billing department could repurpose the $79k in staffing costs to manage future account management growth requirements thus eliminating the need to add future staff to the department for many years to come or eliminate the position in the future if process improvements prove necessary. The Water Division currently incurs a cost of about $5-$6 per final read associated with 3rd party billings for staff time and vehicle costs.

If the decision is to keep the 3rd party billing program active, the City would need to increase the one-time set up fee for each account to $50 (150% increase from $20) and be charged to the property owner at the time of creation. The $50 would need to be adjusted each year based on the projected number of 3rd party billing assignments created. The City has experienced the below activity since 2018.

| | 2018 | 2019 | 2020 | Projected 2021 | | |
|---|---|---|---|---|---|---|
| 3rd Party Billings/Final Reads | 1,702 | 1,774 | 1,845 | 1,921 | Average Growth | |
| | | 4.23% | 4.00% | | 4.12% | |

## What does Nampa/Boise do and provide?

- ### Nampa
  - Provides the following utilities to its customers:
    - Water
    - Sewer
    - Trash
  - Utility Accounts are established in the occupant's name
  - City does not hold utility debt against the property

    - City chases occupants for debt collections
  - Utility Accounts are sent to collections if not paid
    - Customers in collections may resume Nampa service with proof of payment in full plus $150.00 deposit
  - 1.5 staff members are dedicated for collections
  - Last year's write-off amount for uncollectable utility payments was $188,800 (does not include 1.5 staff salaries)
    - Total utility revenues for last year was $32,097,644
    - Write-off percentage rate = .5882%
- Nampa currently has approximately 12,000 renter accounts

- ## Boise
  - Provides the following utilities to its customers:
    - Sewer
    - Trash
  - Utility Accounts are established in the occupant's name
  - City does not hold utility debt against the property
    - City chases occupants for debt collections
  - Utility accounts are considered delinquent if in arrears 6 months or more and will be sent to collections
    - Customers/occupants already in arrears cannot open a new account
  - 4 Staff are dedicated collection agents
  - Last year's write-off amount for uncollectable utility payments was $375,132 (does not include 4 staff salaries)
    - Total utility revenues for last year was $85,125,521
    - Write-off percentage rate = .4407%
  - Boise currently has approximately 25,000 renter accounts
  - *Boise is currently looking at changing processes to hold debt against the property like Meridian and is looking to us to determine how: 3rd Party billing paperwork or Owner only.*

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## Supplemental Information

### 3rd Party Billing Fee Calculations for Property Owners

| | |
|---|---|
| Total Annual Water Costs | $10,169.94 |
| Total Annual MUBS Costs | $78,860.14 |
| Total Annual Costs for 3rd Party Billing | $89,030.08 |
| | |
| Total Water Costs per Final Read | $ 5.29 |
| Total MUBS Costs per Final Read | $ 41.05 |
| Total Costs per Final Read | $ 46.35 |
| | |
| Estimated 2021 Final Reads | 1,921 |
| Estimated 2021 Final Reads Revenue | $89,030.08 |
| | - |

# Proposal to Disband 3rd Party Billing

## Questions and Answers from Council/Mayor during two workshops?

- Brad Hoaglun does not want a renter with children to have their water turned off because the property owner did not pay the bill.
    - City can provide a notification to physical locations of upcoming water shut-offs to allow tenants to work with their property owners.
- Brad Hoaglun – Are we going to be chasing people with the elimination of the 3rd party billing?
    - City will not be chasing tenants. The property will continue to hold 100% of the liability regardless of any property management agreements.
- Joe Borton – How does the phase out process look?
    - Based on the effective date, the City would no longer accept new requests for the account to be placed in a tenant's name(s). As renters move out or properties sell, the accounts would be placed in the owners or authorized property management names. There will not be a forced change.
- Treg Bernt – Did you reach out to any of the property management companies to hear from them?
    - City did not conduct a large inquiry to property management companies. City will continue to allow property management companies to conduct their business as needed with minor changes.
- Jessica Perreault – Can tenants see the bill online or receive an invoice?
    - City will allow property owners to share their account information with their tenants. This decision will 100% up to the property owners/property managers.
- Jessica Perreault – Will the larger property management companies be able to communicate the bills to the tenants?
    - City will allow property owners to share their account information with their tenants. This decision will 100% up to the property owners/property managers.
- Brad Hoaglun – What is the process for water turn-offs if we eliminate the 3rd party billing?
    - City will continue with current shut off process and protocol. Notifications will be sent to property owners/property managers and the physical location.
- Brad Hoaglun – Are we eliminating the Meridian Way if we eliminate the 3rd party billing?
    - City will continue to deliver the Meridian Way by allowing property owners to hire a property management company to manage their utility bills and tenant(s). The City should not compete with private business.
- Jessica Perreault – Can you describe what it is that our staff is having troubling with?
    - The entire service. A government agency providing property management services to private parties. Running the spectrum of processing paperwork that is no filled out correctly, chasing contact information, insuring that we are contacting the correct representative at the time, what date is correct when the paperwork doesn't match between directive and the addendum, scheduling final reads that may or may not be needed because the paperwork turned out to be incorrect, determining who paid what when, who overpaid, who underpaid.
- Treg Bernt – Is it a turn-over fee or annual fee?
    - City will charge property owners a transaction fee for every renters' agreement is completed.
- Jessica Perreault – Would it be possible to implement a notice to the address of upcoming shut-off?

   - City can provide a notification to physical locations of upcoming water shut-offs to allow tenants to work with their property owners.
- Luke Cavener – Would like to see more than two options.
   - City will provide the opportunity of property owners to hire a property management firm to represent their private transactions.
- Luke Cavener – Talked to property managers and they are not in favor of losing this option.
   - City will not eliminate the opportunity of property management companies to have bills in their name.  Property management companies will gain business with this proposal.
- Jessica Perreault – Can a tenant pay online on behalf of the owner?
   - City will allow property owners to provide tenants property account information for payment. Any person can provide a payment on any account as long as the payer has the account information.
- Jessica Perreault – How would multi-family units be managed with invoices?
   - City will continue to provide property managers of multi-family units the necessary invoices for the property managers to pay for them. Will have zero changes to current business.
- Jessica Perreault – When a tenant rents a unit at a multi-family unit, is the invoice in the individual tenant's name like Gas and Power?
   - City does not put individual units of a multi-family complex into individual tenants' names like Gas and Power does. City will continue to work with property managers of multi-unit complexes to manage their utility bills. No intended changes to how we manage this type of customer.
- Brad Hoaglun – We have property owners that do not pay their bills. How do we notify the tenants?
   - City will provide a notification to physical locations of upcoming water shut-offs to allow tenants to work with their property owners.
- Brad Hoaglun – We have property owners renting their houses to families with little kids. How do we help the families from getting their water turned off?
   - City can provide a notification to physical locations of upcoming water shut-offs to allow tenants to work with their property owners.