

# Proposal to Disband 3<sup>rd</sup> Party Billing

## What is 3<sup>rd</sup> 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 3<sup>rd</sup> party (renter, property manager, trust, estate, etc.) to a property account allows the City to send a utility invoice to the 3<sup>rd</sup> party in lieu of the property owner. All 3<sup>rd</sup> 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 3<sup>rd</sup> party only.)* All 3<sup>rd</sup> party billing requests are optional and not required by law.

## How to complete a 3<sup>rd</sup> Party Billing request?

Current processes allow the owner of a property to authorize the City to place the utility account in a 3<sup>rd</sup> 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 3<sup>rd</sup> 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 3<sup>rd</sup> 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.
- A \$20.00 one-time set up fee is assessed as account is updated for new 3<sup>rd</sup> party occupant
  - Annual average total Set up Fee revenue = \$25,980

FY18	\$	26,620
FY19	\$	26,000
FY20	\$	25,320
<b>Grand Total</b>	<b>\$</b>	<b>77,940</b>
<b>Average</b>	<b>\$</b>	<b>25,980</b>

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## 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 3<sup>rd</sup> party agreement. With the final debt residing with the current property owner, the City eliminates the need to “chase down” 3<sup>rd</sup> party members when trying to collect any outstanding debt for the property.

## What resources does the City commit to 3<sup>rd</sup> party billings?

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

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## How many accounts utilize 3<sup>rd</sup> party billings?

City currently has about 5,500 active accounts (or 12% of all utility accounts) that utilize the 3<sup>rd</sup> 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.

## 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 3<sup>rd</sup> 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 3<sup>rd</sup> party members. The private agreements were to be administered by the City to verify that utility bills were delivered to the 3<sup>rd</sup> 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, 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, and Utility Billing staff respectively request authorization to disband the 3<sup>rd</sup> Party billing system and revert back to the original process prior to the early 2000's. In essence, reverting all billing and/or applicable notices to the property owner of record only and therefore eliminating the administrative burden of acting as an administrative property manager. This proposal would require property owners/managers to determine how to collect the expenses associated to the existing property if they choose to engage in a private agreement with a 3<sup>rd</sup> party. This request will have zero impact to properties without a 3<sup>rd</sup> party agreement (88% of current accounts). This request will require a change to existing City Code.

- Pros

- Empower the owners to monitor/manager their own property
  - to better enforce payment from their tenants
  - identify potential issues with their properties such as leaks
  - less likely to be hit with large balances upon renter move-out
  - majority of these accounts are already under 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 3<sup>rd</sup> party rental forms
  - reduce time spent on explaining the rental final bills between 3<sup>rd</sup> 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 managers and their tenants
  - reduce time and resources of the Water Division for completing final reads for 3<sup>rd</sup> 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
- Restricting the liability to the current property owner eliminates the need to hire a collections agency to chase-down prior 3<sup>rd</sup> party occupants
  - 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)

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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/managers will be frustrated with the change (12% of current accounts)
  - invoices will be sent to the property owner instead of a 3<sup>rd</sup> party which will create an inconvenience for property owners
    - 3<sup>rd</sup> party occupants do have the ability to make payment on behalf of the property owner
  - forwarding of the bill to the tenant for payment would be at the owners' expense
  - property owners will be accountable for monthly utility fees instead of during move-in and move-out scenarios
  - 3<sup>rd</sup> party occupants may have water was turned off without them receiving notice since utility bills will be delivered to the property owner
- Property owners/managers will need to determine how much to charge their 3<sup>rd</sup> parties' utilities between transitions of 3<sup>rd</sup> parties
- Assuming that the City will increase in properties and population, it is likely that 3<sup>rd</sup> party billing will continue to grow
- The City will reduce annual revenues by \$25,980 on average from the \$20.00 "Set up Fee".

## Implementation

Ideas in which to implement an official disband:

- Stop accepting new directives (phased approach)
  - Set an effective date that no new directives would be accepted
  - Any directives already in place would continue until such time as the renter moves out and the account is reverted back to owner
- Pull the plug (Just end it)
  - As of a set date, all accounts that are set up as 3<sup>rd</sup> party billing would be updated and set back to owner of record.
  - 3<sup>rd</sup> party occupants currently getting the monthly bill would no longer be on the account and will stop getting notifications from City of Meridian

The Finance department supports the phased approach to allow for property owners to adjust to the new way of business.

## Cost Impacts

The Utility Billing department currently assigns 1.25 FTE's to manage the 3<sup>rd</sup> 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

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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 3<sup>rd</sup> party billings for staff time and vehicle costs.

If the decision is to keep the 3<sup>rd</sup> 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 3<sup>rd</sup> 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

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- 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: 3<sup>rd</sup> Party billing paperwork or Owner only.*

## 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		
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