Congressional Briefing on Water and Wastewater Rate Affordability for Low-Income Ratepayers

Hosted by: Representative Marcia Fudge

May 12, 2016
2:00 pm – 3:30 pm
2103 Rayburn House Office Building
The affordability dichotomy
Disproportionate impacts
Practical realities of a human right
- Detroit and Flint: Lessons learned

Congressional Briefing:
Low Income Sewer and Water Assistance Program Act of 2016
Affordability Dichotomy
Sewer and water service remains underpriced

- Infrastructure funding gap
  - Water: $384 billion
  - Wastewater: $271 billion

- Historical subsidies

- Cost-based pricing
  - Rates do not reflect value
  - Inadequate reinvestment
  - Externalities

Congressional Briefing:
Low Income Sewer and Water Assistance Program Act of 2016
Affordability Dichotomy

Utilities have been increasing rates to catch up with investment needs

Annual Wastewater Costs vs. CPI: 1998 through 2018 (projected)
NACWA Financial Survey

Congressional Briefing:
Low Income Sewer and Water Assistance Program Act of 2016
Utility rates are insufficient to meet needs

Utility rate increases are unaffordable for many

Congressional Briefing: Low Income Sewer and Water Assistance Program Act of 2016
Disproportionate Impacts

Income inequality is increasing

**US real average after-tax income**

1979=100

- **Top 1 percent**
- **81st to 99th percentiles**
- **21st to 80th percentiles**
- **Lowest quintile**

Source: Congressional Budget Office
Disproportionate Impacts

Utility costs are a disproportionate burden for low-income households

Quintile Spending vs. Overall Average

Household Income Quintile

Source: US Census data reported by Jeff Rexhausen, Economics Center for Education & Research, University of Cincinnati
Practical Realities

Detroit, Michigan

- Decreasing population
- High poverty
- Culture of non-payment
- Payment plans in place to minimize shutoffs
- Assistance programs progressive
  - Additional funding needed to meet demand

Congressional Briefing:
Low Income Sewer and Water Assistance Program Act of 2016
Practical Realities
Flint, Michigan

- 50% population loss since 1960
- Acute poverty
- Emergency financial management
- Among the highest rates in U.S.
- Universal lesson: *Water utilities hold profound responsibilities to provide a basic human need and protect public health*

**Flint Water Advisory Task Force Report:**
*Use the Flint water crisis to prompt re-investment in critical water infrastructure while providing mechanisms to advance affordability and universal access to water services.*

Congressional Briefing:
Low Income Sewer and Water Assistance Program Act of 2016
Low Income Sewer and Water Assistance Program is needed, now

- Affordability Dichotomy:
  - Reinvestment is required
  - Rate increases burden the poor
- Many state and local laws and practices cut holes in the safety net
- Low Income Sewer and Water Assistance Program is needed, now
  - Follows successful LIHEAP policy
City of Jackson, MS Perspective
Low Income Sewer and Water Affordability:

• City Demographics
• Water and Sewer Funding Challenges
• Water and Sewer Revenue Sufficiency
• History Water and Sewer Rates
City of Jackson, MS
Demographics

- City population: 171,673
- City MHI: $33,080
- Poverty Rate: 29.9%
- Unemployment rate: 10.9%
- City is 79% African American
- 12,350 renter occupied households with housing costs that exceed 50% of their income
- 67.2% of the total population have severe housing cost burden
- W/S Bills are as much at 4.8% of MHI for low income census tracts

Figure 1. Household Income Distribution by Census Tract
2015 Affordability Study by Raftelis Financial Consultants, US Census Data
City of Jackson, MS: Water and Sewer Funding Challenges: Safe Drinking Water and Clean Water Needs

- Total estimated needed infrastructure spending in Jackson exceeds $1.5B: roads, bridges, stormwater drainage, water and sewer
- **Safe Drinking Water Compliance**
  - 2016 Compliance Plan for Lead and Copper Rule – Exceeded Lead Action Level in 2015 (81% of housing stock built before 1979)
  - $516M in required water infrastructure improvements to meet current service levels
- **Clean Water Act Compliance**
  - 2013 Wastewater Consent Decree estimated at $400M
  - $995.2M in needed stormwater management improvements
  - Only Phase I MS4 in the State of MS; no sustainable funding source
City of Jackson, MS
Water and Sewer Revenue Sufficiency Analysis

Obvious Answer is to raise rates; but unaffordable for most
City of Jackson, MS
History of Water and Sewer Rates

• 2013 Rate increases caused rate shock
• As W/S rates increase
  • Illegal tie-ins increase
  • Capital expenditures decrease
  • A/R Gap widens

<table>
<thead>
<tr>
<th>History of Rate Adjustments</th>
<th>2005</th>
<th>2008</th>
<th>2010</th>
<th>2013</th>
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<tbody>
<tr>
<td><strong>Water Charges</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Bi-Monthly Service Charge</td>
<td>$ 8.50</td>
<td>$ 13.20</td>
<td>$ 14.88</td>
<td>$ 14.88</td>
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<tr>
<td>% Change</td>
<td>55.3%</td>
<td>12.7%</td>
<td>0.0%</td>
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<tr>
<td>Volumetric Charge</td>
<td>$ 1.77</td>
<td>$ 2.20</td>
<td>$ 2.48</td>
<td>$ 3.21</td>
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<tr>
<td>% Change</td>
<td>24.3%</td>
<td>12.7%</td>
<td>29.4%</td>
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<tr>
<td><strong>Sewer Charges</strong></td>
<td></td>
<td></td>
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<td></td>
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<tr>
<td>Minimum for 5/8&quot; meter</td>
<td>$ 11.82</td>
<td>$ 12.18</td>
<td>$ 12.90</td>
<td>$ 26.82</td>
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<tr>
<td>% Change</td>
<td>3.0%</td>
<td>5.9%</td>
<td>107.9%</td>
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<tr>
<td>Volumetric Charge</td>
<td>$ 1.97</td>
<td>$ 2.03</td>
<td>$ 2.15</td>
<td>$ 4.47</td>
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<tr>
<td>% Change</td>
<td>3.0%</td>
<td>5.9%</td>
<td>107.9%</td>
<td></td>
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</tbody>
</table>
Ratepayer Feedback

• How many years will we be paying an extra charge for clean rivers?
• When will the impervious surcharge come off our water bills?
• What was the average water bill in 2000 versus 2015?
• Do the Feds pay their fair share for water and sewer since they are one of the largest consumers?
• Is there a fixed minimum bill? My bill stays the same whether I am in town or not.
Ratepayer Feedback

• I am using 2ccfs per month and paying over $50, isn’t that high for 1 person?
• Are the increased rates permanent? Once the tunnel project is completed will the rates decrease?
• What programs are available for seniors over 65 to assist in paying their bills?
• Are there any plans to develop a budget payment plan based on consumption?
• The Clean River fee is a tax, because you have to pay it whether you use water or not.
Rate Impacts of DC Water’s CIP

DC Water’s CIP will result in substantial rate increases to the entire customer base over the next 20 Years

• From 2011-2013 sewer bills increased 35 percent
• Typical residential bill projected to rise from $614 in 2014 to $1,052 in 2020
• By 2030, projected typical resident bill would be $1,447
• Impact to poorer and minority households substantial
• 2020 Sewer bill would account for 6.8 percent of HH income for African Americans in the 1st quintile and 2.9 percent in the 2nd quintile
Methods for Assessing Affordability

- Unadjusted income underestimates burdens due to high level of expenditures for non discretionary spending in high cost cities such as Washington DC.
  - In 2012 Washington DC was 8th most expensive City in US
  - Cost of Living Index 144.7 (Council for Community and Economic Research)

- High Cost of Living in Washington DC
  - Housing
  - Food
  - Transportation
  - Utilities
### Affordability – Current CIP

**Sewer Increase**

<table>
<thead>
<tr>
<th>Scenario 2B</th>
<th>Scenario 3C</th>
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</thead>
<tbody>
<tr>
<td>Evaluation Against Upper Limit of Second Quintile</td>
<td>Evaluation Against Adjusted Upper Limit of Second Quintile</td>
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<tr>
<td>FY 2014</td>
<td>1.05%</td>
</tr>
<tr>
<td>FY 2015</td>
<td>1.21%</td>
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<tr>
<td>FY 2016</td>
<td>1.32%</td>
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<tr>
<td>FY 2017</td>
<td>1.42%</td>
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<tr>
<td>FY 2018</td>
<td>1.50%</td>
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<tr>
<td>FY 2019</td>
<td>1.60%</td>
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<tr>
<td>FY 2020</td>
<td>1.72%</td>
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<tr>
<td>FY 2021</td>
<td>1.85%</td>
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<tr>
<td>FY 2022</td>
<td>1.99%</td>
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<tr>
<td>FY 2023</td>
<td>2.08%</td>
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<tr>
<td>FY 2024</td>
<td>2.17%</td>
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<td>FY 2025</td>
<td>2.27%</td>
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<td>2.37%</td>
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<td>FY 2027</td>
<td>2.38%</td>
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<tr>
<td>FY 2028</td>
<td>2.39%</td>
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<tr>
<td>FY 2029</td>
<td>2.40%</td>
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<tr>
<td>FY 2030</td>
<td>2.40%</td>
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<tr>
<td>FY 2031</td>
<td>2.41%</td>
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<tr>
<td>FY 2032</td>
<td>2.42%</td>
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**CRIAC Increase**

<table>
<thead>
<tr>
<th>Capital Outlay</th>
<th>Debt Service Coverage¹</th>
<th>Scenario 1 Evaluation Against MHI</th>
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<tbody>
<tr>
<td>FY 2014</td>
<td>na</td>
<td>na</td>
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<tr>
<td>FY 2015</td>
<td>15.0%</td>
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<tr>
<td>FY 2017</td>
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<td>10.0%</td>
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<tr>
<td>FY 2018</td>
<td>8.0%</td>
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<td>FY 2019</td>
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<td>FY 2021</td>
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<td>FY 2022</td>
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<td>FY 2023</td>
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<td>FY 2024</td>
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<td>FY 2026</td>
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<td>FY 2027</td>
<td>2.0%</td>
<td>3.0%</td>
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<tr>
<td>FY 2028</td>
<td>2.0%</td>
<td>3.0%</td>
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<tr>
<td>FY 2029</td>
<td>2.0%</td>
<td>3.0%</td>
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<tr>
<td>FY 2030</td>
<td>2.0%</td>
<td>3.0%</td>
</tr>
<tr>
<td>FY 2031</td>
<td>2.0%</td>
<td>3.0%</td>
</tr>
<tr>
<td>FY 2032</td>
<td>2.0%</td>
<td>3.0%</td>
</tr>
</tbody>
</table>

¹Debt service coverage needs to be above 1.2 to satisfy minimum requirement.
Measure of Affordability for Scenario 3C (by Wards)
Conclusions

• 2% of the MHI is not the best indicator of affordability for DC Water customers

• 2% of income for upper limit of 2nd quintile adjusted for D.C. cost of living (scenario 3C) best represents affordability for DC ratepayers

• For all measures of affordability evaluated, construction of the Potomac and Rock Creek tunnels cannot begin within the planning horizon (2032) due to affordability
LISWAP Briefing to Congressional Staff

Julius Ciaccia, CEO

May 12, 2016
Continued Investment and Continued Rate Increases

- Since 1972, $4 billion in investments.

- Little federal assistance after 1990.

- Annual rate increases since 1990, totaling 813% per 1 mcf.
Going Forward - CSO Long-Term Control Plan

Consent Decree $3B Capital Investment in CSO Control Measures over 25 Years

- $1530,000,000
- $370,000,000
- $14,000,000
- $310,500,000
- $486,000,000
- $230,000,000
- $370,000,000
- $230,000,000

Tunnels
Sewer Improvements (consolidation sewers, relief sewers)
Green Infrastructure (Minimum Amount of Investment)
Plant Improvements
Pump Stations
Storage Tanks
Other

Your Sewer District Keeping our Great Lake great.
@neorsd
Projected Rate Increases

• Rate adjustments made every five years; next cycle is 2017-2021.

• Projection is for increases of approximately 9.5% yearly.

• Previous rate cycle contained adjustments of 13.5% at front end.
Projected Rate Increases

• What’s Driving the rate increases:
  – Federally mandated CSO Long Term Control Plan (38%); Other capital (13%);
  – Operating Expenses (35%);
  – Fixed O&M (9%);
  – Member Community Infrastructure Program (5%)
## Affordability Programs Participation

<table>
<thead>
<tr>
<th></th>
<th># of Households below 200% of poverty level</th>
</tr>
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<tbody>
<tr>
<td></td>
<td>Cleveland</td>
</tr>
<tr>
<td>Current Affordability Participation</td>
<td>13,200</td>
</tr>
<tr>
<td>Eligible but not participating</td>
<td>11,700</td>
</tr>
<tr>
<td>Tenants, not billed by NEORSD</td>
<td>76,400</td>
</tr>
<tr>
<td>TOTAL</td>
<td>101,300</td>
</tr>
</tbody>
</table>

There are 61,000 homes eligible under existing program terms.
NEORSD Customers – The Need is Real

• Approximately 10,000 households benefit from HEAP assistance.
• Estimated annual need in Cuyahoga County for sewer/water assistance of at least $2.5 million annually (at about $500/household).
• 61,000 homes eligible under existing NEORSD affordability program terms.
Low-Income Sewer and Water Assistance

• Questions?
  • HR 4542: Low-Income Sewer and Water Assistance Program Act

• Contact:
  Congresswoman Marcia Fudge (D—OH)
  • Staff contact: Felix Muniz, Legislative Assistant (Felix.Muniz@mail.house.gov)