

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



Low Income Sewer and Water Affordability: National Perspectives and S.E. Michigan Experiences

- 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

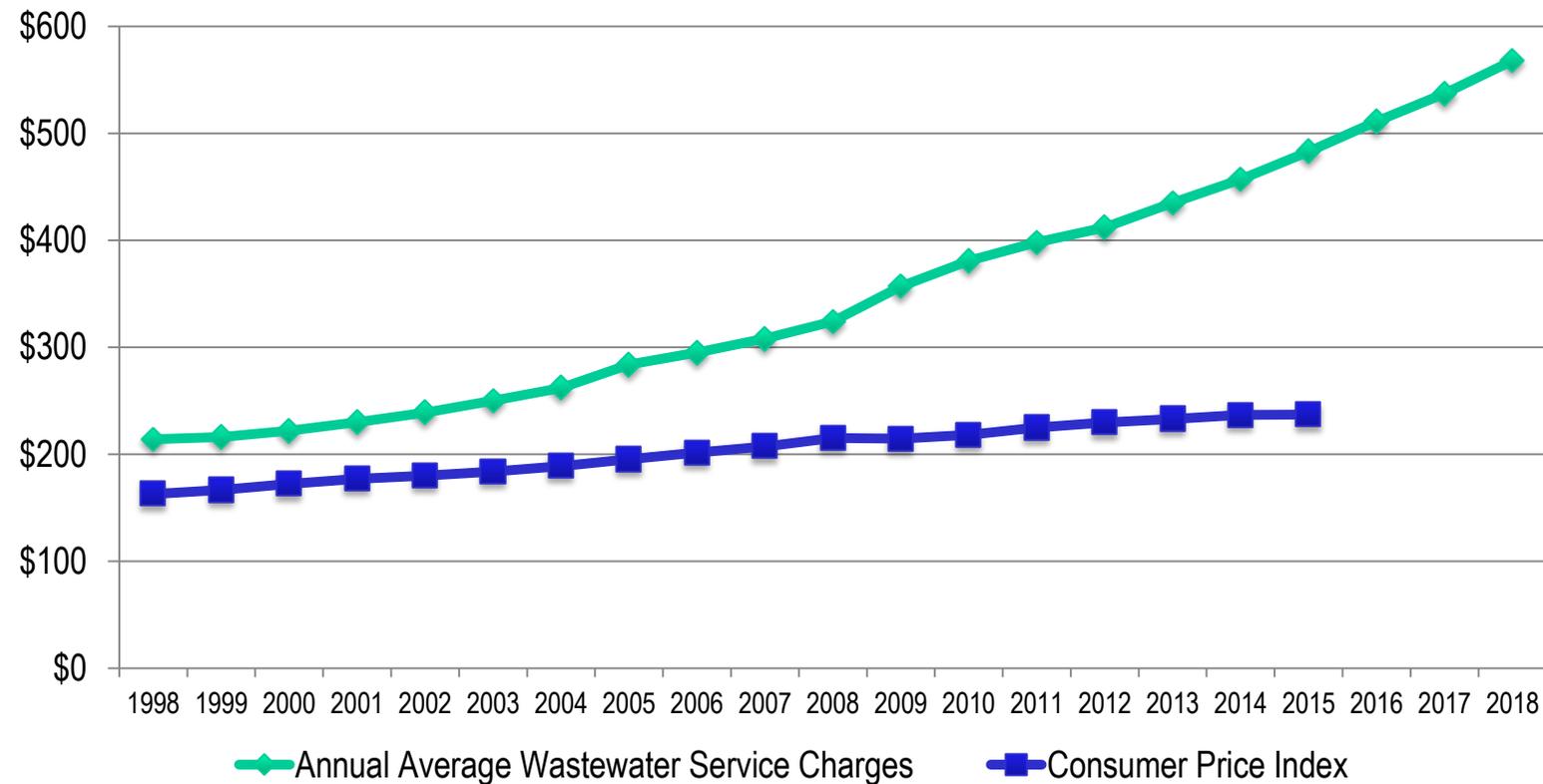
- Infrastructure funding gap
 - **Water:** \$384 billion
 - **Wastewater:** \$271 billion
- Historical subsidies
- Cost-based pricing
 - Rates do not reflect value
 - Inadequate reinvestment
 - Externalities



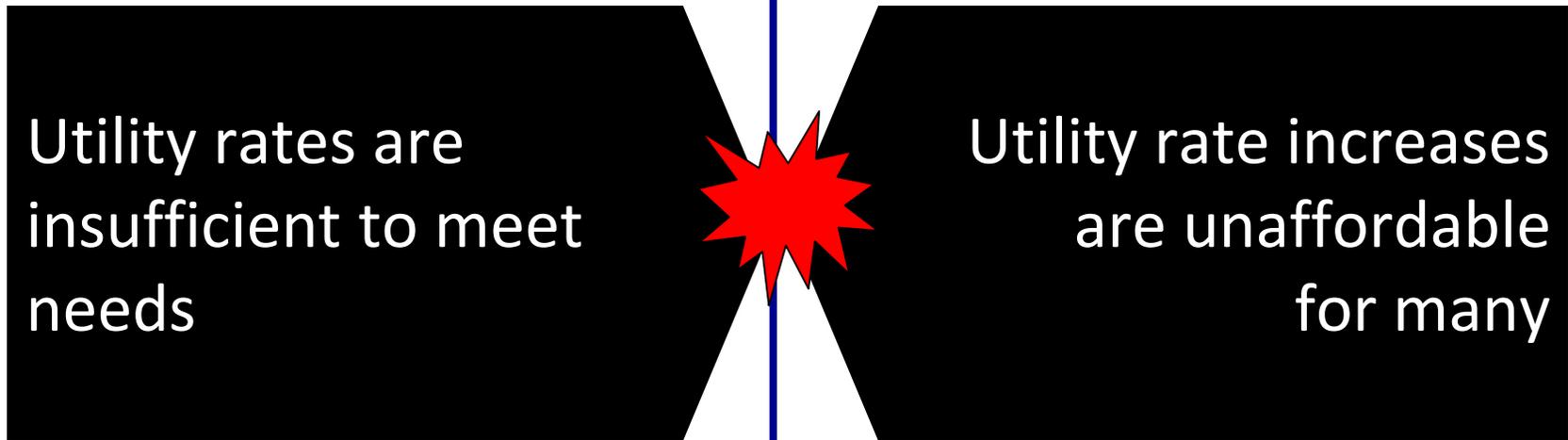
Affordability Dichotomy

Utilities have been increasing rates to catch up with investment needs

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



The Affordability Dichotomy



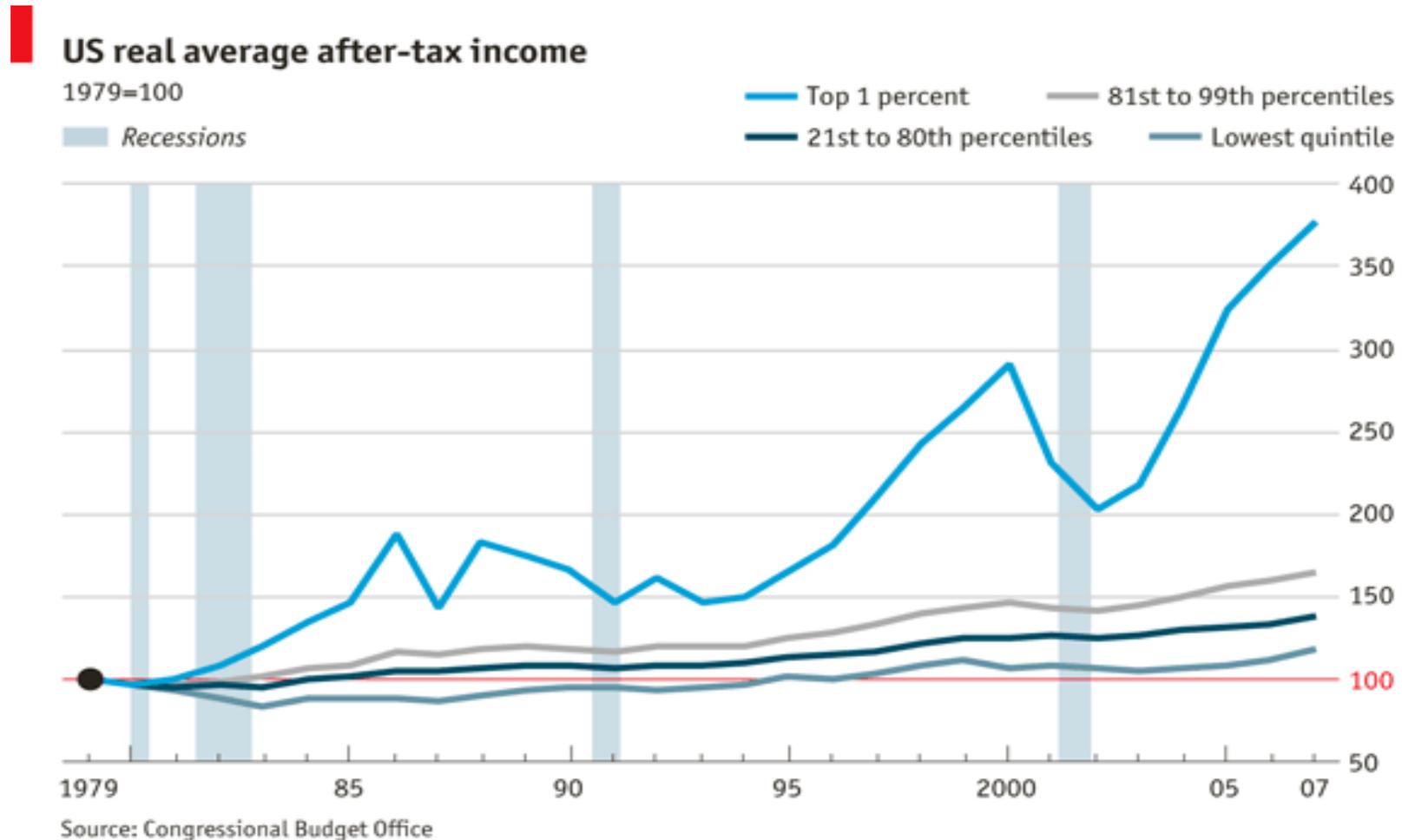
Utility rates are insufficient to meet needs

The diagram features a vertical blue line that passes through the center of a red starburst. This starburst is positioned at the point where two black, arrow-shaped boxes meet. The box on the left points to the right, and the box on the right points to the left, creating a central point of collision. The text 'Utility rates are insufficient to meet needs' is written in white inside the left box, and 'Utility rate increases are unaffordable for many' is written in white inside the right box.

Utility rate increases are unaffordable for many

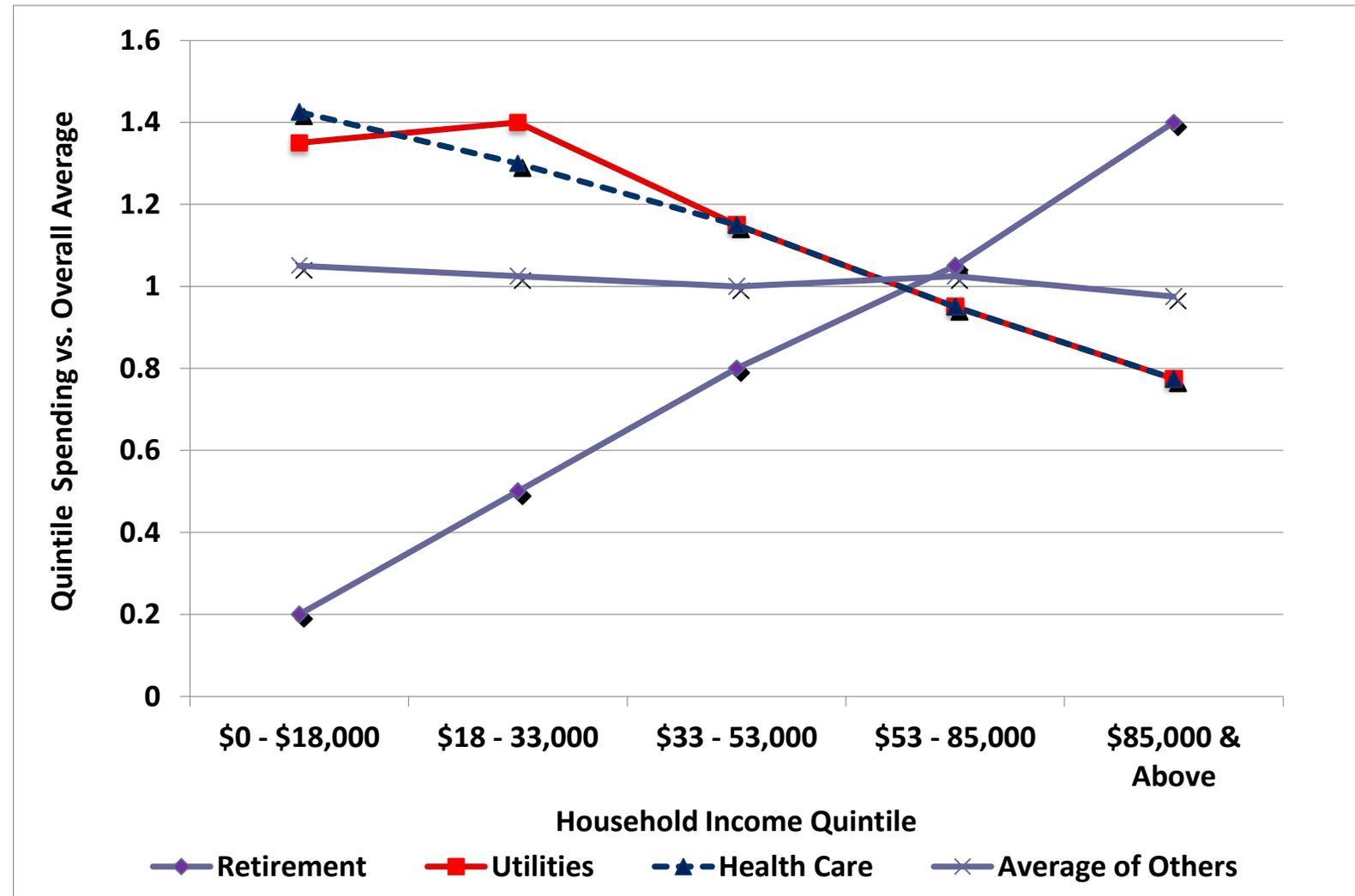
Disproportionate Impacts

Income inequality is increasing



Disproportionate Impacts

Utility costs are a disproportionate burden for low-income households



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



Flint, Michigan

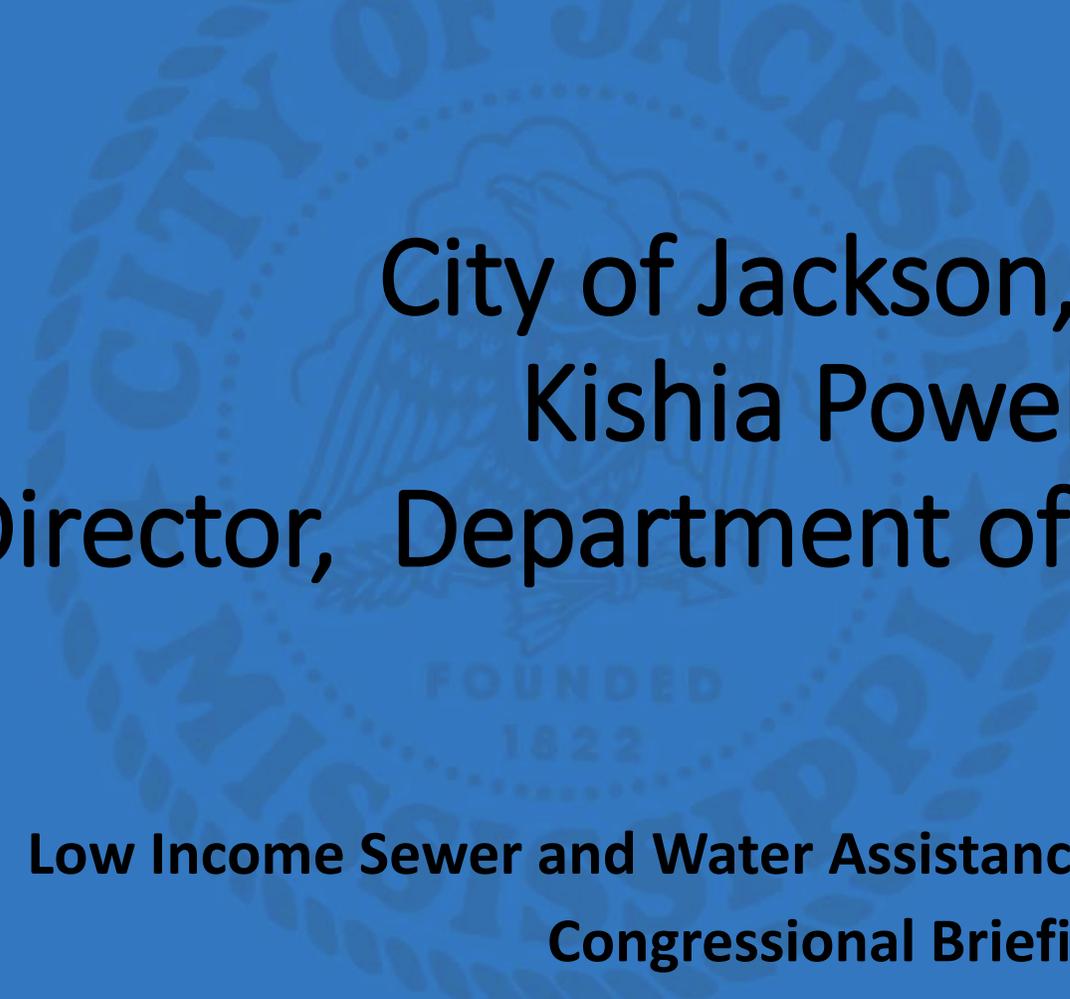


- 50% population loss since 1960
- Acute poverty
- Emergency financial management
- Among the highest rates in U.S.
- Universal lesson: ***Water utilities hold profound responsibilities to provide a basic human need and protect public health***

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.

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
Kishia Powell
Director, Department of Public Works

Low Income Sewer and Water Assistance Program Act of 2016

Congressional Briefing

May 12, 2016

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 as 4.8% of MHI for low income census tracts

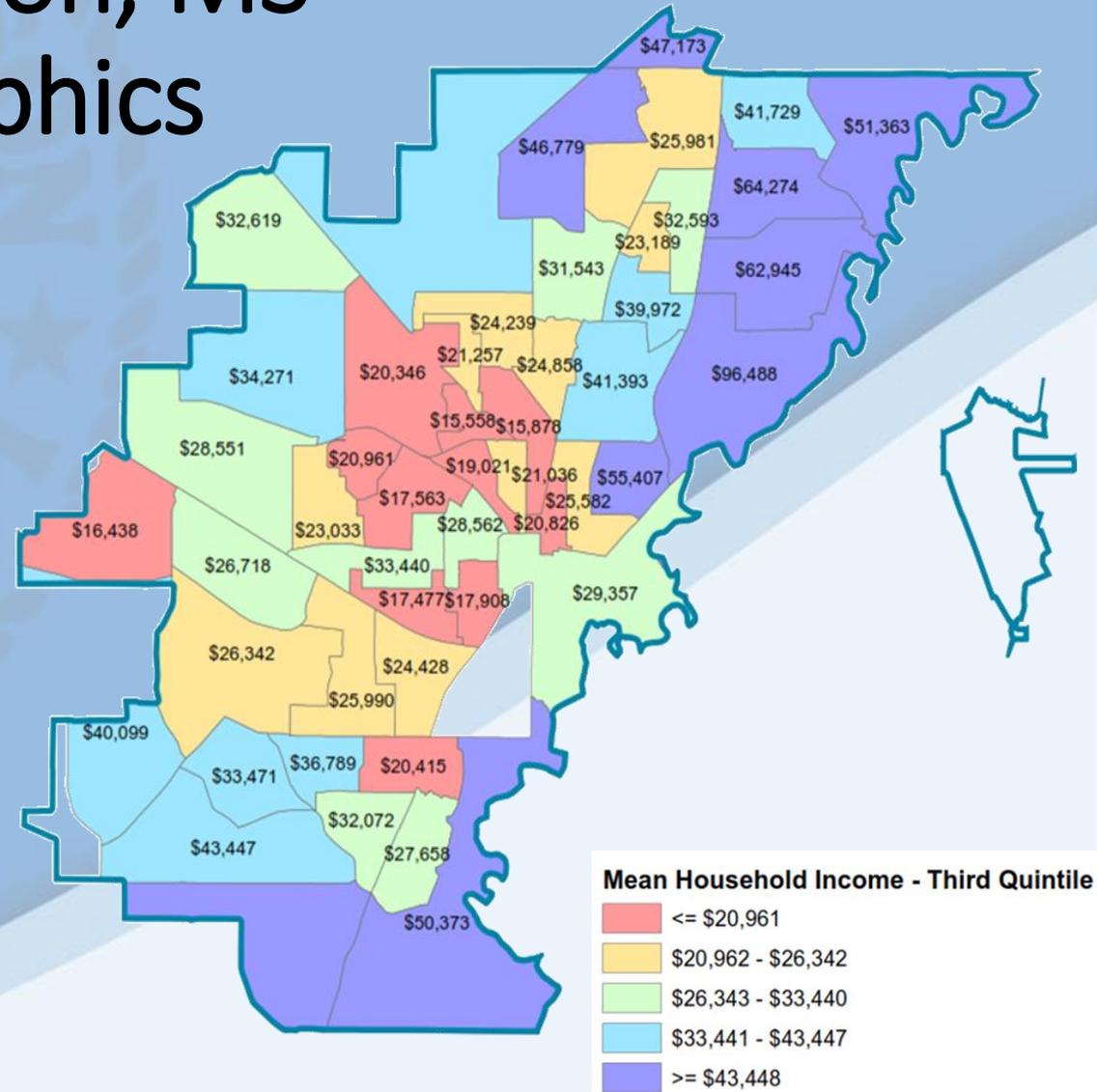


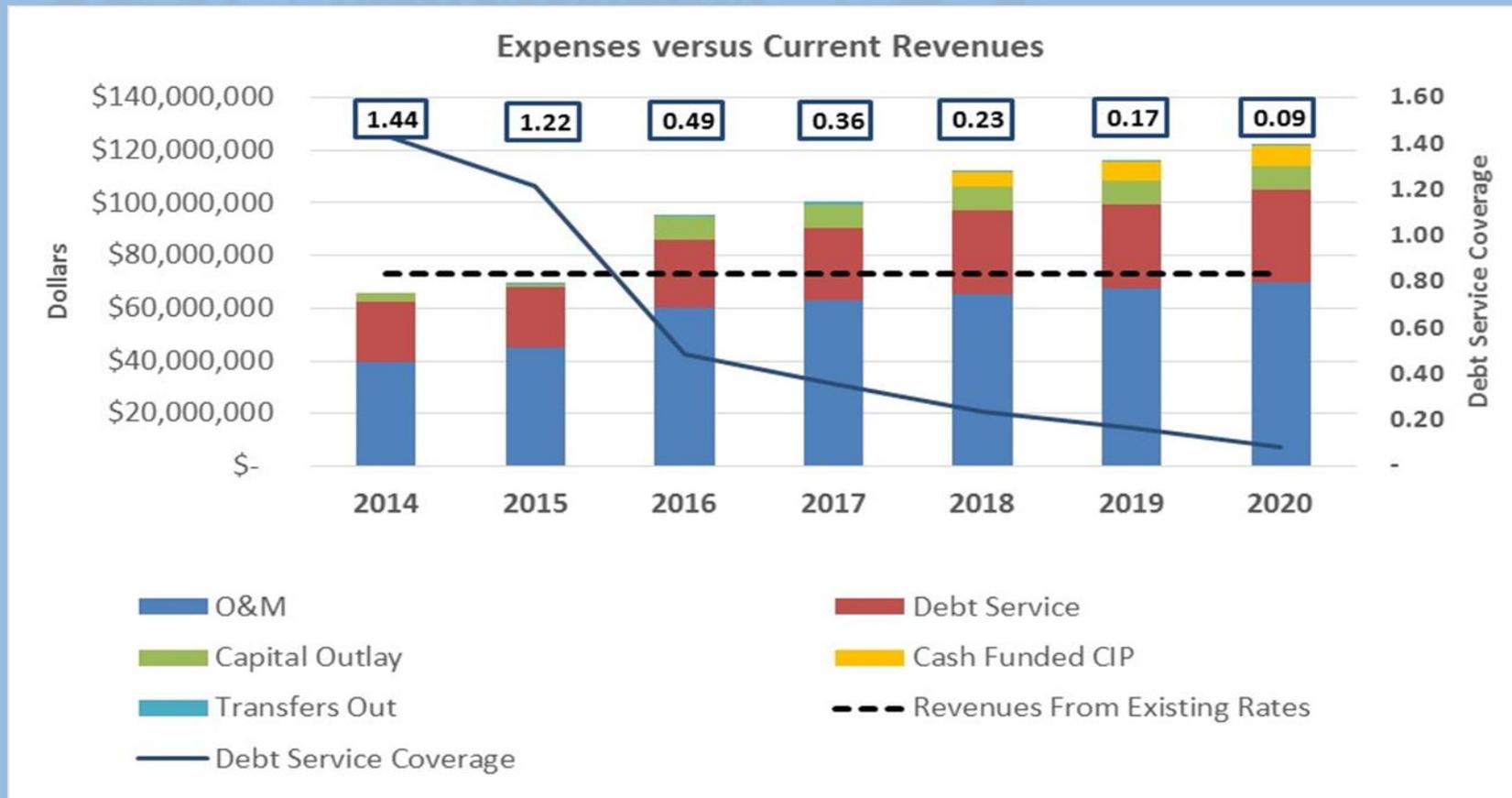
Figure 1. Household Income Distribution by Census Tract
2015 Affordability Study by Raftelis Financial Consultants, US Census Data

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



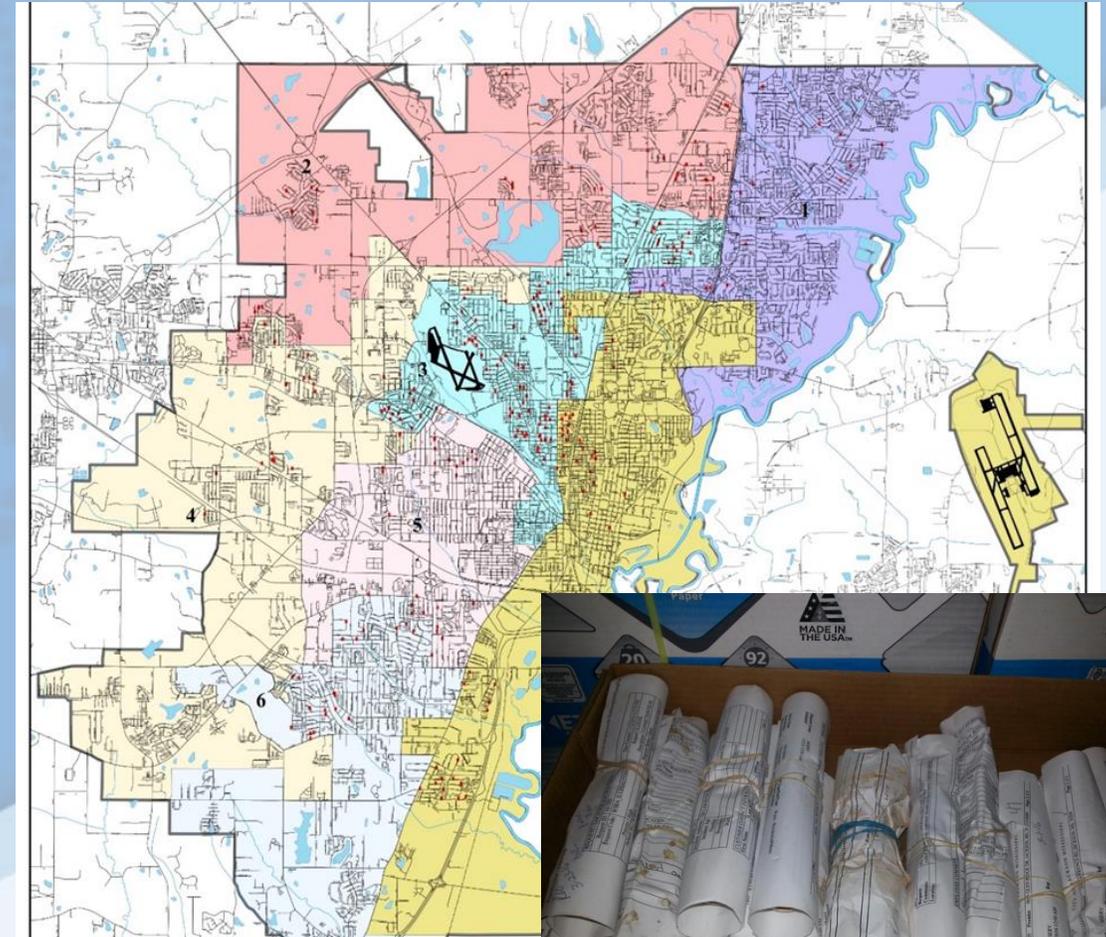
Obvious Answer is to raise rates; but unaffordable for most

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

| History of Rate Adjustments | 2005 | 2008 | 2010 | 2013 |
|-----------------------------|----------|--------------|--------------|---------------|
| Water Charges | | | | |
| Bi-Monthly Service Charge | \$ 8.50 | \$ 13.20 | \$ 14.88 | \$ 14.88 |
| <i>% Change</i> | | <i>55.3%</i> | <i>12.7%</i> | <i>0.0%</i> |
| Volumetric Charge | \$ 1.77 | \$ 2.20 | \$ 2.48 | \$ 3.21 |
| <i>% Change</i> | | <i>24.3%</i> | <i>12.7%</i> | <i>29.4%</i> |
| Sewer Charges | | | | |
| Minimum for 5/8" meter | \$ 11.82 | \$ 12.18 | \$ 12.90 | \$ 26.82 |
| <i>% Change</i> | | <i>3.0%</i> | <i>5.9%</i> | <i>107.9%</i> |
| Volumetric Charge | \$ 1.97 | \$ 2.03 | \$ 2.15 | \$ 4.47 |
| <i>% Change</i> | | <i>3.0%</i> | <i>5.9%</i> | <i>107.9%</i> |





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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.



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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.



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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



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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



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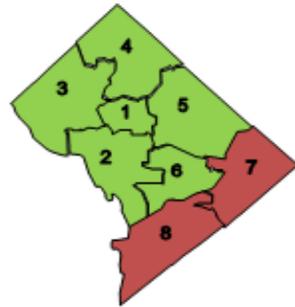
Affordability – Current CIP

| | Sewer Increase | CRIAC Increase | Capital Outlay | Debt Service Coverage ¹ | Scenario 1 Evaluation Against MHI | Scenario 2B Evaluation Against Upper Limit of Second Quintile | Scenario 3C Evaluation Against Adjusted Upper Limit of Second Quintile |
|---------|----------------|----------------|----------------|------------------------------------|-----------------------------------|---|--|
| FY 2014 | na | na | \$ 322,525,021 | 1.44 | 0.80% | 1.05% | 1.51% |
| FY 2015 | 15.0% | 25.0% | \$ 410,472,757 | 1.42 | 0.91% | 1.21% | 1.73% |
| FY 2016 | 10.0% | 15.0% | \$ 342,389,555 | 1.35 | 0.98% | 1.32% | 1.89% |
| FY 2017 | 10.0% | 10.0% | \$ 262,810,047 | 1.38 | 1.04% | 1.42% | 2.03% |
| FY 2018 | 8.0% | 10.0% | \$ 370,809,067 | 1.40 | 1.09% | 1.50% | 2.16% |
| FY 2019 | 8.0% | 10.0% | \$ 359,799,784 | 1.32 | 1.15% | 1.60% | 2.29% |
| FY 2020 | 10.0% | 10.0% | \$ 283,881,143 | 1.30 | 1.23% | 1.72% | 2.47% |
| FY 2021 | 10.0% | 10.0% | \$ 319,123,724 | 1.35 | 1.31% | 1.85% | 2.65% |
| FY 2022 | 10.0% | 10.0% | \$ 398,495,357 | 1.39 | 1.39% | 1.99% | 2.86% |
| FY 2023 | 5.0% | 10.0% | \$ 469,116,343 | 1.36 | 1.44% | 2.08% | 2.98% |
| FY 2024 | 5.0% | 10.0% | \$ 392,795,815 | 1.31 | 1.49% | 2.17% | 3.11% |
| FY 2025 | 5.0% | 10.0% | \$ 311,209,766 | 1.30 | 1.54% | 2.27% | 3.25% |
| FY 2026 | 5.0% | 10.0% | \$ 234,420,220 | 1.35 | 1.60% | 2.37% | 3.40% |
| FY 2027 | 2.0% | 3.0% | \$ 245,444,120 | 1.38 | 1.59% | 2.38% | 3.41% |
| FY 2028 | 2.0% | 3.0% | \$ 229,722,712 | 1.39 | 1.57% | 2.39% | 3.42% |
| FY 2029 | 2.0% | 3.0% | \$ 219,531,387 | 1.37 | 1.56% | 2.40% | 3.43% |
| FY 2030 | 2.0% | 3.0% | \$ 224,415,459 | 1.33 | 1.55% | 2.40% | 3.45% |
| FY 2031 | 2.0% | 3.0% | \$ 194,160,017 | 1.27 | 1.54% | 2.41% | 3.46% |
| FY 2032 | 2.0% | 3.0% | \$ 199,057,478 | 1.21 | 1.53% | 2.42% | 3.47% |

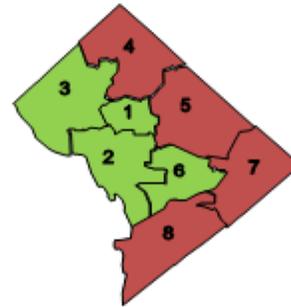
1. Debt service coverage needs to be above 1.2 to satisfy minimum requirement

Measure of Affordability for Scenario 3C (by Wards)

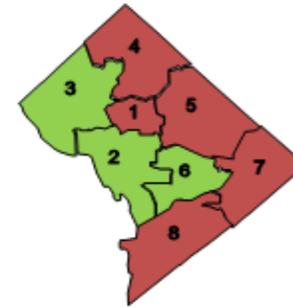
FY 2014



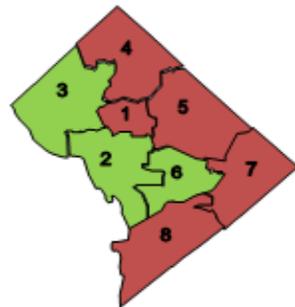
FY 2020



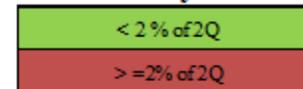
FY 2025



FY 2032



Key





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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

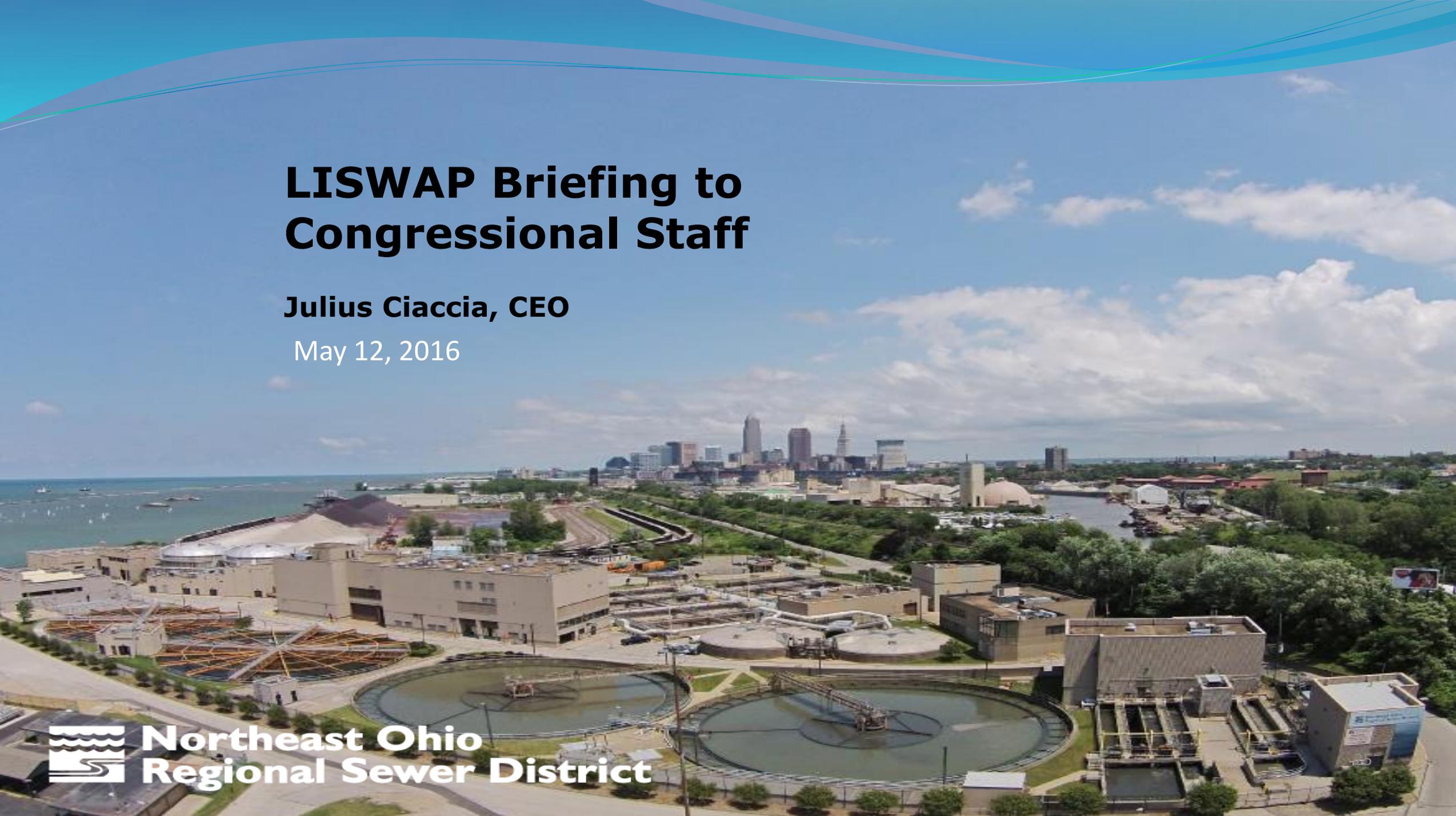
LISWAP Briefing to Congressional Staff

Julius Ciaccia, CEO

May 12, 2016



**Northeast Ohio
Regional Sewer District**



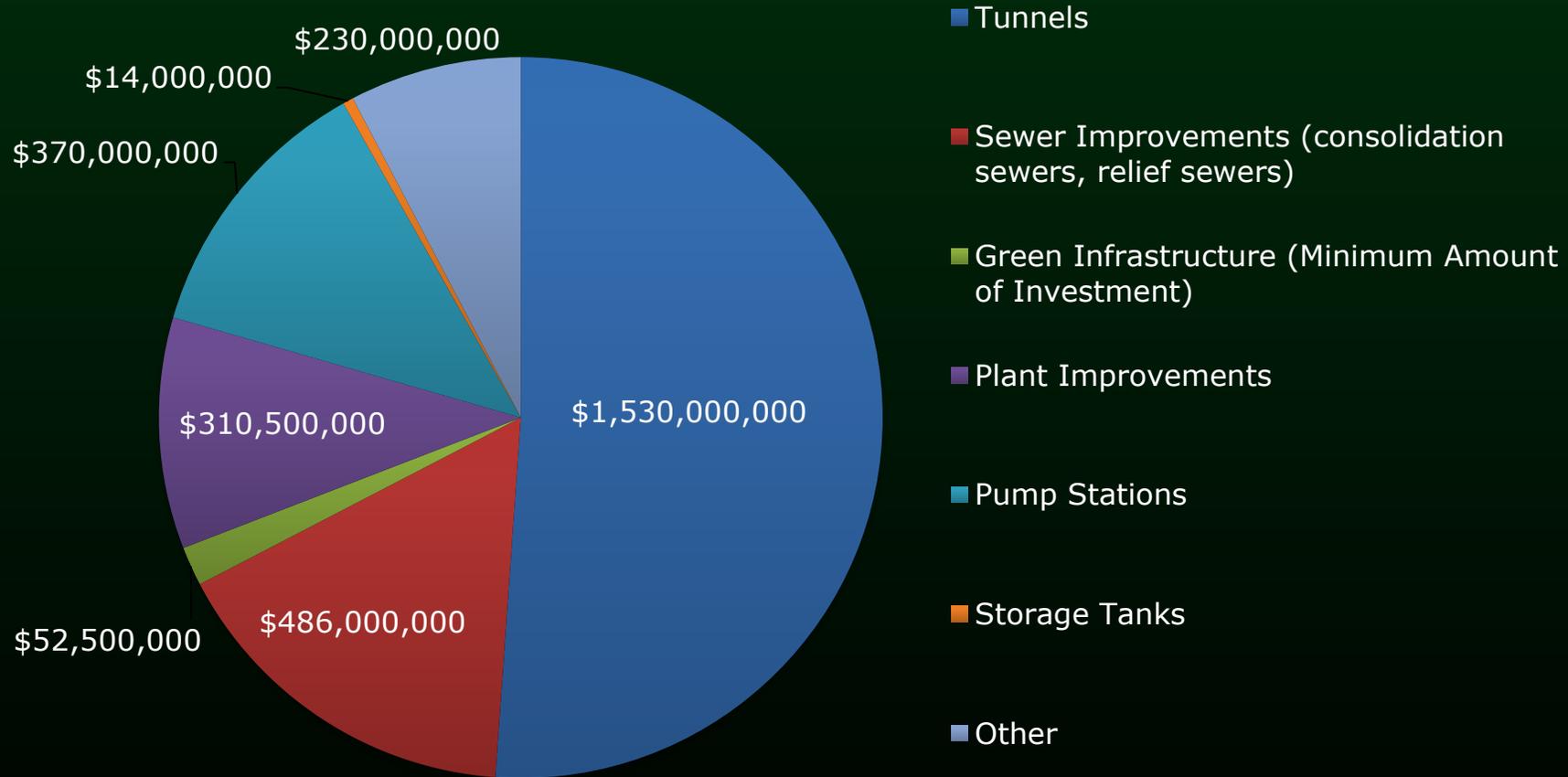
Continued Investment and Continued Rate Increases

- 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



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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

| | # of Households below 200% of poverty level | | |
|-------------------------------------|---|---------------|----------------|
| | Cleveland | Suburbs | Total |
| Current Affordability Participation | 13,200 | 17,000 | 30,200 |
| Eligible but not participating | 11,700 | 19,200 | 30,900 |
| Tenants, not billed by NEORSD | 76,400 | 48,700 | 125,100 |
| TOTAL | 101,300 | 84,900 | 186,200 |

There are 61,000 homes eligible under existing program terms.



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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)