Long-Term Water Affordability & Financial Resilience

May 28, 2020 Zoom Call

Introduction

The purpose of the 2020 Aspen-Nicholas Water Forum is to explore what constitutes good water governance through the lenses of water affordability and equity. While the May Forum was postponed until participants can safely convene in person, the group met on May 28th for the first of a series of virtual meetings in order to address the critical issues and solutions in the water sector brought to light by the pandemic, a summary of which is included below. The Aspen-Nicholas Water forum has for years provided the space and platform for these questions and critical conversations by convening forward thinking leaders in different sectors of the water industry to consider and imagine how to implement and drive that collective vision. This vision and leadership are needed now more than ever to explore the challenges and opportunities that are emerging in the midst of so much disruption.

The pandemic has reorganized life as we know it, revealing deep, systemic fault lines in our society, and further exacerbating health and financial disparities across racial, gender, and geographic lines. Water utilities are not immune to these significant impacts from COVID-19, and this moment of disruption and reflection offers an opportunity to look with an even closer eye at the inequalities in the sector and to envision what a better future looks like.

One of the most significant COVID-19 impacts for water utilities have been significant revenue losses, which amplify the significance of conversations around financial resiliency and the household affordability of water and wastewater services. The pandemic has worsened already existing financial challenges as utilities, large and small, have responded with shutoff moratoria, experienced changes in residential water use, and lost commercial customers, all while working to ensure the operational resilience of the utility and protecting their workforces. Meanwhile, consumers are overwhelmingly experiencing greater strain to pay their bills as unemployment skyrockets. Water is essential, so the question becomes: what must be done to ensure these life-sustaining services are affordable and accessible to all *and* the utilities providing them are financially resilient?

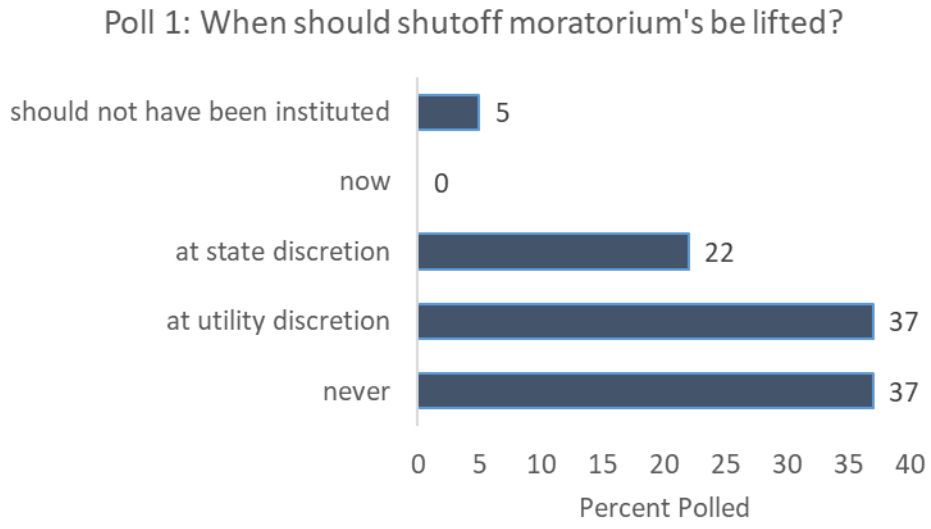
Utilities must ensure their operational resilience

Water is life, and utilities are committed to ensuring water is delivered to its customers. While the pandemic has created significant disruptions, the nation's water and wastewater utilities have continued to operate and provide critical public health services to keep us safe. To do this, utilities have had to spend more money and devote greater resources to meet emerging challenges. First, utilities have had to prioritize the safety of their employees by implementing new protocols, including limiting workers on sites, providing personal protective equipment, developing measures to adapt to decentralized operations, all while working to keep up with consumer needs, such as addressing clogged pipes from toilet paper shortages and restoring shut-offs. While some utilities had already adopted digital technologies, others have had to modify paper-based workflows. There has been a tremendous effort by utilities to adapt to these new challenges while continuing to provide reliable water and

wastewater services to their communities. In fact, in many areas, additional service demands, such as lead service line replacements have even grown as more people are home and consequently available for plumbers and utilities to service their lines. The efforts of utilities in this pandemic have been extraordinary.

Utilities must protect the customers and public health

Utilities provide critical public health infrastructure. Access to running water is a public health necessity, as clearly illustrated by the pandemic. Yet the economic implications of the pandemic have made it more challenging for consumers to afford water and wastewater services, as many have lost sources of income and financial stability. Many utilities have put in place shutoff moratoria and restored water and wastewater to those households that were shutoff prior to the crisis. Utilities are serving their customers and meeting critical public health needs, but many are losing revenue as a result of these life-saving efforts. Many in the meeting agreed that such shut-offs should be prohibited in the future (Poll 1), but doing so could be detrimental to the long-term health and financial resiliency of utilities and their paying customers (see box: the benefit and challenges of shutoffs).



Benefits and Challenges of Shutoffs

Shutoffs, or the threat of shutoffs have long been a well-relied on tool for utilities to ensure payment for services. This type of enforcement mechanism provides a level of assurance to investors and rating agencies that a utility can collect the revenue needed to pay its debts. If shutoffs become politicized and outlawed (for instance, Ohio has a house bill to prohibit shutoffs), will investors and rating agencies lose confidence that utilities can pay their debts, leading to higher interest rates and more financial pain for utilities and by extension their customers? Yet how can utilities restrict water access from those who cannot afford to pay for water services but need it to live? Furthermore, inequitable shutoff practices disproportionately impact African

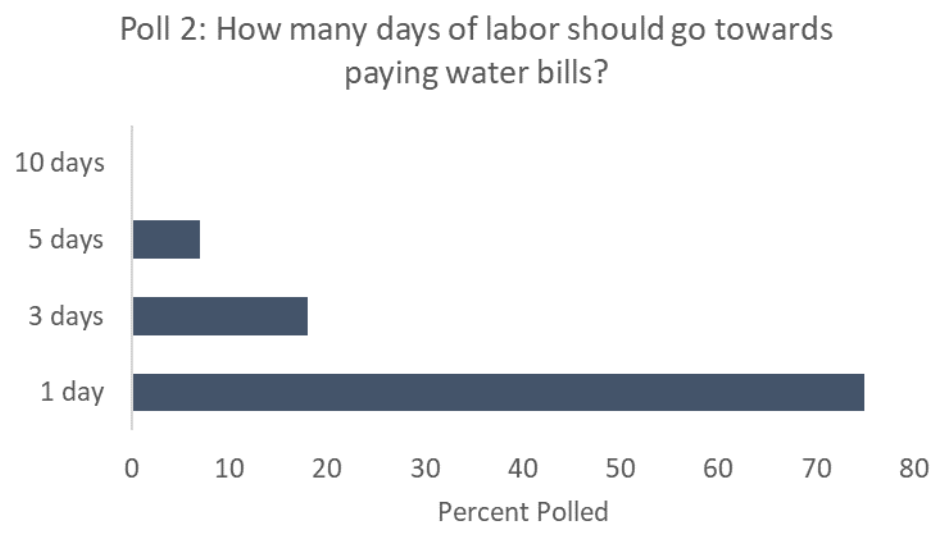
American neighborhoods across many cities in the U.S. How can utilities continue shutoffs with the knowledge that these practices further exacerbate poverty and reinforce systemic societal and economic inequities? Are there other ways for utilities to incentivize payment to ensure the financial and operational health of a utility while assuring equitable and affordable water provision for all its consumers?

Given increased costs and affordability challenges, how can utilities become financially resilient?

Given increased operational costs and decreased revenues, how do utilities maintain exceptional service with dramatically fewer resources? There is no silver bullet. Rather, solutions will likely require a blend of technological innovation, government support, and collaboration.

In terms of technological solutions, data analytics can be used to help utilities address operational inefficiencies and improve cashflow. For example, analytics can identify under-performing meters, identify leaking pipes, guide customers to pay bills when they are not, and implement low flow options as an alternative to shutoffs. Digital solutions might also optimize and reduce third party costs, such as energy consumption, and allow for deferred or altered capital infrastructure plans by changing conventional areas of spending. Decision-support tools may unlock more cost-effective ways to approach major expense areas such as consent decrees, pipe and valve replacement, design infrastructure, and so on to achieve the same level of performance without excess margins of safety embedded in gray infrastructure (a solution required prior to the digital revolution).

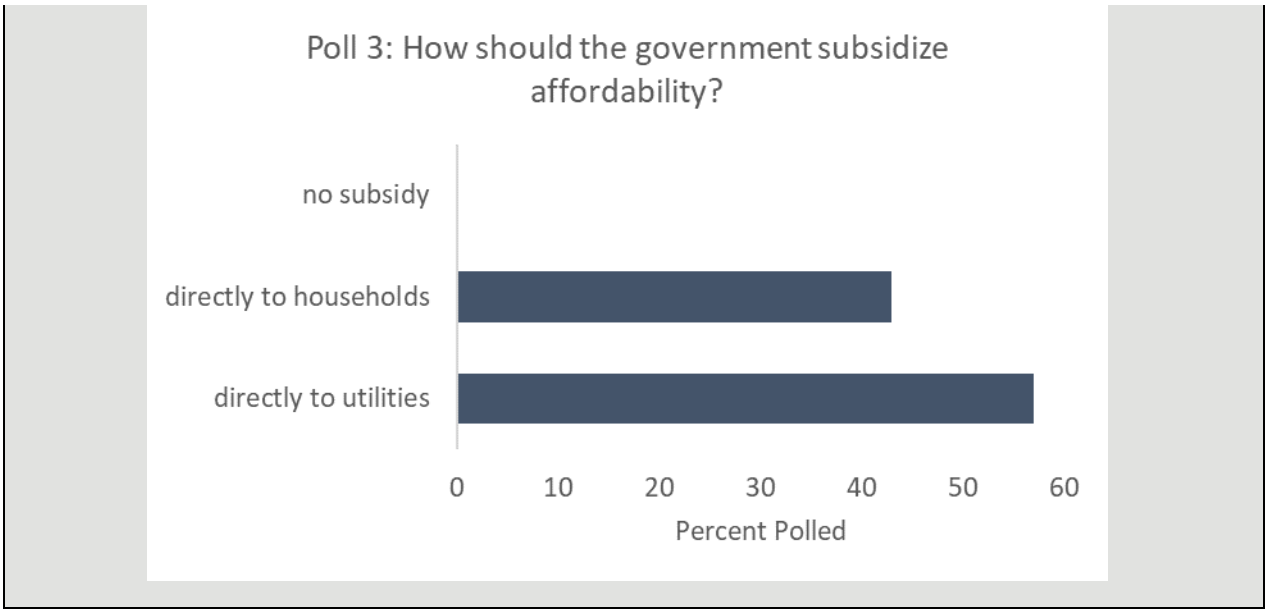
The federal government has a role in supporting utilities technologically and financially because while many businesses have had no choice but to permanently closed their doors, water and wastewater utilities must continue to operate even under financial stress. The federal government can first play a role in supporting technological optimization. Second, the federal government already has several programs in place to support utilities, and they must work to maximize and bolster these already existing financial tools and programs. These programs include those set by the Water Infrastructure Finance and Innovation Act (WIFIA) and the State Revolving Fund (SRF) Programs established in the Clean Water and Safe Drinking Water Acts and administered through the Environmental Protection Agency (see box: Crucial Role of SRFs), as well as the Rural Development Grants provided by the US Department of Agriculture. The federal government is interested in expanding the flexibility and opportunities for these existing programs to be used to better address utility needs, particularly those with affordability concerns. In some instances, interest rates could be set to zero or loan debts forgiven. The federal government is also looking to develop and expand instruments to leverage and share best practices across utilities. For instance, can the process and lessons learned from those utilities with successful customers assistance programs be shared with other utilities and deployed quickly for those systems with rapidly growing low-income communities? Lastly, the federal government has a key obligation to assess affordability as they design drinking water quality standards and surface water quality standards (set based on a surface water's designated use) to protect public and ecosystem health. The federal government is interested in improving these affordability instruments and tools to make sure they consider the poorest households in the community. However, what constitutes affordable and for whom remains an ambiguous question (see Poll 2).



The Crucial Role of SRFs

State Revolving Fund (SRF) programs have been a key way the federal government has subsidized (see Poll 3) drinking water and wastewater infrastructure over the past 30 years. Each state has designed their SRF programs differently. Some states, such as Ohio have SRF programs that are supportive of utilities and are meeting the needs of their communities well, creating a collaborative environment for clean water in our pipes and streams. Yet, other states have struggling SRF programs that are under-utilized, particularly by those communities that lack the resources to apply for grants and loans through those programs. How can struggling SRF programs be renovated to better meet the needs of their communities, particularly in this economically depressed time?

The federal government is in uncharted territory as its budgets are being deployed to keep the American economy afloat. Part of this effort has led to very low interest rates, providing an opportunity for some utilities to cover their capital costs at extraordinarily low rates over the next 30 years. The federal government may also seek to add additional funding to their SRF and other existing programs to financially assist utilities and rural coops.



Ultimately, water is life and there was consensus among those virtually convened that we are all in this together and need to continue having conversations to develop and share solutions. There is a real danger that water could become politicized as a result of the pandemic. It is important for utilities to be invited to the table and to participate in conversations with state governments. Water is local and what may work in one community might not work in another. There should be a diversity in the utilities talking with state officials to ensure that any legislation passed would be flexible enough to allow each community to implement strategies that work best for their circumstances and consumers. There was agreement among the utilities represented that states should not pass across the board mandates, but offer a suite of options, guidelines, or toolkits that work for a diversity of utilities. Creating space for conversations across communities and sectors can lead to better solutions for all, regardless of whether the solutions are embedded in legislation or financial incentive structures.