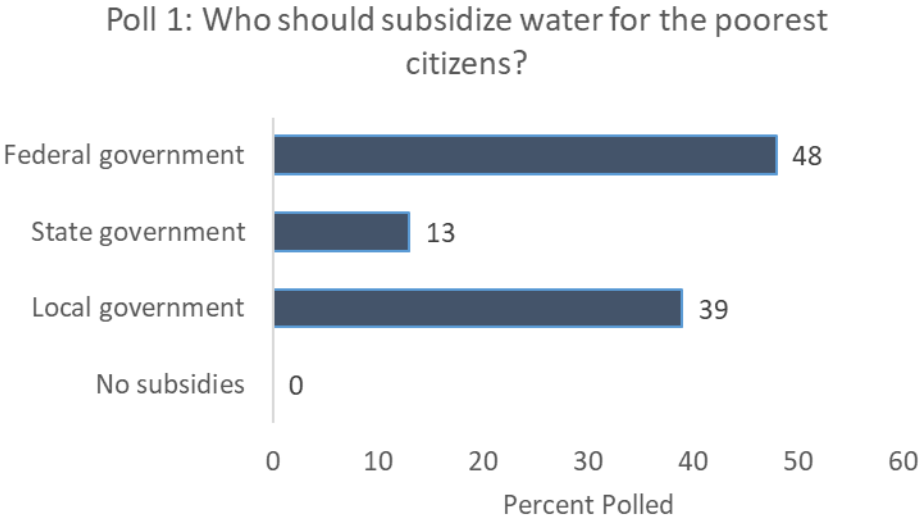


# Local Insights on Renewing a Cross-Government for Water Affordability

Sept 24, 2020 Zoom Call

## Introduction

The 2020 Aspen-Nicholas Water Forum virtual sessions are exploring what constitutes good water governance through the lenses of water affordability and equity. While this topic was chosen prior to the outbreak of COVID-19, the pandemic has further revealed and exacerbated health and financial disparities across racial, gender, and geographic lines. The [first virtual session](#) focused on exploring the financial impact of the COVID-19 pandemic on urban water utilities. The [second session](#) focused on the unique water affordability and equity challenges in rural communities, colonias, and tribal nations. The [third session](#) explored federal assistance programs in food, energy, and taxes that have been developed to support low-income Americans struggling with poverty. The remaining three sessions aim to explore the roles and responsibilities of local (the summary of which is below), state (October 22), and federal governments (upcoming November date to be announced) in ensuring the equity and affordability of water services. These conversations are important, as demonstrated by the diverse array of opinions by participants regarding who should bear responsibility for subsidizing the water bills of the poorest citizens (Poll 1)



Local governments – from cities to irrigation districts – are responsible for building, maintaining, and delivering water services. Local governments work directly with and within their communities and are most aware of, and affected by, rapidly changing conditions such as demographics, new regulatory requirements, the growing costs resulting from aging infrastructure and the impacts of climate change. They are also most directly responsible for addressing emerging issues and external shocks including hurricanes, droughts, and global pandemics like COVID-19. Local water managers are effectively the mayors of our nation’s water system. This meeting explored how local governments provide affordable

and equitable water services while simultaneously balancing their budgets and managing political and legal restraints. In doing so, local governments face extraordinary challenges, especially amidst these challenging times. How can local governments change the narrative and lives of their most at risk populations while ensuring water is delivered at the right quality and the right price so that everyone can have access to a quality of life?

## Why local governments?

Local water systems exist to provide access to the clean, reliable, safe water that is critical to the public health of a community. There is some movement towards water becoming a human right (e.g. California passed a human right to water bill in 2012). If water is a human right, then it must also be affordable to all persons. Historically, not all local governments have been able to ensure affordability for all of their citizens. As a result, federal and state governments passed laws to regulate local governments' water service provision. Meeting the requirements of these laws is costly, and yet, they are important to safeguard public health. Flint, Michigan offers a continued example of the long-term harm to trust and public health created by systems that fail to fulfill their mandate to provide safe drinking water. There is a cumulative impact on affordability when citizens do not trust their water as we see impoverished communities in Flint continue to pay for more expensive bottled water.

Initially, the federal government provided significant funding for the Safe Drinking Water and Clean Water Act mandates. This federal funding has diminished over time, however. As a result, the costs are increasingly borne by local governments, and by extension, the residents and businesses within individual communities. The affordability of these water systems depends on the number of customers, the usage of water, and wealth of the community. Local governments currently fund 95% of all infrastructure investments in America and many cannot raise enough money to invest in the infrastructure needed to meet federal and state mandates while maintaining affordable rates for their citizens. Unfortunately, it is the poorest individuals that are most impacted by cost increases to pay for infrastructure. It is also these individuals who are most impacted by flooding, health inequities, and who have the least access to economic opportunities. All these inequities have costs and affect the ability of cities to afford their infrastructure, whether roads, bridges, or pipes.

When utilities raise their rates, less money is available for individuals to pay for food, shelter, energy, health, and so on. Low-income customers are forced to make tradeoffs on which bill to pay based on their most pressing needs. Once a customer cannot pay for their water bill, not only is water shut-off, leading to additional hardships, but the customer is often charged with extra late fees and fees to reconnect water service. This compounding debt creates a deepening hole that is difficult, if not impossible, for people struggling with poverty to climb out from (see Missouri Community Access Network Poverty Simulation box).

### Missouri Community Access Network Poverty Simulation

One utility provider participated in the Missouri Community Action Network's poverty simulations to develop a greater understanding of the lives of low-income families. The poverty simulation has participants role play and engage in scenarios that sensitizes participants to the realities of living in poverty. The utility had their senior management and customer service representatives participate in the simulation and found it to be a powerful experience that motivated the utility to

take a more holistic approach to assisting customers in poverty by engaging in a community-based approach. This approach included providing financial counseling, waiving the accumulation of connection and late fees, and offering additional services. While the initial attempt to reach many customers was unsuccessful, this exercise has motivated the utility to continue exploring options for helping customers experiencing financial insecurity. To learn more about the poverty simulation, visit here: <https://www.povertysimulation.net/>

## What is driving the affordability challenge for water?

Water rates have been increasing faster than inflation for many utilities across the country. The conversation touched on raising rates to meet the costs of infrastructure, but there are additional factors causing large-scale rate increases. For some utilities, politicians are responsible for rate increases, which are often unpopular with their voters. Consequently, rate increases may be deferred for years before the need becomes so great that politicians have no choice but to raise rates, and often by a significant amount. Utilities that communicate rate increases and raise rates by incremental amounts from year to year often receive far less backlash from their communities. Utilities may increase rates in response to new expenses arising from climate change impacts, such as sea level rise and increased flooding. Other utilities may increase rates due to consent decrees from combined sewer overflows (exacerbated by increased flooding) or increased regulations due to water quality challenges, such as meeting the Chesapeake Total Maximum Daily Loads (TMDLs). Utilities are often required to invest in expensive capital projects and infrastructure upgrades to meet new regulations. Some local governments are experiencing all these factors, resulting in the need to raise rates dramatically in a short period. For example, one utility increased volumetric rates by 286% from a low \$1.52 per 100 CCF in 2006 (rate increases had been deferred for many years) to \$5.86 in 2020.

Rate increases present affordability challenges to low-income customers. Polls have shown that most customers want to pay their water bills. Customers that cannot pay their bills are often struggling with poverty, are in crisis, and face multiple financial challenges. The most direct ways that utilities can address affordability challenges are by (1) implementing income-based or variable rate structures or (2) creating customer assistance programs. Many utilities, however, have found it challenging to implement income-based rate structures, raise funds for a customer assistance program, proactively locate low-income customers, and get widespread participation in customer assistance programs.

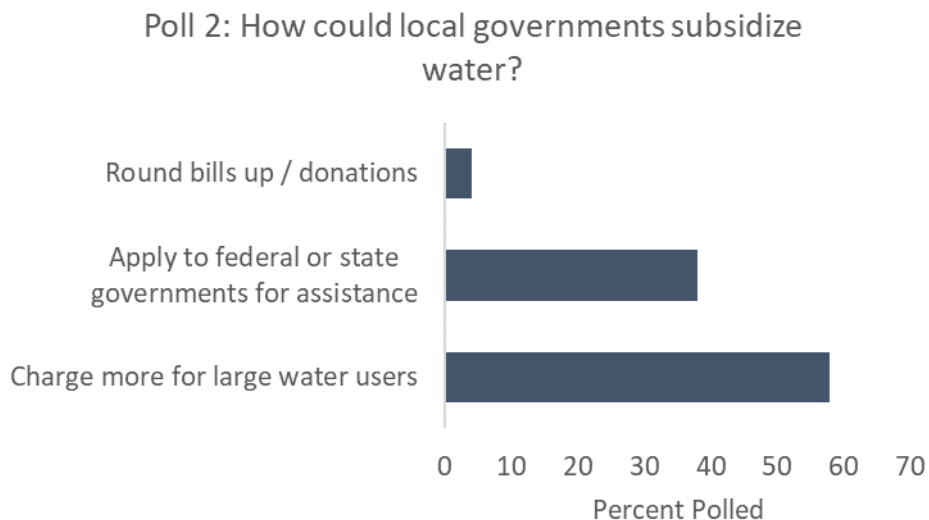
## Are local customer assistance programs working?

An estimated 30% of local drinking water systems provide some type of customer assistance program (CAP). Many of the existing CAPs are continuing to evolve as they struggle to raise money for the program and reach their target customers.

### Challenge: Implementing income-based rates and raising money for customer assistance programs

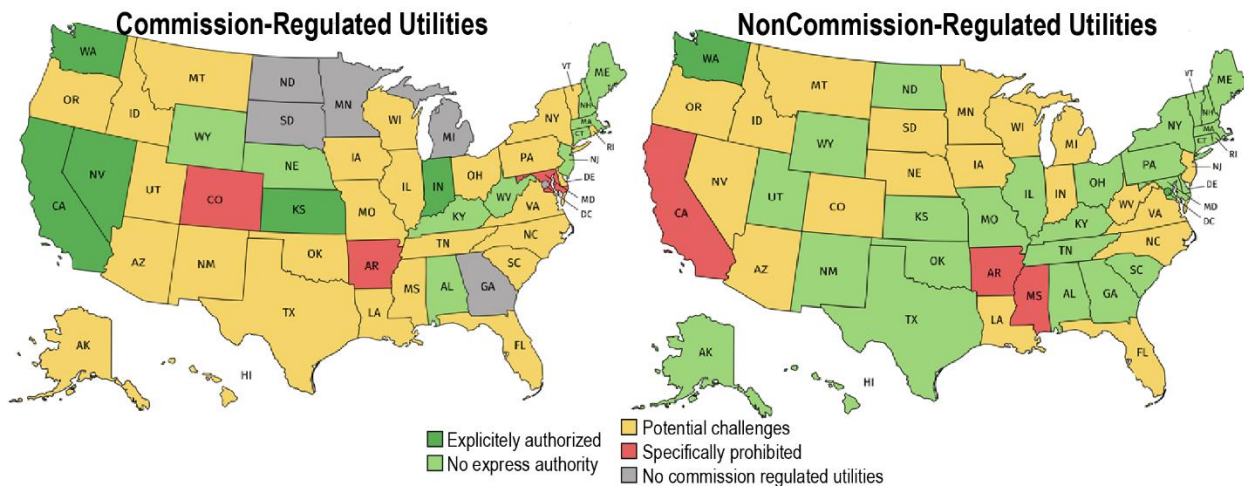
The ability of local governments to create rates based on income or raise funds for customer assistance program is constrained by local, state, and federal policies. For water, public utility commissions may regulate rate structures. Additionally, for utilities operated by local governments, increasing water and sewer rates is an unpopular political move that may threaten re-election. Participants were asked during

the meeting how they thought local governments could raise money to subsidize low-income customers. Nearly 60% of participants believed that large water users should help subsidize water costs for assistance programs (Poll 2). Many states, however, have ambiguous legislation determining whether rate funded customer assistance programs are allowed (Figure 1).



For some utilities, particularly regional utilities created through state legislature, there may exist explicit prohibitions on using income as a basis for rate setting. Additionally, county and city legislation within a state may have additional prohibitions against setting different rates based on income or customer class (e.g. residential, commercial, industrial). Many states, however, simply have ambiguous legislation (Figure 1), yet few utilities are pushing the interpretation of these laws to attempt to implement new rate structures promoting affordability, as done by Philadelphia in 2018. For those systems without additional legislative prohibitions, political will to push the envelope and pass income-based rates is lacking, particularly if those rates may be challenged in court as unfair or inequitable. Politicians are often unwilling to risk losing the next election because of an unpopular rate change. Additionally, many mayors are balancing competing needs to raise rates for water and sewers, for public hospitals, for roads, and so on. Underground pipes that work well most of the time do not make a compelling case when held next to visibly crumbling infrastructure.

Utilities that are governed differently may have better success at pushing the envelope on more affordable rate structures. Some utilities have boards appointed by state governors or are privately owned, severing the ties to local government and election cycles. These utilities may be able to raise rates and change rate structures with greater ease. A federal safety net program, such as LIHEAP or SNAP, may be necessary for those utilities who are legally unable to set variable rates or income-based rates (see last [meeting summary](#) on building a federal water assistance program).



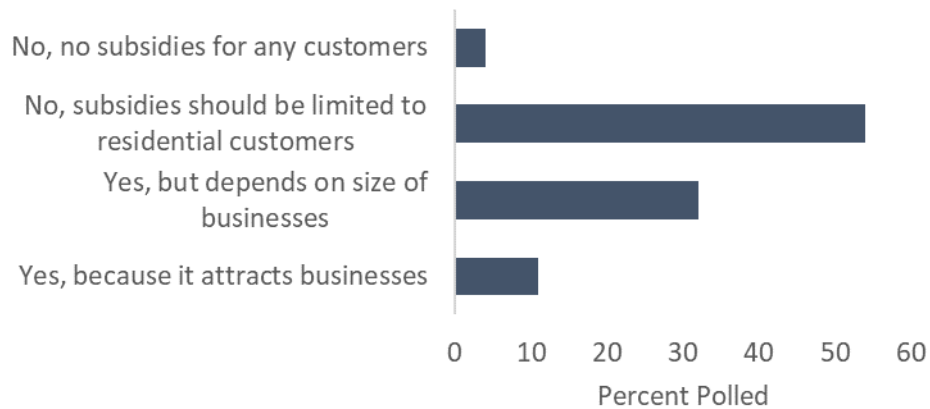
**Figure 1.** State regulations around creating rate-funded customer assistance programs. Source: Environmental Finance Center at Chapel Hill, NC (<https://efc.sog.unc.edu/project/navigating-legal-pathways-rate-funded-customer-assistance-programs>)

### Challenge: Finding low-income customers

CAP's may target low-income individuals, senior citizens, or those with disabilities. Most utilities, however, have difficulty reaching out to these target communities because they do not have data about individual households. Most water and wastewater utilities only relate to households through billing and contain data on the name, address, amount of water used, and maybe a credit card for payment. Most low-income households, however, rent properties or live in multi-family homes that never receive individual bills from the utility. This makes it very challenging for utilities to locate and reach out directly to low-income households. Water and wastewater utilities are not in the business of income qualification or poverty alleviation and will often partner with NGOs or associations that work directly with low-income communities. For example, DC Water partnered with the federal Low Income Home Energy Assistance Program (LIHEAP) to automatically enroll households supported by LIHEAP into the DC Water customer assistance program. This case illustrates a significant difference between electric and water utilities. Many multi-family buildings are sub-metered for energy, but not water. As a result, energy programs such as LIHEAP are more likely to have a direct connection with low-income customers renting from multi-family housing and consequently have an easier time enrolling those households.

In 2018, DC Water was asked to expand their affordability program outside of LIHEAP, potentially including non-profit organizations such as churches and cemeteries. This raised an interesting question about whether local governments should subsidize non-residential customers struggling to pay their water bills. In the third poll of the meeting, slightly more participants indicated that subsidies should be limited to residential customers, though a still significant portion indicated that it should depend on the size of the business.

### Poll 3: Should local governments ensure affordability for non-residential customers?



DC Water created several models to estimate the number of customers that would be eligible for an expanded program, and predicted it would be 14,000 households. DC Water promoted the expanded program through social media, marketing in low-income areas, and communication with churches, non-profits, and other organizations. As of 2020, there are only 575 participating households. It is unclear if the models overestimated the number of eligible households, if the message failed to reach those eligible, or if the discount was not high enough to compensate the difficulty of applying to the program. While DC Water wants to provide financial assistance to low-income customers, they do not have the data to offer targeted assistance.

#### Challenge: Low participation in CAPs

Many utilities have also found that even once target customers are located, participation in CAPs remains eerily low. For example, the Hampton Roads Sanitary District (HRSD) also worked with a third-party partner, United Way, to create multiple services (including financial counseling) to assist customers struggling to pay their bills. The pilot program targeted customers that were close to experiencing a second shutoff in a 12-month period. The utility provided three options: (1) do nothing and have water shut-off again, (2) reach out to us and get connected with United Way, or (3) pay their bill in full. The utility believed the target audience would be motivated to participate in the program but found that less than 10% of 3,000 households participated and only 40 households completed the program to receive the full benefits, including forgiveness of past dues. At the end of the year, HRSD has spent over \$120,000 with United Way, dismissed \$40,000 in customer debt, and only helped 40 households. HRSD, like DC Water, is committed to understanding why participation in their CAP is low and to find ways to truly assist low-income customers.

#### Challenge: Balancing utility affordability with household affordability

Local governments seem to be stuck in a trilemma. They can (1) invest in infrastructure to meet their mandate to provide safe drinking water, (2) raise rates to pay for infrastructure upgrades, or (3) they can defer investments and keep rates affordable. They can do two of the three at any one time. As a result, many utilities are deferring investments until they can no longer do so, resulting in large rate increases for customers. Many utilities are also unable to dip into their rainy-day funds to reduce the affordability

burden on customers without jeopardizing bond ratings. Lowered bond ratings come with fines and higher interest rates that would further undermine affordability. In many regards, local governments are constrained by this trilemma. Furthermore, it is difficult to communicate these realities with customers and gain their trust. This is even hard for utilities that provide reliable, safe services because customers rarely pay attention when a utility is performing well. It is only when there is a problem that customers become aware of the utility, and that awareness is rarely positive.

## Moving Forward

Local governments know their communities and can potentially take holistic, integrated approaches to best meet their unique needs. Promoting the health of individuals is also in the best interest of local governments as it influences the health of the whole community. There are many facets to community health as local leaders must work to ensure affordable housing, transportation, childcare, and other services on top of providing water/wastewater to its citizens. The needs facing local governments are great and simply cannot be met without support from partners. Partners include federal and state governments, NGOs, and businesses. Good public policy is developed when all partners are involved to create requirements and contribute funding to ensure safe, high quality water for all people.

Partnerships with NGOs and businesses can help local governments advocate for their needs. Many local utilities prefer to partner with NGOs and other organizations that focus on addressing poverty holistically in the community. This is particularly true with state governments that handle permits, enforcement, and distribution of state revolving loan funds. There is a need to advocate for the federal government to invest or reinvest in infrastructure, or to provide some type of federal safety net akin to LIHEAP. Local governments need to become creative and “think outside the bill.” CAP’s offering bill discounts can only be part of the solution. There are other opportunities to explore in the investment portfolio, capital operations, and so on. Partnerships are key to bring new ideas and resources to the table. Communication between utilities about what has or has not worked with their CAP programs is another way to learn and iterate towards creating more robust CAPs. Partnerships bring about diversity. There is a lack of racial and economic diversity in the water community. Diversifying the workforces and communities participating in utility departments, engineering firms, and water associations is needed to truly address the problems of inequity and create the political will for true change, rather than addressing the symptoms.

## Key Takeaways from the Chat Box

- If it is so hard to administer employee assistance programs, should the attention switch to restructuring rates with a low core lifeline rate at the base of the rate structure so the pressure isn't on vulnerable communities to demonstrate need?
- There's a perception that utilities are prohibited by law from offering discounts to low-income customers. But it's much more nuanced than that -- as shown in the following report from the UNC Environmental Finance Center, in most states the law is ambiguous, but utilities haven't been willing to push the envelope to test out the law.  
<https://efc.sog.unc.edu/project/navigating-legal-pathways-rate-funded-customer-assistance-programs>. What would it take for utilities to be willing to push interpretations of the law in their states that would allow for income-based rates -- by simply doing it and defending it?

- Here is the Customer Assistance Program report by EPA around the same time as UNC report - compendium of programs that work. The water associations were closely involved with both. [https://www.epa.gov/sites/production/files/2016-04/documents/dw-ww\\_utilities\\_cap\\_combined\\_508.pdf](https://www.epa.gov/sites/production/files/2016-04/documents/dw-ww_utilities_cap_combined_508.pdf)
  - It is disappointing to hear about customers not taking advantage of a CAP. Is there a stigma of poverty that we can somehow overcome in order to get a bigger participation?
  - Challenges to using CAPs are many, and are similar to other programs - the UNC study referred to above has some of the challenges: complicated applications, lack of knowledge - both by customers AND those working in the utilities. I've seen where almost 30% of utility staff didn't even know if they offered a CAP...so it's complicated and let's not shift the blame to lack of participation only to potential beneficiaries.
- For a provocative take on EPA's recent draft guidance about evaluating a community's "financial capability" to make investments, see this blog by Prof. Manny Teodoro: <http://mannyteodoro.com/?p=1723>