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Cities to Assist Families in Debt to Public Utilities through NLC's New LIFT-UP Initiative.

In collaboration with municipal leaders in a small group of cities, NLC has launched an innovative, two-year pilot program called Local Interventions for Financial Empowerment through Utility Payments (LIFT-UP) that seeks to help low-income families pay their utility bills and achieve financial stability.

Through LIFT-UP, NLC's Institute for Youth, Education and Families will test a new model in which cities identify families who are in debt to city-owned utilities and offer them a restructured payment plan, payment incentives, and a variety of financial empowerment services. Cities participating in this pilot project include Houston, Texas; Newark, N.J.; Savannah, Ga.; and St. Petersburg, Fla.

The LIFT-UP initiative is supported by grants from the Center for Financial Services Innovation (CFSI) Financial Capability Innovation Fund II, the Ford Foundation, and the Annie E. Casey Foundation.

"Too many families are struggling to make ends meet and pay for basic necessities like electricity, water, and heat," said Newark Mayor Cory Booker. "Connecting residents to financial coaching, while allowing for some restructuring of their utility debt, is a smart approach to financial empowerment. This effort has the added benefit of bringing in revenue we might not otherwise see. Privately-funded, publicly-run pilot programs like the LIFT-UP project are essential to innovation in municipalities across the country. I'm thankful to the National League of Cities for orchestrating this initiative and I look forward to working with my team to make it a success."

"I am excited to see how LIFT-UP will be able to offer a helping hand to residents who are in debt to city-owned utilities, such as our water and sewer system," said Houston Mayor Annise D. Parker. "At the same time, we will be able to provide counseling and education to help them keep out of financial trouble in the future. As we face a nationwide epidemic of personal debt crises, this program may help some in at least one arena, and hopefully enable them to stay out of debt in the future."

Municipal Financial Empowerment Initiatives

Even before the recession, millions of Americans faced acute financial hardship, with insufficient income and assets to withstand unexpected crises such as job loss or large medical bills. Recognizing the disastrous consequences for children, families, and neighborhoods when these crises occur, city leaders have developed increasingly sophisticated financial empowerment (FE) strategies in recent years in an effort to help low- and moderate-income families stabilize their finances and begin to accumulate savings.

These strategies include outreach campaigns to connect residents with federal and state tax credits and benefits; efforts to reduce reliance on check cashers and payday lenders; matched savings initiatives; financial education programs; credit repair services; assistance finding employment; and individualized financial coaching.

Reaching Families in Debt

At the same time that cities are developing FE initiatives, however, city-owned utilities may be working at cross-purposes by aggressively seeking repayment of debts owed by low-income residents. This “disconnect” within local government represents a major missed opportunity to identify and assist struggling families.

While utility debt is not a large fraction of overall consumer debt, unpaid utility bills are a reliable indicator that families are in serious financial trouble since they typically must make these ongoing payments to maintain their housing.

Aggressive debt collection efforts not only exacerbate the problems that FE services are designed to address, but may also represent an ineffective approach to maximizing city revenues. Families’ ability to pay their utility bills and meet other financial obligations on an ongoing basis is directly linked to the success of local financial empowerment initiatives. In addition, municipal governments that turn to private debt collection agencies often pay high fees that limit the amount of net revenue collected.

“When families cannot pay their utility bills, it is often a sign that they are in deep financial distress,” said NLC President Marie Lopez Rogers, Mayor of Avondale, Ariz. “By connecting these residents with existing financial empowerment programs, LIFT-UP project cities will help them reduce debt and strengthen their ability to pay bills on time. The project will also provide cities with a sustainable way to increase revenues from utility payments.”

The LIFT-UP Model

Through the LIFT-UP initiative, NLC will test a new framework to align local financial empowerment services with municipal utility debt collection practices, identifying struggling families with the goal of helping them become financially secure.

By working with cities to pilot the LIFT-UP model, NLC will focus on:

1. Forging connections between utilities and FE agencies to identify eligible residents;

City-owned utilities will develop a streamlined identification and referral system to connect indebted residents with a financial counselor. The counselor will work with families to identify their financial needs and connect them to existing services.

2. Designing and testing a new mix of products and services that can financially empower indebted families, help them pay overdue bills, and prevent future accumulation of debt;

Each participating city already has in place a network of FE services that can be targeted toward struggling utility customers participating in the LIFT-UP program. In some cities, these services are offered by city agencies – such as Newark’s Financial Empowerment Centers – and in others they are available through partnering organizations.

3. Restructuring outstanding debt owed to city-owned entities and using behavioral economic approaches to facilitate debt repayment.

Financial counselors will work with participants and utility companies to negotiate a restructured debt repayment plan incorporating behavioral economic principles that incent repayment. For instance, local variations of the LIFT-UP model may provide participants with forgiveness of a portion of debt if regular payments are made, deposit funds into a savings account when customers

repay a specified amount of their debt, or convert the customer's debt into a credit union loan.

Throughout the initiative, NLC will provide each city with in-depth technical assistance and peer networking opportunities through site visits, cross-site convenings, conference calls, and partnerships with other national experts in the financial empowerment field.

Program Evaluation and Broader Project Implications

NLC has partnered with the Center for Financial Security at the University of Wisconsin-Madison, which will evaluate the effectiveness of the LIFT-UP model in improving participants' ability to repay their debts, increasing on-time payment of their utility bills, reducing their debt levels, and decreasing city spending on utility shut-offs and debt collection.

If the LIFT-UP program is successful in achieving these objectives, it could affect the way other fee-collecting city agencies, such as public hospitals or municipal courts, structure their debt collection practices. This framework, developed in collaboration with cities that are leaders in the FE field, has the potential to create a "win-win" scenario that brings key services to struggling residents while bringing needed revenue to cities.

Details: For more information about the LIFT-UP initiative, contact Denise Belser at (202) 626-3028 or belser@nlc.org.

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