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Utilities Worry Water's Becoming Unaffordable.

Water utilities — many of them government agencies — increasingly are worried that their services will become unaffordable to low-income customers.

“In addition to the need for infrastructure replacement and big investments required there, we are now coming face to face with a social problem of big dimensions, namely the hardship that these investments are going to impose on customers at the bottom of the income spectrum,” said Tom Curtis, the head of governmental affairs for the American Water Works Association, which represents water utilities.

Water and sewer bills are increasing faster than bills for natural gas, electricity or phone service. They have been far outpacing inflation for 30 years, and there is no sign the rate hikes will slow down anytime soon.

Between 2001 and 2011, water bills grew the fastest as a percentage of income for the poorest customers. Water expenses grew faster than all other utility bills for low-income Americans except electricity. At the same time, though, the take-home pay for low-income Americans has fallen, when adjusting for inflation, Curtis noted.

The affordability of water became a major point of contention in recent months, as Detroit’s water utility disconnected some 50,000 customers who were behind in their bills. The cut-offs drew criticism from sources as diverse as the United Nations and The Daily Show. As part of Detroit’s bankruptcy proceedings, the city reached a deal with counties in the region to restructure the utility, which included a new \$4.5 million fund to help customers struggling with their water bills.

The reasons for Detroit’s shut-offs were unique, but the underlying concern about water cost is not.

“The era of cheap water is really coming to an end,” Curtis said.

Customers usually pay only one water bill, but it covers many systems. The drinking water system delivers water to sinks, sprinklers and washing machines. The waste water system whisks water from customers’ drains to the water treatment plant. And the storm water system prevents floods after rains.

The costs of all of those systems are going up.

In older cities, pipes installed as much as a century ago need to be replaced. Booming Sun Belt regions not only need to expand their reach to cover new developments, but they are trying to find new sources of water in often-parched areas.

It could cost more than \$2 trillion over the next 25 years to replace and expand drinking water and waste water systems nationally, according to a rough estimate by the AWWA.

Many sewer systems must also make major upgrades as a result of federal environmental enforcement actions. Local governments are considering upgrades to the same water infrastructure

to reduce flooding from heavier storms and higher sea levels brought on by climate change.

Meanwhile, drinking water utilities are coping with a drop in water usage, which makes it more difficult for them to cover the fixed costs of maintaining their infrastructure with per-gallon rates.

For utilities and regulators, though, there is often no easy way to shield low-income customers from the higher costs.

The Northern Kentucky Sanitation District, which operates waste water and storm water systems in the Cincinnati suburbs, convinced federal and state regulators in 2009 that a plan to keep local rivers clean would be unaffordable for rate payers. But the district and the regulators still have not agreed on an alternative.

Sewer bills in the district have shot up by 500 percent since 2000, said David Rager, the agency's executive director.

The utility has built two new treatment plants to handle sewage in response to a 2007 federal court order. The agency, known as SD1, had to install new pipes and pumping stations to change how the waste water flows, so it would get to the new treatment plants. It is about 70 percent done with that work.

But there is still more work to be done to get the agency to comply with the federal Clean Water Act.

Existing pipes in the many areas of the agency's three-county territory are too small, so sewage overflows out of manholes and into basements in 160 different places after heavy rains. The U.S. Environmental Protection Agency also wants the district to cut back the amount of untreated water it releases into area creeks and rivers after storms.

The price of fixing those problems while paying off debt for the earlier improvements would reach \$1.3 billion — or more than \$4,600 for every person served by the utility. To make those improvements by 2025, as the EPA originally wanted, would require 20 percent rate hikes for each of the next 10 years, Rager said.

That would hit low-income customers especially hard, because the water bill is a bigger share of their expenses. Kentucky law prohibits subsidized rates, so the agency cannot charge different rates for customers with different incomes.

The northern Kentucky district is one of a small, but growing, number of utilities working to convince federal regulators that plans to improve water quality are too expensive.

Two years ago, for example, federal regulators agreed to give Atlanta 13 more years to comply with a 1999 consent decree because of the financial difficulties it would have placed on the city to meet the target by 2014.

Atlanta residents have some of the highest water bills in the country, with a typical family of four paying \$150 a month (compared to about \$50 a month for a typical family nationally). The high bills came after the city's water department raised rates by 250 percent over a decade. Separately, residents also approved a 1 percent sales tax to help fund the improvements to its sewer system. Without the sales tax, Atlanta officials estimate, residents' bills would have increased another 25-30 percent annually.

In a shift welcomed by local governments, the EPA indicated last week that it may take into account more factors — including the impact on low-income customers — when determining whether future

projects are affordable for cities. Mayors, other city officials and utilities had criticized how the agency decided which projects were affordable.

For example, the EPA considers the potential impact of increased costs for customers earning the area's median household income, not for poor customers. The EPA said last week it would consider other information on how rate increases could disproportionately affect customers in certain income brackets or geographic areas.

As welcome as the news is for water utilities, it only addresses one of the many financial pressures affecting rates.

Janice Beecher, director of the Institute of Public Utilities at Michigan State University, said utilities may have to look beyond the rates they set to help low-income customers. After all, she said, rates still need to give customers incentives to be efficient and, of course, they need to cover the cost of providing the water infrastructure.

"It's very difficult to solve our poverty and equity issues all within rate design," she said.

Many utilities use non-profit groups to provide financial assistance to customers. The public sector can also help them by ensuring there is enough funding for the federal Low Income Home Energy Assistance Program (LIHEAP) and its state counterparts, which help low-income residents pay their energy bills.

"In many cases, we're talking about the same families who are struggling," she said. "Rather than reinvent the wheel, maybe we should have some coordinated effort to make sure they're able to pay their energy bills. That will make it easier to afford their water bill."

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