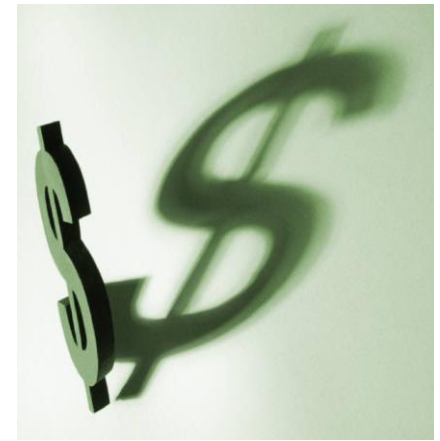


Can I Pay My Utility Bill? Addressing Affordability

May 10, 2013



Pacific Northwest AWWA 2013 Annual Conference

Presented by:

- Paul Matthews, CFO, Tualatin Valley Water District
- Tom Gould, V.P., HDR Engineering
- Libby Barg, V.P., Barney & Worth, Inc.



About the Presenters



Tom Gould

- Vice President and Leader of the HDR Financial and Rate Group
- Over 32 years as a financial and rate consultant to water utilities throughout North America
- Background and education in Finance



Paul Matthews

- CFO at Tualatin Valley Water District
- Over 25 years of financial and rate setting experience
- Nationally recognized expert



Libby Barg

- Vice President, Barney & Worth, Inc.
- 15 years helping clients communicate about drinking water, wastewater, and stormwater initiatives
- Oregon Level 4 Water & Distribution



Overview of the Presentation

- Today's cost challenges for water utilities and affordability
- Defining "affordability"
- Legal authority to address affordability issues
- Key policy decisions for addressing affordability issues
- What do other utilities do?
 - This is an interactive session



Nation's Water Costs Rushing Higher

USA TODAY analysis: Nation's water costs rushing higher

By Kevin McCoy, USA TODAY

Updated 5d 13h ago

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While most Americans worry about gas and heating oil prices, water rates have surged in the past dozen years, according to a USA TODAY study of 100 municipalities. Prices at least doubled in more than a quarter of the locations and even tripled in a few.



Robert Deutsch, USA TODAY

Fairmount Dam on the Schuylkill River in Philadelphia. The river is the source of much of the city's drinking water.

Consumers could easily overlook the steady drip, drip, drip of water rate hikes, yet the cost of this necessity of life has outpaced the percentage increases of some of these other utilities, carving a larger slice of household budgets in the process.

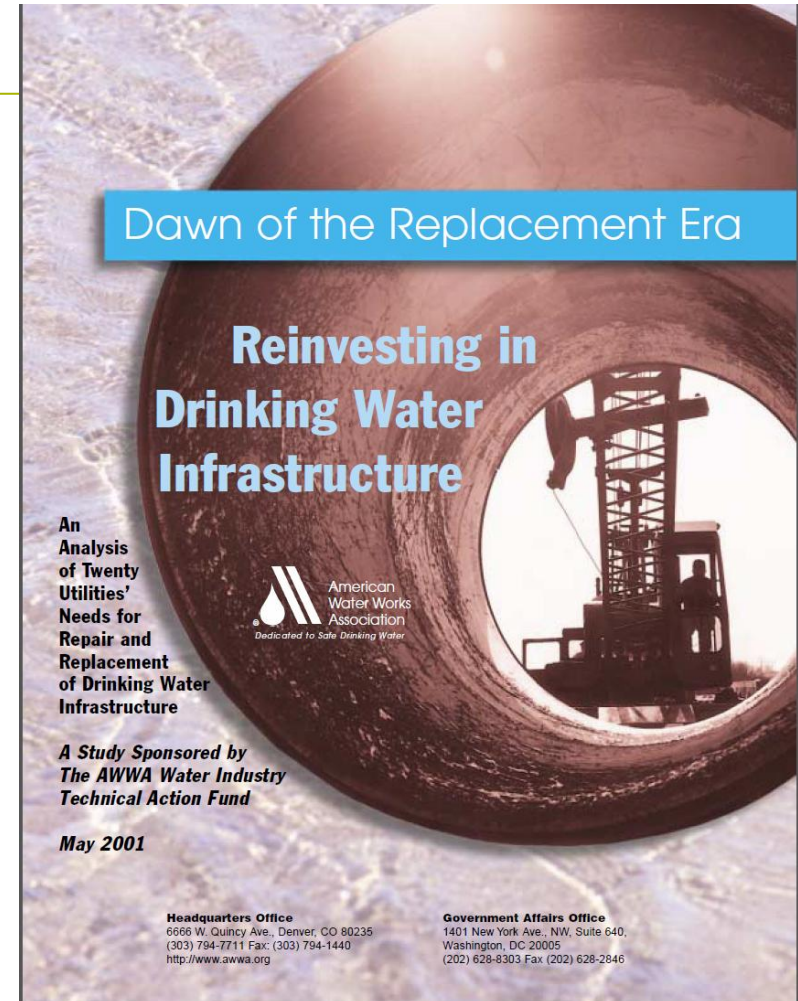
"I don't know how they expect people to keep paying more for water with the cost of gas and day care and everything else going up," complains Jacquelyn Moncrief, 60, a Philadelphia homeowner who says the price hikes would force her to make food-or-water decisions. She gathered signatures on a petition opposing a proposed water rate increase in her city this year.



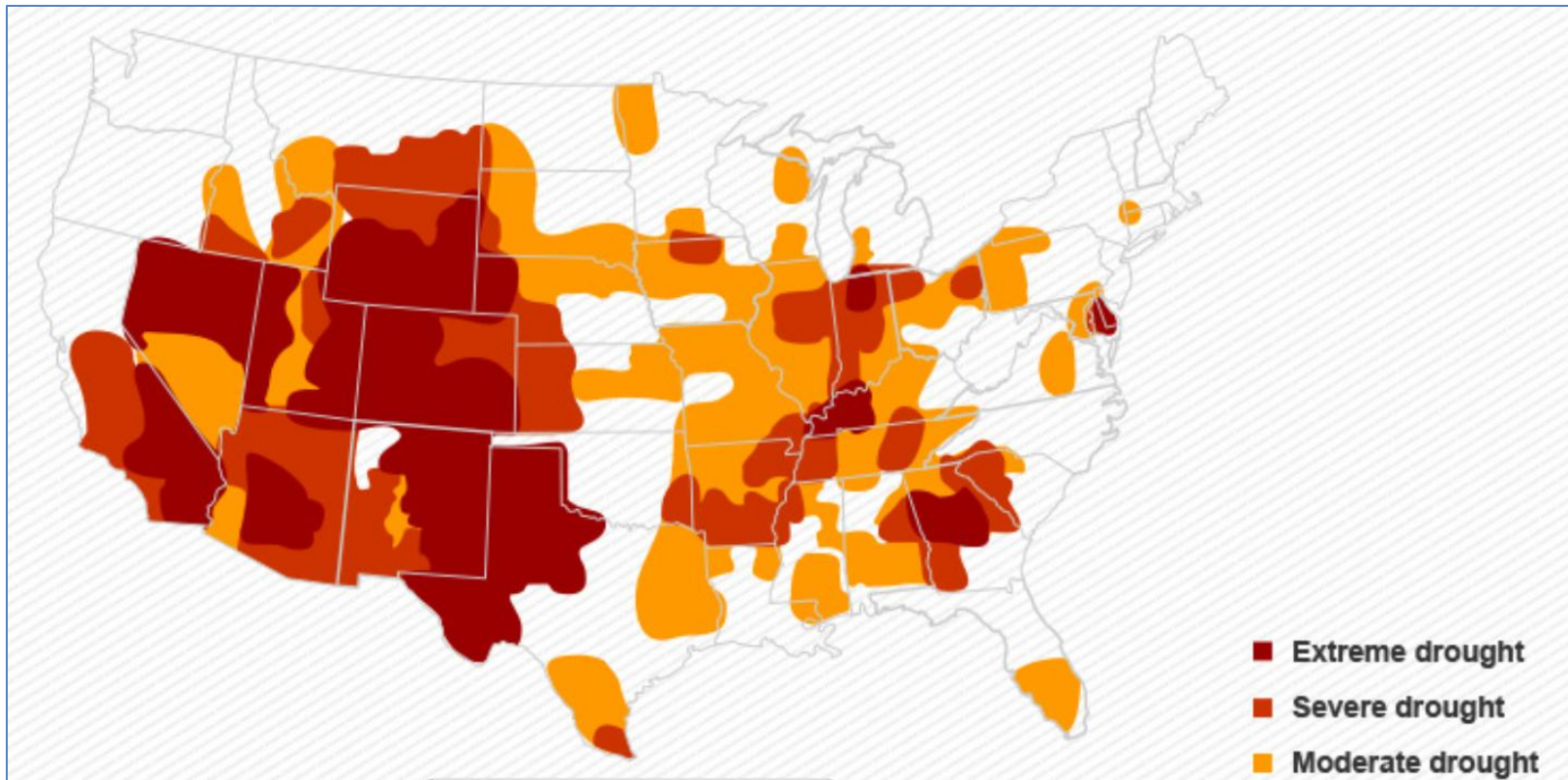
**Tualatin Valley
Water District**

HDR

Historic Underinvestment Spawns Growing Capital Requirement



Climate Change Introduces Uncertainty



Source: USA Today. See <http://usatoday30.usatoday.com/weather/drought/story/2012-07-19/drought-conditions/56345586/1>



Water Utility Cost Structure

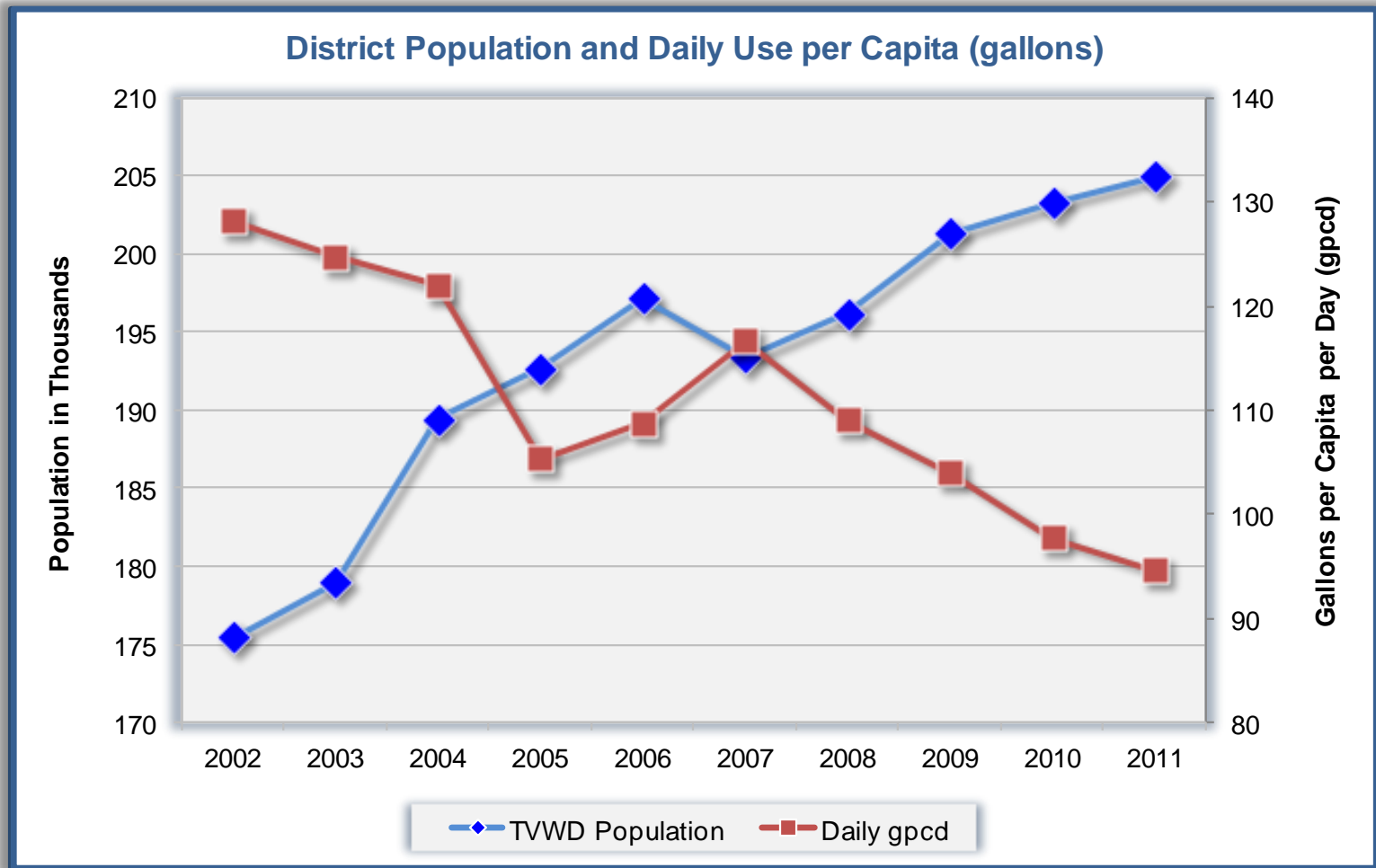
Fixed

- Does not vary with production
- Salaries, debt service, etc.

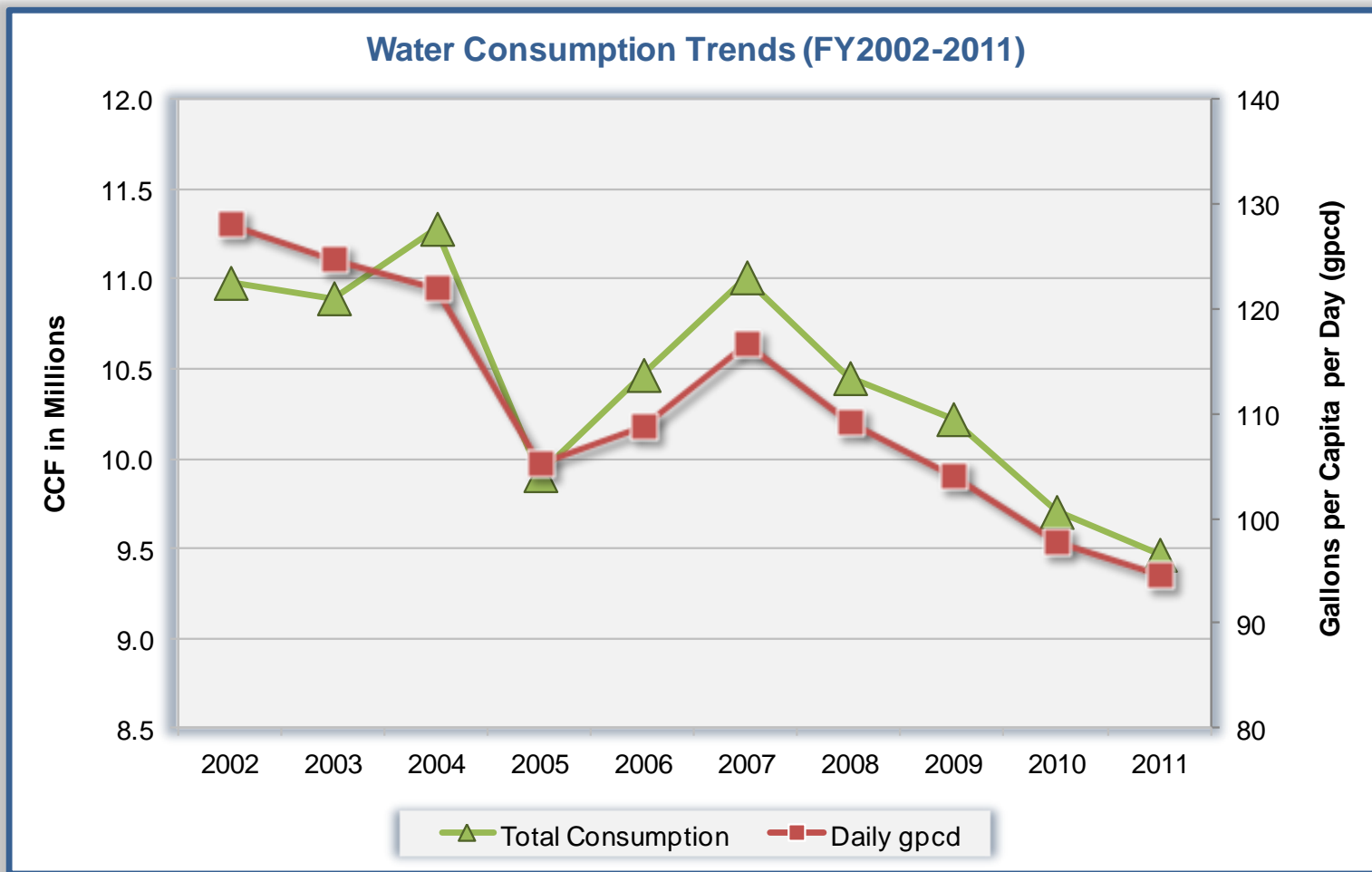
Variable

- Varies with water production
- Power, chemicals, etc.

TVWD Water Consumption Trends



TVWD Water Consumption Trends



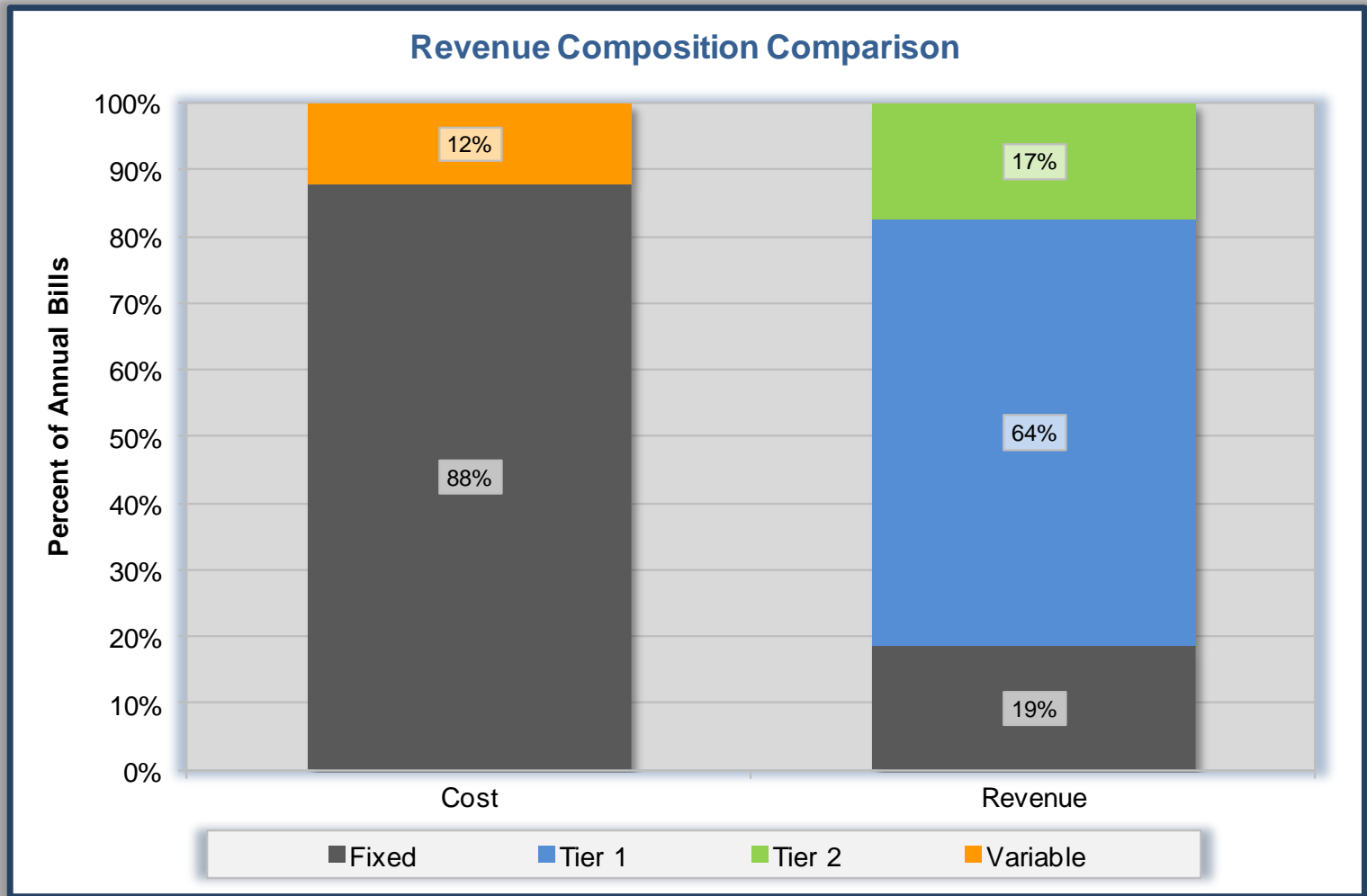
Successful Water Conservation May Lead to Rate Hike

It's a strange concept. But in Portland, lower consumption is having an unsettling consequence on water and sewer bills: higher rates.

The Oregonian, February 19, 2013



Cost and Revenue Structures



Defining “Affordability”



Measuring Affordability

- Affordability is a simple measure of ability to pay
- Often, affordability measures simply measure “community-wide” affordability
- Water and Sewer Utilities
 - Typically based upon local community’s median household income (MHI) and the % of MHI dedicated to utility bills
 - For a water or sewer utility, an affordability range can be 1.5% to 2.5% of MHI (each utility)



Example of Affordability Test Using MHI

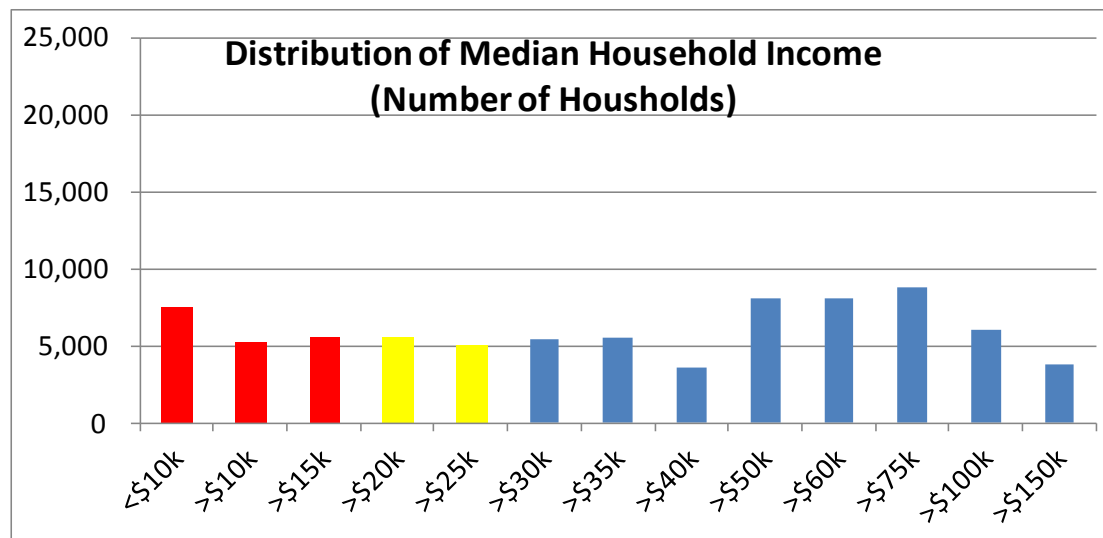
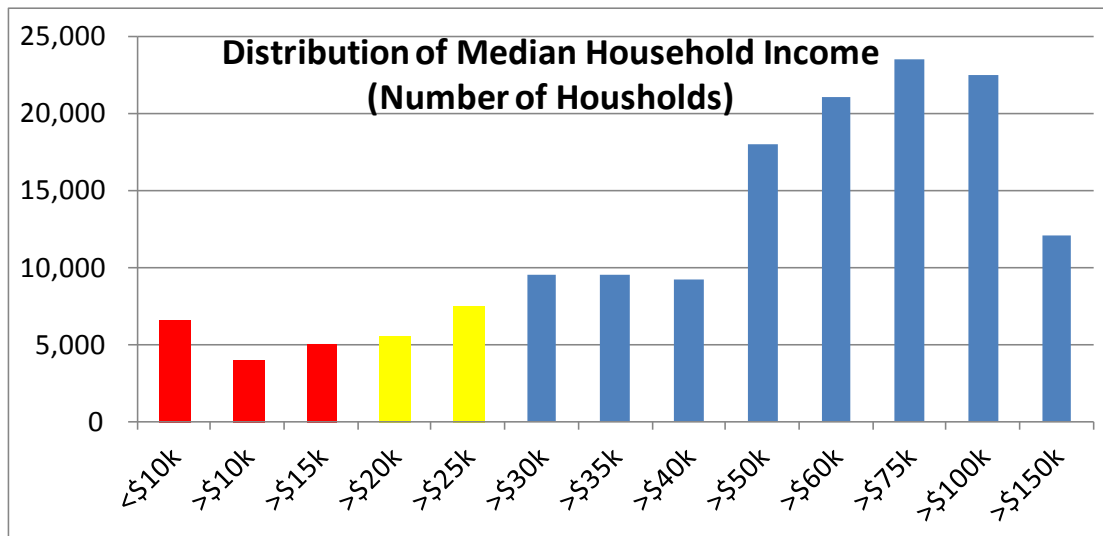
		Range of Affordability		
		1.50%	2.00%	2.50%
Median Household Income	\$32,300			
Annual Bill at Affordability Limit		\$484.50	\$646.00	\$807.50
Monthly Bill at Affordability Limit		\$40.38	\$53.83	\$67.29
Average Monthly Residential Bill				
Current Rates	\$35.70	Pass	Pass	Pass
Projected 2013 Rates	\$42.84	Fail	Pass	Pass
Projected 2018 Rates	\$59.98	Fail	Fail	Pass

Is it really this simple?



MHI Distribution Across Households

– A Tale of Two Cities



<u>No. in Household</u>	<u>Poverty Level</u>
1	\$11,170
2	15,130
3	19,090
4	23,050
5	27,010

U.S. Dept. of Health and Human Services



Legal Authority



Establishing Legal Authority

- Adoption of a discounted utility rate is a policy decision of a City Council or Board
 - No legal requirement to establish a discounted rate or assistance program
 - Economic / social policy arguments
 - Need to define who shall receive discounts
 - Low-income, low-income senior citizens
 - Disabled
- Need to establish your utility's legal authority to provide low-income discounted rates



Example of a the Statutes Providing Legal Authority in the State of Washington

- Legal authority to provide discounted rates
 - RCW 35.92.02(5) which authorizes cities to “provide assistance to low-income persons in connection with services provided under” chapter 35.92 RCW (“Municipal Utilities”), and RCW 35.67.020(5) provides the same authority with respect to sewerage services.
 - RCW 74.38.070 authorizes cities, counties, public utility districts, and any other municipal corporation to offer reduced utility rates for low-income senior citizens and other low-income citizens



Defining Low-Income and Disabled

- Disabled may be defined by:
 - Individuals qualifying for special parking privileges (e.g. RCW 46.16.381(1)(a) through (f))
 - Proof of disability from the Social Security Administration



Affordability Policy Considerations

Interactive Discussion



Key Policy Decisions

- To establish a program which addresses affordability issues, a number of key policy decisions must be made
- The following slides are intended to provide guidance on a number of key policy decisions that must be made to establish a program and the choices often available



Policy Decision 1:

Address Affordability Within a Utility's Rates?

- Low income assistance is typically addressed in three different ways
 1. Don't address issue at all
 2. Direct customers to low-income or assistance programs [outside organization or internal utility program (e.g. project share)]
 3. Create a program within the utility's rate structure to address low-income issue

What do you think? What does your utility do?

Now, assume the policymakers select Option 3



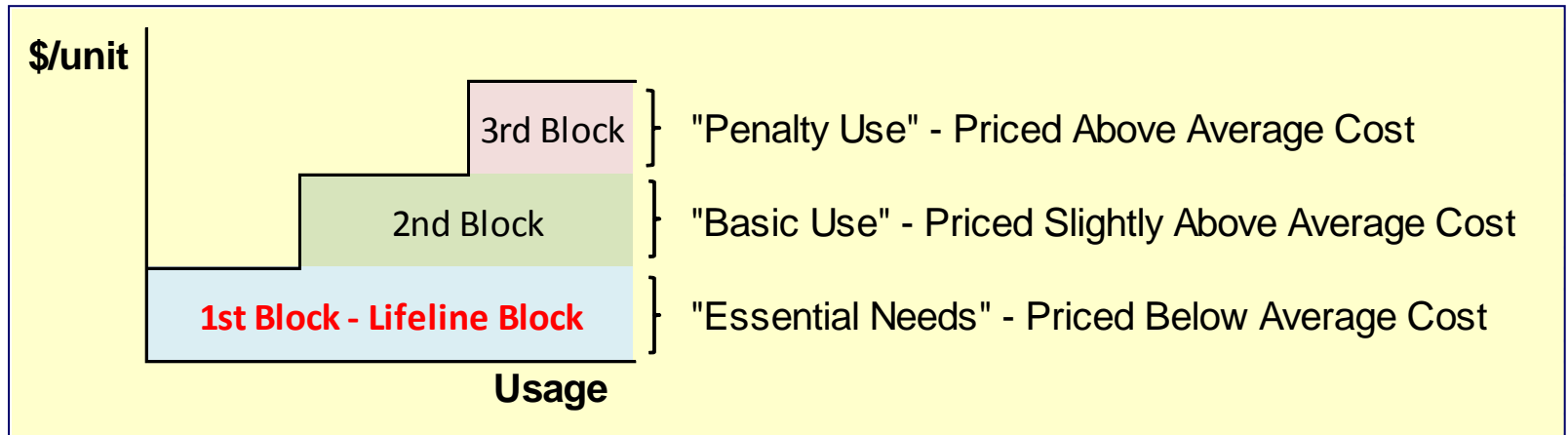
Policy Decision 2:

Lifeline Rate or a Separate Rate Schedule?

- **Lifeline Rate:** All residential customers have the same rate schedule, but the first block of consumption is for “essential needs” and priced below cost
 - **Advantage:** Admin. easy --- all customers qualify
 - **Disadvantage:** May not really help target customers
- **Low-Income Rate Schedule:** Create and establish a separate and distinct rate schedule for targeted and qualified customers
 - **Advantage:** Targets and benefits the specific customers
 - **Disadvantage:** Administratively difficult - need to qualify customers



Defining a Lifeline Rate Structure



- Key concept of a lifeline rate design is a block of usage (essential needs) priced below average cost
- Number and size of following blocks may vary

Determining Essential Needs

	Recommended Minimum			Recommended Range						
	Liters Per Person Per Day	Gallons Per Person Per Day	Gallons Per Person Per Month	Liters Per Person Per Day	Gallons Per Person Per Day		Gallons Per Person Per Month			
Drinking Water	5	1.32	40	2 to 5	0.53	to	1.32	16	to	40
Sanitation Services	20	5.28	158	0 to over 75	0.00	to over	19.81	0	to over	594
Bathing	15	3.96	119	5 to 70	1.32	to	18.49	40	to	555
Cooking and Kitchen	10	2.64	79	10 to 50	2.64	to	13.21	79	to	396
Total	50	13.2	396		4.49		52.83	135		1,585
Monthly - Gallons Assuming Family of 3			1,188				404	4,755		

Source: Adapted from: *Basic Water Requirements for Human Activities: Meeting Basic Needs*, Peter Gleick, Pacific Institute for Studies in Development, Environment and Security



Example “Lifeline” Water Rate Design

Meter Charges (\$/Meter/Month)		
3/4"	\$15.00	
1"	25.00	
1-1/2"	50.00	
2"	80.00	
Consumption Charge (\$/1,000 gallons)		
0 - 2,000 gallons	\$1.50	"Essential Needs"
2,001 - 10,000 gallons	\$3.00	Indoor Use Block
Over 10,000 gallons	\$4.50	Outdoor Use Block

- Need to define the amount (volume) of “essential needs”

Which option seems more appropriate to you?

Why – Advantages and disadvantages of each?

Now, assume the policymakers select to have a separate rate schedule for low-income assistance



Policy Decision 3:

Defining Target Group and Determining Eligibility

- **Methods to determine eligibility**
 1. Use some percentage of the MHI that the U.S. Department of Housing and Urban Development estimates for the local area;
 2. Use some percentage of U.S. Department of Health and Human Services Poverty Guidelines;
 3. Use the income level set by the statutes (e.g. RCW 84.36.381(5)(b) to qualify for a property tax exemption)
 4. Use some other number/method that the City Council determines (e.g. qualify a customer if they qualify for another utility low-income discount)



Review of Eligibility Methods

- All require some form of income verification
 - First two methods require the utility to verify using income tax records or other documents
 - Method 3 (tax method) can rely on taxing agency records (e.g. County)
 - Other method may have the customer fill out affidavit verifying qualifications and penalty for perjury
- Customers other than low-income (disabled, senior citizen, etc.)
 - Disabled may be defined as anyone that qualifies for special parking privileges, or written proof from the Social Security Administration

How has your utility dealt with eligibility?

Who Screens and Verifies?

- Choices for screening for verification
 1. Utility customer service/billing personnel
 2. Outside agency
 - Outside agency is responsible for verifying and determining all qualifying customers
 - Outside agency is paid by utility for the services provided
 - Should be an agency that works extensively with the target group of customers

Do you use an outside organization for screening?

Policy Decision 4:

Level of Discount and Applied to Which Utilities?

- Applied to all utilities? (e.g. water, sewer and stormwater?)
 - Bills for certain utilities may create more of an affordability issue; does not have to apply to all utilities
- Level of the discount?
 - Rates are typically composed of a fixed charge and a variable charge; typically follow the residential rate structure and discount components
 - One or both components can be discounted
 - Consideration: Is it important to maintain an incentive for efficient use?

Do you have fixed level of discount? How much?

Policy Decision 5:

How to Discount Different Types of Rates?

- Percentage discount has been determined (e.g. 25%); what is discounted in the rate?
 - **Flat Rate:** Straight-forward.
 - **Fixed and Variable Charges:** More complicated. Considerations may include:
 - Equal dollar discounts to all eligible customers?
 - Equal percentage discounts to all eligible customers?
 - Continue to encourage efficient use?



Examples of Methods of Discounting

1. Discount applied only on the fixed-monthly charge (a fixed %).
2. Discount only on the consumption charges (a fixed % on all consumption blocks)
3. Discount only on the lower (initial) use blocks of consumption charges
4. Discount on both the fixed and consumption portions of rate [Combines 1 and 2]
5. Discount on the fixed and discount only on the lower (initial) use blocks of consumption charges [Combines 1 and 3]

Which rate components do you discount? Why?

Policy Decision 6:

Revenue Recovery to Support Program

- Rates provided at a discount produce reduced revenue – who makes up the difference in revenue???
- Is this strictly a residential customer benefit?
 - How best to make the utility financially whole?
Policy choices include:
 1. Assign costs of program to other residential customers
 2. Assign costs of program to all other utility customers (residential and commercial)

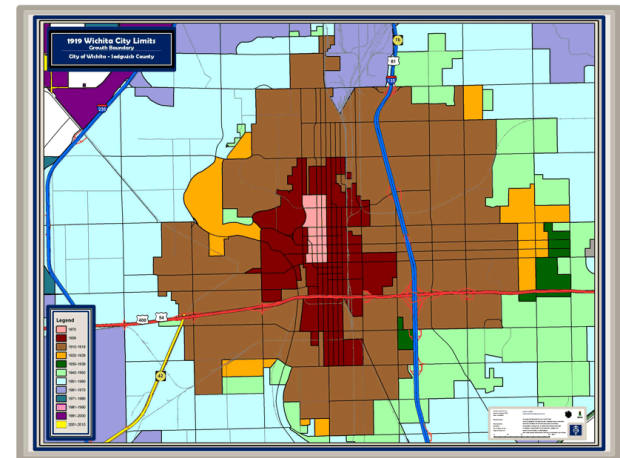
Who pays for the costs of this program?

Policy Decision 7:

Assistance Available to Outside City Customers?

- Is low-income assistance available only to inside-City customers?
- If so, assistance should follow or conform to the approach used for inside-city customers

Do you provide assistance to outside City customers?



Summary of Key Policy Decisions

- Key policy decisions will need to be made in order to establish or refine a current policy
- Ultimately, the final policy choices should reflect the community's values and their perspective regarding the trade-offs between the financial operation of the utility and providing assistance to customers



Summary

- As rates continue to rise, utilities will need to continue to review and monitor affordability
 - The “downside” – we’re all getting old!

Gee-zer (*ge-zer*) slang
**Not Young. Not Dead.
Somewhere In Between.**

