



Detroit Water and Sewerage Department
Affordability
Options & Constraints

Board of Water Commissioners Meeting
September 17, 2014

Presentation Outline

- **Affordability Principles**
- **Michigan Legal Framework**
- **DWSD Initiatives**
- **GLWA Provisions**
- **Historical Background**

Affordability lexicon

- **Financial capability**

- Ability of a community to finance required capital improvements & support utility operations



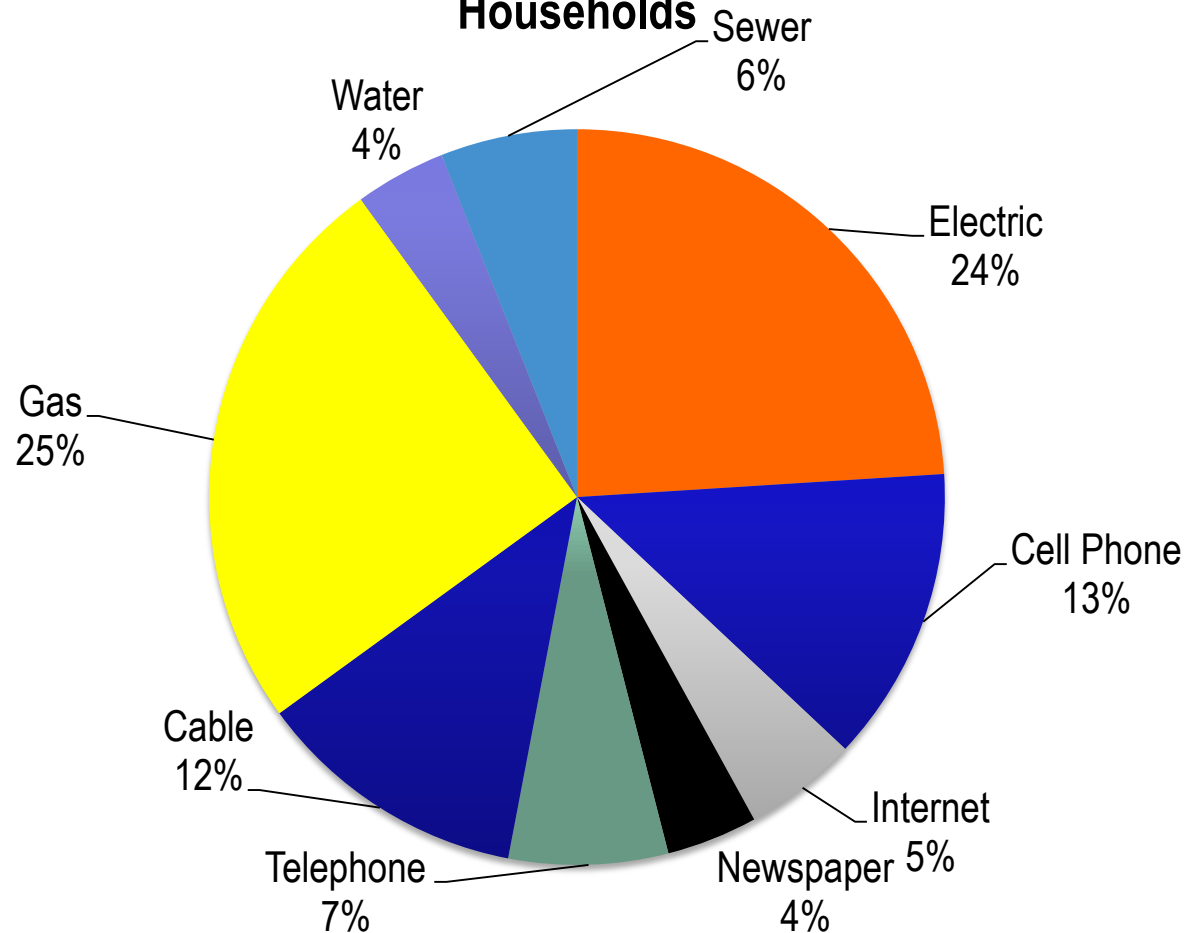
- **Affordability**

- Ability of individuals, most notably low-income ratepayers, to pay costs of utility services within prevailing budget constraints



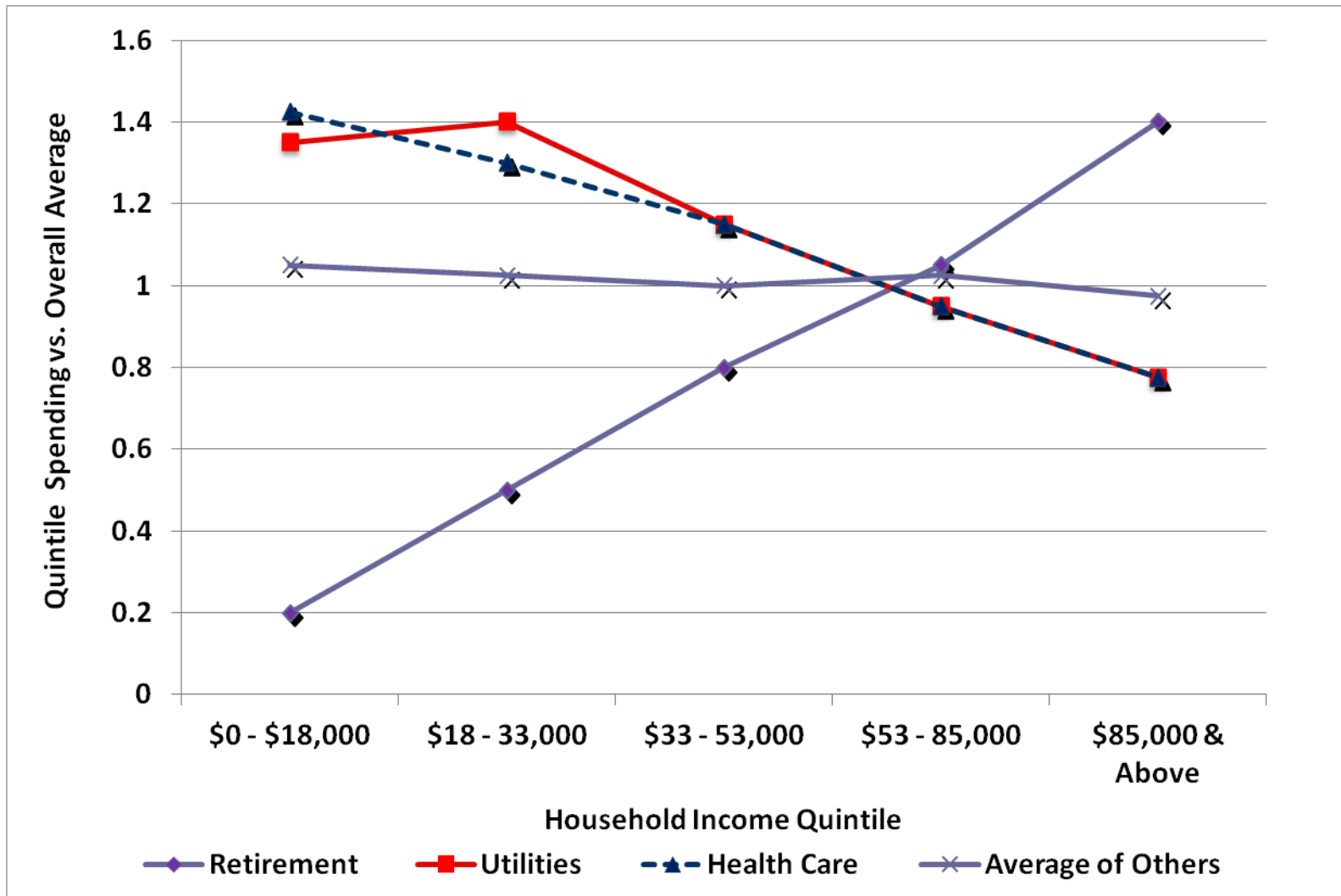
Detroit Utility Bills

Monthly Average "Utility" Bills for Detroit Residential Households



Affordability Principles

Utilities burden low-income customers

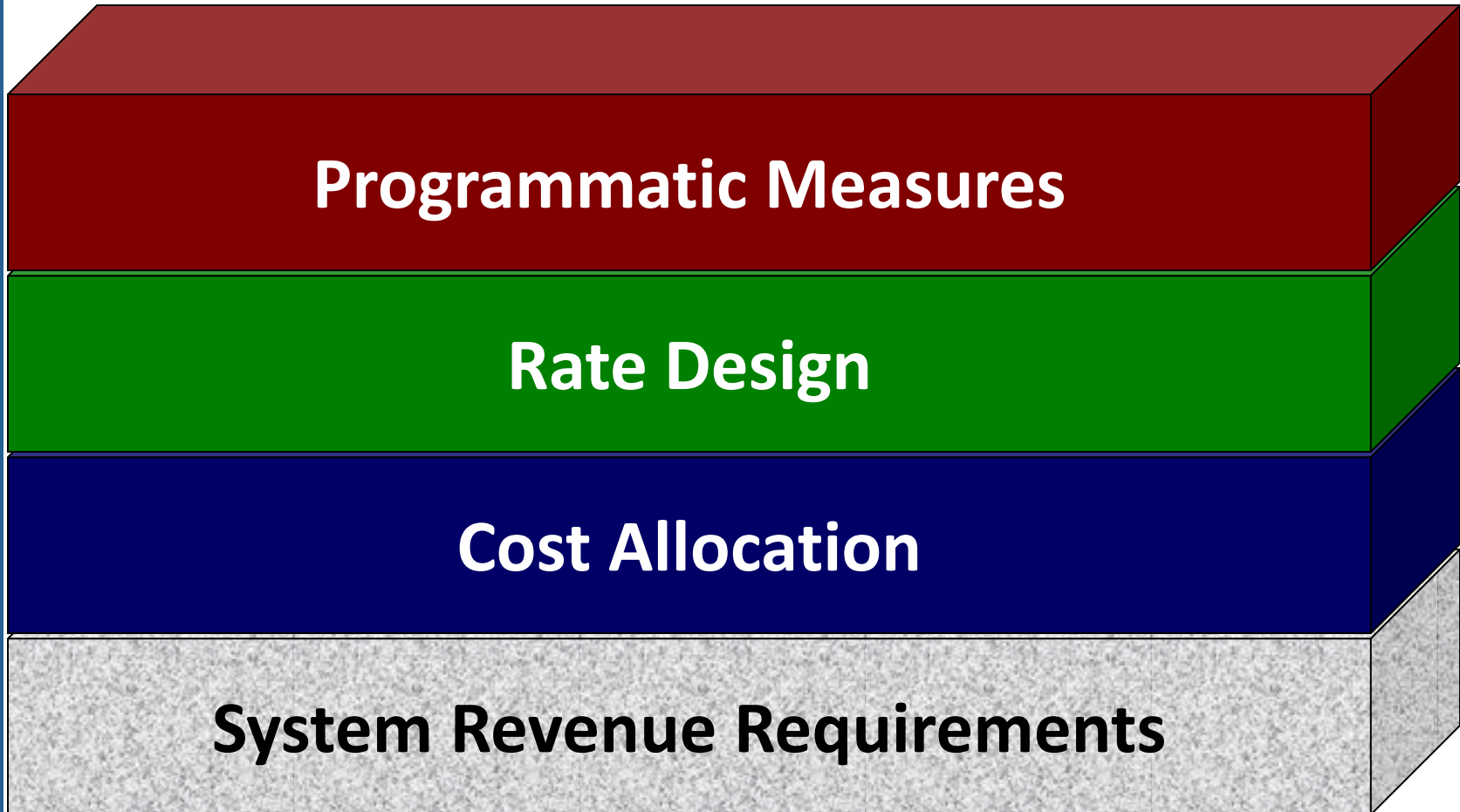


Source: US Census data reported by Jeff Rexhausen, Economics Center for Education & Research, University of Cincinnati



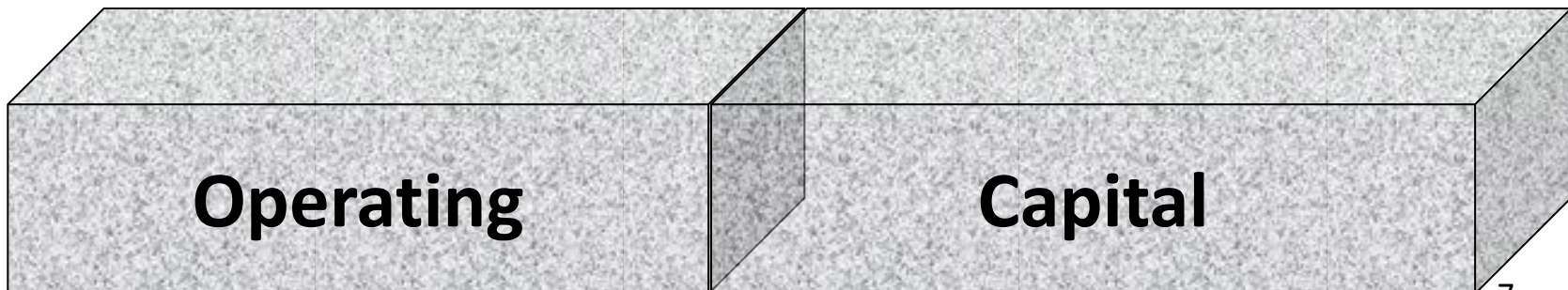
Affordability Principles

Elements of Affordable Service



System Revenue Requirements

- **Staffing**
 - Job scales and training
- **Field Services**
 - Crew sizing and dispatch
- **Process optimization**
 - Energy efficiency
 - Chemical usage
- **Renewal & replacement**
 - Asset management
- **New capital**
 - System optimization
- **Debt management**
 - Credit ratings



Cost Allocation & Rate Design

Rate Design

- Equitable / defensible (Bolt compliant)
- Stable revenue generation
- Affordable pricing for lower cost basic service levels

Cost Allocation

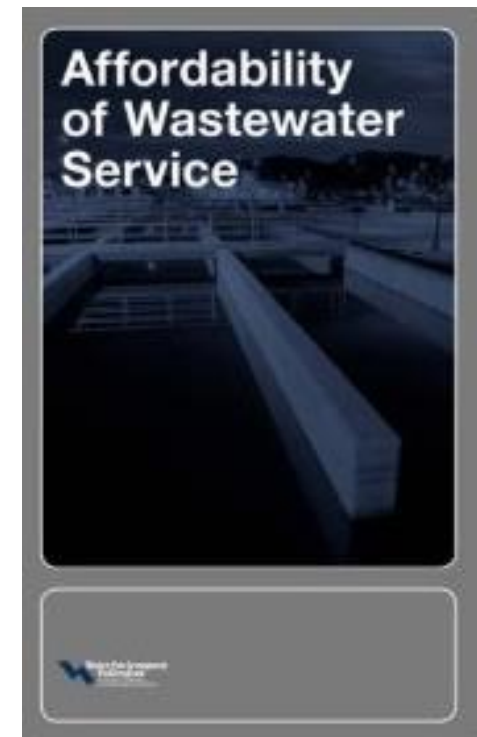
- Customer classification / usage characteristics
- Impact of non-revenue water and / infiltration levels
- “Special” allocation protocols



Range of Affordability Measures

Programmatic Measures

- Bill assistance programs
 - Bill discounts
 - Write-offs
 - Crisis vouchers
- **Water efficiency options**
 - Education
 - Leak detection / repair
- Other measures
 - Financial counseling
 - Disconnection moratoria



Affordability Principles

Affordability business case

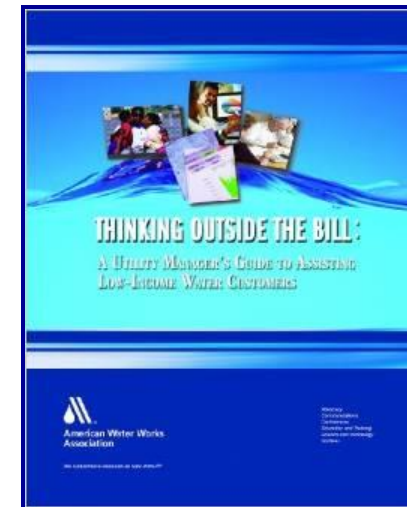
- Help ensure that low-income customers remain connected and are able to pay future bills
- Reduce administrative costs of collections
 - Disconnecting service
 - Placing liens on properties
- Reduce overall bad debt expenses
- Enhance utilities' image and community engagement agenda
- Help meet water conservation related regulatory requirements or overall resource efficiency objectives



Affordability Principles

Implementation Challenges

- Non-payment by economically capable inequitably transfers costs
 - Systemic water shutoff relief problematic
- Limited correlation between low volume and low income usage
- Legal constraints on income qualified rates and provision of utility-funded billing assistance
- Programmatic measures require partnering with social service agencies



Michigan Legal Framework



- Bolt v. City of Lansing establishes 3-part test for legitimate user charges
 - Fee must serve a *regulatory purpose*, rather than a revenue raising purpose.
 - User fee must be *proportionate* to the necessary costs of the service.
 - User fee must be *voluntary* – users must be able to refuse or limit their use of the commodity or service.
- Failure of the test means fee in question is a **tax**, not a user charge



DWSD Initiatives



- Summarize outcome of post mediation points

**Payment
Plans**

**External
Funded
Assistance**

**Customer
Outreach**

**Rules &
Procedure
Review**



GLWA Opportunities

Great Lake Water Authority

\$50M lease payment will fund improvements that impact future retail system costs

Water Residential Assistance Program

- \$4.5 M available to all retail users
- water conservation component

DWSD “Water Affordability Program” History

- Early 2005 (during discussions of the FY 2007 rate proposals) City Council expresses concern
- Michigan Welfare Rights Organization lobbies Council and DWSD
- Roger Colton report / proposal emerges and is discussed with DWSD Board April 2005
- Deliberations and review continues
- DWSD establishes WAVE funding mechanism

DWSD “Water Affordability Program” History *continued*

- Initial FY 2008 DWSD rate proposals indicate 2.0% increase for City of Detroit retail
- DWSD management suggests adjustments resulting in modified proposed increase of **14%**
 - Raise bad debt assumption from \$1.5 million to \$24 million – *adds ~10%*
 - Fund \$5 million Affordability Program from “non rate revenue” – *adds ~2%*

DWSD “Water Affordability Program” History *continued*

- City Administration and City Council object to double digit rate increase for Detroiters
- DWSD management suggests further adjustments resulting in alternative proposed increase of **9%**
 - Reduce bad debt assumption down to \$14 million – *adds ~6% from original*
 - Reduce Affordability Program funding to \$2.5 million – *adds ~2% from original*
- FY 2008 rates approved with \$2.5 million funding level (from “non rate revenue”)
 - Also include “opt in” \$0.50 addition to water bills to augment funding

DWSD “Water Affordability Program” History *continued*

- **FY 2009 rates continue to include \$2.5 million funding for Affordability Program from “non rate revenue”**
- **Affordability funding from rates dropped for FY 2010 rate proposals**
- **Voluntary funding program (\$0.50 per monthly residential bill) continues today, but participation has diminished**
- **WAVE also continues today**