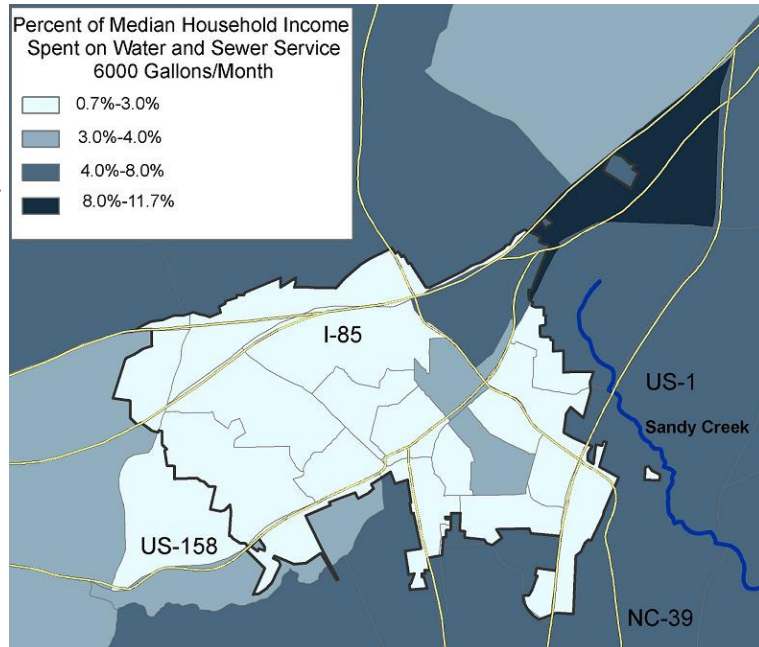


HOW TO ADDRESS AFFORDABILITY AT THE HOUSEHOLD LEVEL

One of the most common objections to raising utility rates is that services are becoming unaffordable. This is no wonder though, particularly in the context of rising prices for all kinds of consumer services and commodities. When the average household today is faced with rising food, transportation, energy, clothing and housing costs, the prospect of higher water and sewer bills can be worrisome. Any utility manager seeking to increase revenues for their system by raising water rates will have to be able to address these concerns.

What is affordable?

Many people have tried to address this question by developing a standard measure of affordability. The most common measure, and one that is often used by infrastructure funding agencies, is average residential bill as a percentage of Median Household Income (MHI) in a given community. Some, for example, might consider rates to be unaffordable if the bill for 5,000 gallons per month is greater than 1.5% of MHI. Others have pointed out that this measure is insufficient because MHI is only one measure of wealth in a community. For example, two communities with very different poverty rates may have the same MHI and therefore the “%MHI” measure will be the same even though the community with the higher poverty level will have much greater affordability challenges. Finally, MHI can mask the geographical variations in income levels across a community. Recently, for example, in Henderson, North Carolina (include link here for the Henderson case study), wealthier parts of the community spend less than 0.75% of their income, on average, on 5,000 gallons of water and sewer per month while poorer sections, and particularly sections of the community just outside City limits where rates are higher, spend more than 10% of their income for the same amount of water!



The question of what is affordable for a given household depends, of course, on water rates and income levels, but it will also depend on household size, the efficiency of water fixtures, whether water usage in the household varies seasonally and many other factors. To understand the extent of the affordability challenge, %MHI is a good starting point, but a manager should look at usage, income and other demographic measures across the service area.

How can affordability challenges be addressed?

There are many ways, aside from simply lowering utility rates, to address affordability challenges. One of the more direct methods is to offer customers assistance with their bills.

Assistance can be made provisional on income levels, household size and payment history. It can be provided in the form of payment credits to help customers get through short-term financial emergencies. Alternatively, accounts in arrears can be forgiven over several payment cycles if subsequent bills are paid. Funding for such assistance can come from the operations budget and justified in that these programs can lower non-payment rates and costs for late notices, cut-offs, etc. Or, funding can come through voluntary donation programs such as the Taste of Hope program (<http://www.owasa.org/pages/tasteofhopeprog.asp>) run by the Orange Water and Sewer Authority in Orange County, NC, which offers customers the option of rounding up their bill to the nearest dollar and deposits proceeds in an assistance fund.



Another way to address affordability problems is to look at how rate structures are designed. Low-income customers tend to use less water on average than other customers, so a community that wants to keep rates affordable for these customers can shift more of the cost burden to high volume users. The Town of Henderson, NC, for example, was considering a shift from decreasing to uniform rate structures for just this purpose. This case study can be found at (<http://efc.boisestate.edu/efc/Portals/0/documents/Microsoft%20Word%20-%20Henderson%20Case%20>). Rate structures with high fixed and minimum charges will place a higher cost burden on low-volume users. Likewise, decreasing block structures place more of a burden on low-volume users than do uniform rate structures and increasing block structures.

Since low-income customers often live in older homes with higher rates of leaky plumbing and inefficient fixtures, utilities can simultaneously help promote water conservation and ease the burden on low-income users by creating programs aimed at identifying leaks and/or replacing old fixtures. The City of Austin, TX has a toilet rebate program that is billed largely as a water conservation initiative, but which also has the side benefit of updating fixtures in older housing stock. For more information, visit: <http://www.ci.austin.tx.us/watercon/sftoilet.htm>.

These are just a few of the ways utilities can address the affordability challenge. To learn more, see the comprehensive study of water affordability programs conducted by the AWWARF in 1998 (<http://www.awwarf.org/research/topicsAndprojects/execSum/184.aspx>). The report provides an extensive amount of information on the costs and effectiveness of these and other kinds of affordability programs.