Affordability: Background, Best Practices, WSSC Overview, and Next Steps

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A note on words and abbreviations

- CIS customer information system
- CSR customer service representative
- EITC earned income tax credit
- FPL federal poverty level
- HH household
- MHI median household income
- SF single family
- SNAP supplemental nutritional aid program (food stamps)
- Water bill combined bill for water and wastewater service
Background
What is affordability?

- Ability to pay for water service in full and on time
- Without jeopardizing ability to pay for other necessities
  - Food
  - Medical care
  - Housing (rent, mortgage, other essential utilities)
  - Transportation
  - Child care
Is there a “magic number”? 

- No
- US EPA uses “magic numbers” for affordability at the *utility level* to determine ability of *utility* to afford to comply with regulatory requirements:
  - Average water bill \( \leq 2.5\% \) of MHI
  - Average sewer bill \( \leq 2.0\% \) of MHI
- Thresholds based on MHI have little to do with an individual *household’s* ability to afford to pay the water bill
Are there indicators of affordability problems?

- **Food Insecurity**
  - Limited or uncertain availability of nutritionally adequate and safe foods, usually due to lack of income (~13% of HH in US)

- **Receipt of Other Utility Aid**
  - Energy assistance
  - Telephone lifeline assistance

- **Qualify for Earned Income Tax Credit**
  - Varies by no. of children, income and other factors
  - Annual credit averages > $2,400 for eligible HH
Water Utility
Best Practices
Useful Resource

*Best Practices in Customer Payment Assistance Programs,*

Funded by the Water Research Foundation and US EPA (2010), available at no cost:

Background

- Options depend on system capabilities (CIS, etc.)
- Bad debt, customer service, and collections activities are costs borne by paying customers
- Business decisions should be made based on relevant factors which may include:
  - Benefit–cost ($ collected vs. $ expended)
  - Perceived fairness (similar customers treated similarly)
  - Consistent with other goals (e.g., conservation, homelessness)
- Treat as business process, including feedback loop (continuous improvement)
Business process overview

- Shrink the bills
- Shrink the overdue caseload & arrearages
- Shrink the cost of collections
- Understand and enhance support functions
  - Legal
  - Training
  - Communications
- Measure performance
- Implement continuous improvement process
Know Your Customers

- Late pay vs. no pay
- Underlying reasons / customer types
  - Lack of money
  - Lack of budgeting skills
  - Able but unwilling (“gaming”, perceived unfairness)
  - Crisis (lost job, high medical bills, death in family)
  - Seasonality (income, other bills, water bill)
  - Physical payment problem
    - 25.6% of households with income < $15,000/yr have no bank account (2015 FDIC National Survey of Unbanked and Underbanked Households (October 2016))

- Requires account analysis, segmentation, strategies
## Segmentation example

<table>
<thead>
<tr>
<th>Customer problem</th>
<th>Potential solutions</th>
</tr>
</thead>
<tbody>
<tr>
<td>Lack of money</td>
<td>Utility or third party assistance program; enhance usage of existing programs (EITC, SNAP, heating assistance, school lunch, telephone lifeline)</td>
</tr>
<tr>
<td>Budgeting skills</td>
<td>Skills training; utility billing options (see next page)</td>
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<tr>
<td>Gaming</td>
<td>Enforcement</td>
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<tr>
<td>Crisis</td>
<td>One-time emergency funds (utility or third party)</td>
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<td>Seasonality</td>
<td>Budget billing (see next page)</td>
</tr>
<tr>
<td>Payment logistics</td>
<td>Banking partners; payment kiosks; in-person options</td>
</tr>
</tbody>
</table>
Potential Billing Options

- Monthly billing option
- Billing on same day of month
- Budget billing – same bill amount each month
- 11-month billing ("skip-a-month")
  - Customer effectively prepays to avoid having to pay in month when other expenses high or income low
Potential Customer Service Options

- Targeted reminders (before and/or after due date)
- Separate CSRs trained to deal with particular customer segments
- Partnerships with community organizations
- Referrals to community organizations
  - Access to funds / other assistance
  - Budget assistance
  - Banking assistance (facilitates budgeting, timely payment)
What do we know about Montgomery & Prince George’s Counties?
Useful information sources

- **US Census American Community Survey 2015**
  - Microdata by county (accessed from: IPUMS USA, University of Minnesota, www.ipums.org)
  - Sample of more than 38,000 households representing almost 670,000 HH in Montgomery and Prince George’s Counties

- **US Internal Revenue Service data on EITC**
  - Complete data by county

- **USDA data on food insecurity**
  - Available only by state due to sample size

- **LIHEAP Clearinghouse; National Energy & Utility Affordability Coalition**
Households by type of building

More than 2/3 of HH are in single-family homes

Source: Analysis of ACS Microdata
Households that pay a water bill

87% of HH that report receiving a water bill are in single-family homes

Source: Analysis of ACS Microdata
Single-family homes by income

17% (1 in 6) SF HHs have income < $50,000 per year

Source: Analysis of ACS Microdata
3% of SF HHs (~12,000 customers) pay 4% or more of their income for water service, with 2% paying 6% or more

Source: Analysis of ACS Microdata
Who pays > 4% of income for water?

71% of HH paying > 4% of income for water have annual income < $25,000; 21% have income between $25,000 and $50,000 / year

Source: Analysis of ACS Microdata
EITC in Montgomery & Prince George’s Counties (2014 data released in 2016)

- EITC recipients: 133,640
- Average credit: $2,360
- 69% had income < $25,000 / year
- 31% had income between $25K and $50K/year
- Nationally, about 85% of eligible HHs apply for EITC

Data accessed from https://www.brookings.edu/interactives/earned-income-tax-credit-eitc-interactive-and-resources/
Food Insecurity

- US Data for 2016
  - Food insecurity: 12.3% of HH (Maryland: 10.1%)
  - Very low food security: 4.9% of HH (Maryland: 3.9%)
- Who is likely to be food insecure?
  - Income < 130% FPL: 35.7% food insecure
  - + one or more children: 40.7% food insecure
  - + single woman head of HH: 46.8% food insecure
- Montgomery & Prince George’s Counties
  - ~73,000 single woman head of HH and < 125% FPL

- US Census, American Community Survey for 2015 (county data)
Home energy assistance

- Maryland federal LIHEAP assistance
  - FY 2017: $74.0 million
- Maryland HH eligible vs. served (FY 2016)
  - Eligible: 665,000
  - Served: 104,000 (< 16%)

US Dept. of HHS, LIHEAP Clearinghouse, https://liheapch.acf.hhs.gov/Funding/funding.htm
Some preliminary take-aways

- WSSC is not immune to problems of low income, including water bills as a large percentage of income, but problem is comparatively small.
- Rough estimate: about 15,000 customers may have serious ability-to-pay problems.
- Of SF HHs with incomes < $25,000/year, about 1/3 have water bills > 4% of income.
- Rate design changes may not be effective in addressing ability-to-pay problems:
  - Relatively small group of customers
  - High usage / lower income
  - Be careful of high fixed charges
Short Term (< 2 years; existing CIS)

- Learn as much as you can about poverty, seniors living alone, single mothers in SF housing in service area
- Develop / enhance partnerships with community organizations and other agencies & service providers
- Work to maximize use of other aid programs (EITC, heating and telephone aid, school lunch, SNAP, etc.)
- Investigate targeted conservation programs
- Investigate possible monthly billing options
- Investigate payment options for “cash only” customers
- Understand & enhance collections business processes for different types of customers
- Review existing Customer Assistance Programs and revise them in light of what you learned from other short term steps
Investigate / implement billing options
- Monthly billing
- Pick a date
- Budget billing
- Skip a month

Investigate / implement targeted reminders

Capture data on payment–troubled customers

Customer segmentation analyses

Train some CSRs to work with specific segments

Develop / implement continuing self–assessment program
Resources

Biographical Statement for Scott J. Rubin

Scott Rubin is an independent attorney and consultant whose practice has been devoted exclusively to issues affecting the public utility industry for more than 30 years. He began that practice in 1983 with the Pennsylvania Office of Consumer Advocate, rising to the rank of Senior Assistant Consumer Advocate. He chaired the Water Committee of the National Association of State Utility Consumer Advocates (NASUCA) from 1990-1993. During the early 1990s, he represented NASUCA on two federal advisory committees established by the U.S. Environmental Protection Agency, including the Disinfection / Disinfectant By-Products (D/DBP) advisory committee that led to the promulgation of a series of new water quality regulations. As part of his work on the D/DBP committee, Mr. Rubin presented some of the first comprehensive work on the affordability of water service to lower-income consumers.

Since that work 25 years ago, Mr. Rubin has been among the nation's leading researchers, lecturers, and expert witnesses on issues relating to the affordability of water and wastewater service. He has testified on water affordability issues before two committees of the U.S. House of Representatives and consulted on affordability issues for US EPA's National Drinking Water Advisory Council and New York City's Department of Environmental Protection. He also served as a member of Detroit's Blue Ribbon Panel on Affordability and as a mediator for the Philadelphia Water Department on issues affecting low-income water customers.

His relevant publications and presentations at national conferences include:


Mr. Rubin earned his law degree with honors from the National Law Center at George Washington University in Washington, DC, and his bachelor’s degree with distinction in political science from Pennsylvania State University in University Park, PA. He lives in Bloomsburg, PA with his wife of 36 years.