

REPLACEMENT OF LSLs FUNDED THROUGH INCREASED WATER FEES



A copper service line will replace a lead service line on this residential street in Lansing. In the background is a lead service line that's been removed. *Image taken and courtesy of Lindsey Scullen of Michigan Radio*

Location:	Grand Rapids, Michigan
Issues Addressed:	Public LSL replacement, Private LSL replacement, Funding and Financing, Legal Considerations, Impact on low-income residents
Most Applicable Other Community Types:	Larger communities

Executive Summary:

This memo analyzes the viability of complete lead service line (LSL) replacement through increased water fees.

Replacement of LSLs solely through increased water rates is possible, but depending on the number of LSLs to be replaced, may require an extended (>20 year) timeline for water systems and/or risks considerable financial pressure on low-income residents and communities. Protecting vulnerable residents from unaffordable rate hikes will likely necessitate an investment of state/outside funds or an extended timeline.

Background/Process:

The City of Grand Rapids previously offered a financing program in which the City would initially pay for LSL replacement and add the cost to the property owner's utility bill over 10 years, at approximately 3.4 percent interest. The City changed its policy in 2017 to now pay the entire cost of replacing the private LSL if there is a leak in the private portion or if the City is replacing the public water main connected to the private LSL. This change was implemented in response to the 2018 Michigan Lead and Copper Rule and has resulted in increased replacement rates by residents.

Legal: The City of Grand Rapids sought and received an outside legal opinion providing legal basis for use of public funds for the private portion of LSLs in the cases of leaks or water main replacements. Otherwise, private lines are charged to individual ratepayers, with options to pay over time.

Legal Opinion Summary: "There is credible evidence to support a conclusion that Partial LSL replacements may be harmful, that full LSL replacements are preferable and safer and where partial replacement of the owned portion of the lead service line is proposed, the full lead service line (public and private) should be replaced. Such replacement constitutes a public purpose under Article 9, Section 18 of the Michigan Constitution and the Water Supply System funds may be used to pay for the full replacement without becoming the owner of the private portion of the lead service line."

ACTIONS TAKEN BY THE GRAND RAPIDS WATER DEPARTMENT

1. The Grand Rapids Water Department changed its internal policy to the following:
 - a. Grand Rapids will now pay to replace lead lines in two situations:
 - i. If the City is replacing a water main in a street, they will hire a contractor to replace the public and private portion of the service line.
 - ii. If a service line is leaking anywhere from the curb to the meter, the City will hire a contractor to replace the entire line.
 - b. For property owners that do not meet one of these conditions, the City also offers a 10 year low interest loan to assist with financing proactive replacement.
2. When the City is replacing the public portion of an LSL, they contact residents requesting to also replace the connected private portion. If the resident agrees, then the City replaces both at the same time.

Project Status:

Expected completion date: 2058 - 2068 (40-50 yrs from now). Full LSL replacement is not possible within a 20-year period without additional funding or significant water rate increases.

Funding/Financing:

- **Anticipated cost on current timeline (40-50 yrs):** \$48 million - \$60 million (estimate)
 - Funding sources: Included as part of asset management plan (w/MDEQ pilot grant)
 - \$1 million annually from the water system capital fund
 - \$200,000 annually from the water system operations and maintenance budget
 - \$1 million one-time MDEQ pilot grant being used for private side replacement
 - Impact on water rates: Minimal impact on water rates (0.25% rate increase)
 - Estimated replacement cost per private LSL: \$2,000
- **Anticipated cost if replaced within 20 years:** Up to \$8 - \$10 million/year for 20 years (\$160 - 200 million)
 - The City has 24,000 remaining LSLs, with an estimated average cost of \$6,000 per LSL replacement when replacement is not tied to water main replacement.
 - Would need to replace over 1,000 service lines a year
 - Impact on water rates: would require a significant water rate increase (estimated 10 to 15%)
- **Portion of line replaced:** Entire LSL (public and private)

Challenges:

1. **Legal: Is water system legally permitted to replace private portion of LSL?** The City's legal opinion currently provides a legal basis to replace the private portion of LSLs. This could potentially be challenged in the courts and does not allow the City to cover the cost of replacing all private LSLs.
2. **Cost to ratepayers:** Minimal (0.25%) additional cost to ratepayers if completed over 40-50 years. Rate increases would be significantly higher if LSL replacement is done over 20 years.

LEAD & COPPER



With a jackhammer, a crew member in Lansing begins digging a hole toward a lead service line. Image taken and courtesy of Lindsey Scullen of Michigan Radio

3. **Replacement of remaining private service lines:** For residents who decline replacement or those who have private LSLs without a leak or public main replacement, there is no clear path to LSL replacement. For property owners that do not meet one of these conditions, the City also offers a 10 year low interest loan to assist with financing proactive replacement.
4. **Replacement of LSLs to commercial properties:** Some commercial properties also have LSLs, but the policy in Grand Rapids does not allow the water system to cover costs of the private side for commercial customers except in cases of leaks or water main replacements. Currently, the City is using part of its \$1 million MDEQ grant for replacements on commercial properties, but this may not cover all properties.
5. **How to mitigate burden on low-income residents:** If allowed to replace LSLs on an extended timeline, there should be no additional cost burden on low-income residents. The City's 10-year low-interest loan program may also assist in mitigating this burden.

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Lessons Learned:

1. Public outreach needs to improve in order to increase participation in LSL replacement programs. The City would prefer to better engage with the public through an information campaign and/or face-to-face interaction, but those efforts would require staffing and funding.
2. When planning LSL replacements, build off of areas where LSLs have already been or are currently being replaced rather than “hopscotching” all over the City. Knowing that neighbors have had their LSLs replaced has been shown to increase buy-in from residents.
3. State funding of private portion of LSLs would increase speed of replacement. If the State funds the private side of LSLs, the replacement process will be quicker and easier because there would be no need to wait for water main replacements or leaks to replace private LSLs.