

WATER AFFORDABILITY BASED ON INCOME: THE TIERED ASSISTANCE PROGRAM IN PHILADELPHIA

Location: Philadelphia, PA
Issues Addressed: Affordability and Assistance, Giving Voice to the Public,
Public Education



Philadelphia Museum of Art on the Schuylkill River

The Philadelphia Water Department has the task of maintaining an aging water system while providing affordable service in a city where 26 percent of city residents live at, or below, the poverty line. Philadelphia Water had addressed water affordability through an assistance program. Residents below 250 percent of the federal poverty level could apply for the Water Revenue Assistant Program (WRAP), which provided \$200 per year for water bills and \$300 for past due balances. Despite this program, between April 2012 and January 2018, unpaid bills and water debt affected over 40 percent of Philadelphia households. Twenty percent of all household accounts, 86,000 customers, experienced at least one shutoff, and 40,000 households were eligible for shut offs as of May 2017. For the Philadelphia Water Department, unpaid bills and water debt represent over \$242 million in uncollected revenue.

Developing a new payment program for water

In November 2015, the Philadelphia City Council unanimously passed an ordinance to replace WRAP with an income-based assistance program that would expand eligibility assistance, improve affordability of bills, and increase payment returns. The ordinance required a newly created Water Rate Board to determine the structure of the new affordability program.

The City Council's new legislation became the focus of 2016 rate case proceedings. During the proceedings, the public advocate and Philadelphia Water Department proposed different customer assistance programs that would meet requirements for the new income-based assistance program. The water department proposed a tiered discount program, which would make customers eligible for specific discounts according to their household income.

The public advocate consulted with Roger Colton, a leading utility pricing and affordability consultant. Colton proposed an affordability program modeled on energy sector assistance programs, known as percent of income payment programs (PIPPs). These types of programs calculate monthly utility payments for low-income households as a percentage of their monthly income, rather than providing percentage or fixed discounts from monthly usage. Compared to traditionally calculated discounts, such as the program proposed by Philadelphia Water, PIPPs provide consistent bills, distribute assistance more efficiently, and reduce the amount of over-and-underpayment.

MANAGING PUBLIC WATER INFRASTRUCTURE WITH RESOURCE CONSTRAINTS

KEY COMPONENTS OF THE TIERED ASSISTANCE PROGRAM (TAP)

- All customers are eligible to apply if they are struggling to pay their bills.
- Monthly bills are consistent and based on income (two to four percent of income) to assist customers with budgeting.
- Tiers are based on the Federal Poverty Level (FPL) and special hardship status:
 - 0-50 percent FPL: monthly bill capped at two percent monthly income;
 - 51-100 percent FPL: monthly bill capped at 2.5 percent monthly income;
 - 101-150 percent FPL: monthly bill capped at three percent monthly income;¹ and
 - Greater than 151 percent with special hardship: monthly bill capped at four percent monthly income.
- Past-due amounts are suspended as long as bills are paid on time.
- Past penalties are forgiven once monthly bills are paid on time and in full for two years.
- Customers will not be shut off while applications are in review.
- Community partners are trained to assist customers with applications.

¹ Percentages based on international standards for water and wastewater affordability thresholds set forth by the United Nations Development Program, Beyond Scarcity: Power, Poverty and the Global Water Crisis.

The recommended PIPP rate structure was based on the United Nation's standard for affordable water services, which is capped at three percent of household income. Successful management of PIPP-based assistance is predicted to help customers budget accurately, increase payment rates, and reduce water debts.

After considering proposals from Philadelphia Water and the public advocate, the Water Rate Board decided to adopt the PIPP proposal, now known as the Tiered Assistance Program (TAP). This was the first program in the United States where low-income households pay a set rate for their water, based on their income level.

Benefits of the Tiered Assistance Program

Prior to TAP, water bills for low-income Philadelphians earning less than \$30,000 per year, approximately 35 percent of the city's households, ranged from 3.25 percent to over 8.1 percent of monthly income. Now, the water department caps bills at two percent of monthly income for residents earning less than 50 percent of the federal poverty level (FPL), 2.5 percent for residents earning between 51 and 100 percent FPL, and at three percent for residents earning between 101 and 150 FPL. In order to support water conservation, TAP-enrolled households also receive information, free leak detection tests, and low-flow plumbing fixtures. Also, TAP participants do not need to pay down their outstanding balances while in the program, and are eligible to have their balance forgiven after paying their bill on time over a two-year period.

Electric and gas utilities, which have implemented PIPPs for many years, find increased revenue for their utility. They collect more revenue, called "net back," when using PIPPs. PIPPs have been shown to increase the number of households paying into the system which, in turn, increases revenue overall and reduces both collection and shutoff costs. Not only do these programs benefit the system overall, but many households that participate faithfully in the program have no or a significantly reduced debt.

Resources required

Funding TAP

TAP is relatively new, it began in June 2017, and it is not yet clear how much it will cost the Philadelphia Water Department to implement. To begin, Philadelphia Water budgeted \$18 million for the Tiered Assistance Program in FY 2018. The program is funded by rate increases on those municipal water ratepayers not enrolled in TAP. The 2018 budget covers costs associated with implementation, such as the online application vendor, 20 new staff members, and consultants. This budget also estimates the amount needed to fill the gap in water revenue between that realized through TAP bills and actual cost to the system. The water department intends to reach all 60,000 eligible customers within the first two years. Currently, the program is under budget because customers are in the process of enrolling. The water department expects TAP to lower operational costs over time as the number of shutoffs decrease.

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Independence Hall Philadelphia. *Wikimedia Commons*

Community partnerships

Shortly after the Mayor signed TAP legislation in December 2015, the water department established a TAP Advisory Group. This Advisory Group consists of representatives from: Community Legal Services, the Utility Emergency Services Fund, and the Energy Coordinating Agency. These well-established community organizations provided essential input to ensure the timely implementation of the program.

Project status

Philadelphia Water Department's Tiered Assistance Program began to enroll applicants on July 1, 2017.

What other communities have implemented similar projects?

No other cities in the United States have implemented a percent of income payment program for water.

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