

Sustainable Rate Structure Analysis Stakeholder Advisory Group

February 16, 2022



Agenda



WELCOME

Angela Licata

Deputy Commissioner of Sustainability

OVERVIEW OF WATER BOARD & CUSTOMER RATES

Omar Nazem

Treasurer, New York City Water Board

SRSA UPDATE

Alan Cohn

Managing Director, Integrated Water Management

QUESTIONS & NEXT STEPS

Mikelle Adgate

Acting Deputy Commissioner of Public Affairs & Communications

Welcome

Angela Licata

DEPUTY COMMISSIONER OF SUSTAINABILITY



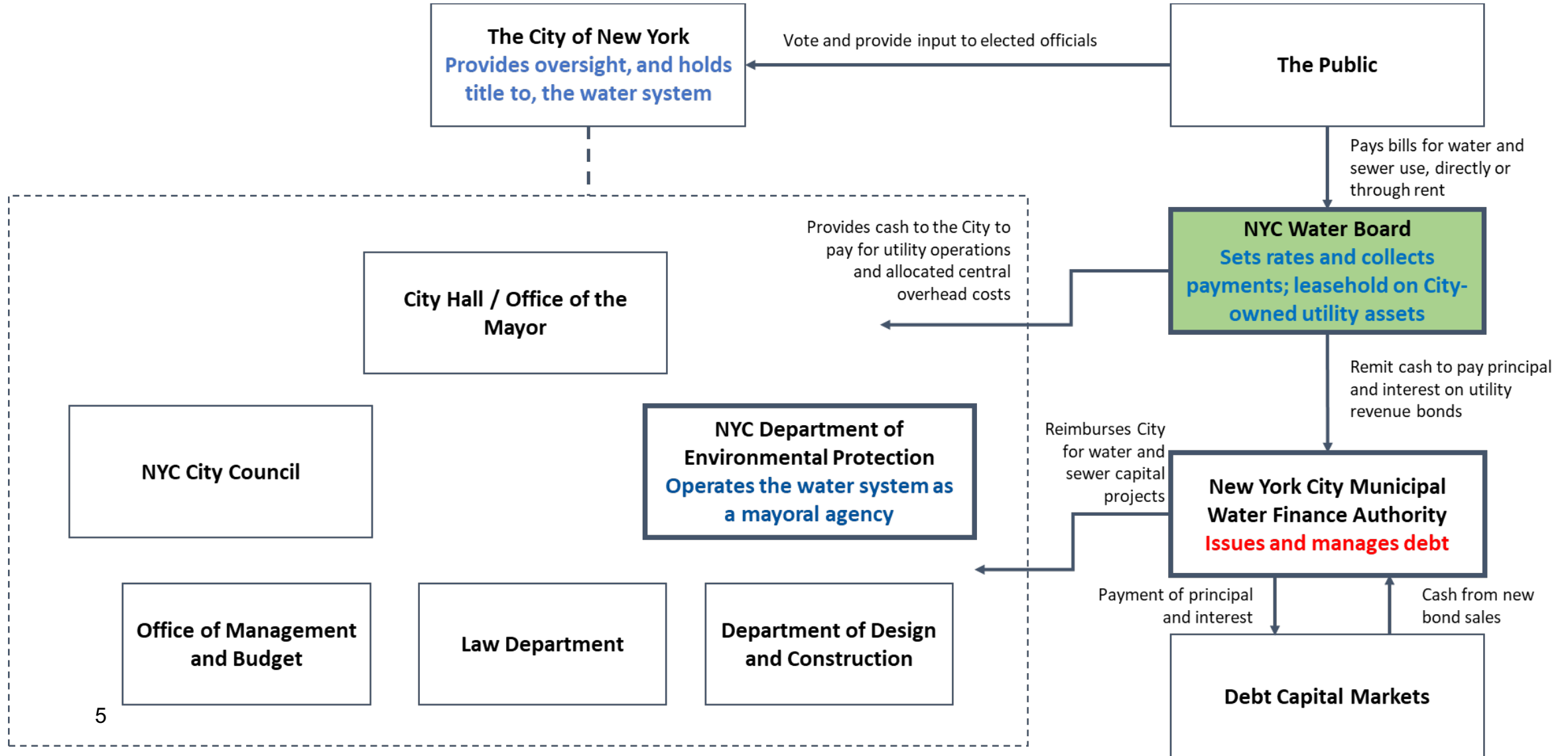
New York City Water Board & Customer Water Rates

Omar Nazem

TREASURER, NEW YORK CITY WATER BOARD



The Water Board supports the City's water system by setting rates and providing treasury services



Legal and administrative overview of the Water Board

Title 2-A, §1045 and §1046 of the New York State Public Authorities Law

- Core State law that created the Water Board and the Water Authority
- Explains purpose, authorities, governance, and operation of the Board and Authority
- Authorizing statute confers wide authority to set rates and collect payments for use of utility services
- Established a duty to raise revenues in an amount to pay utility operating costs and bondholder debt service
- Provided for Water Board leasehold on water and sewer utility plant and property owned by the City

Legal contracts between the Board, the City, and the Water Authority

- Two key agreements were signed between the major water system components in 1985:
- The Financing Agreement
 - Allocated system revenues between the City and bondholders
 - Provided bondholders with a senior claim on revenues
- The Lease Agreement
 - Established the term and economic deal of the Board's lease on system assets
 - Delegated billing operations and system management to DEP

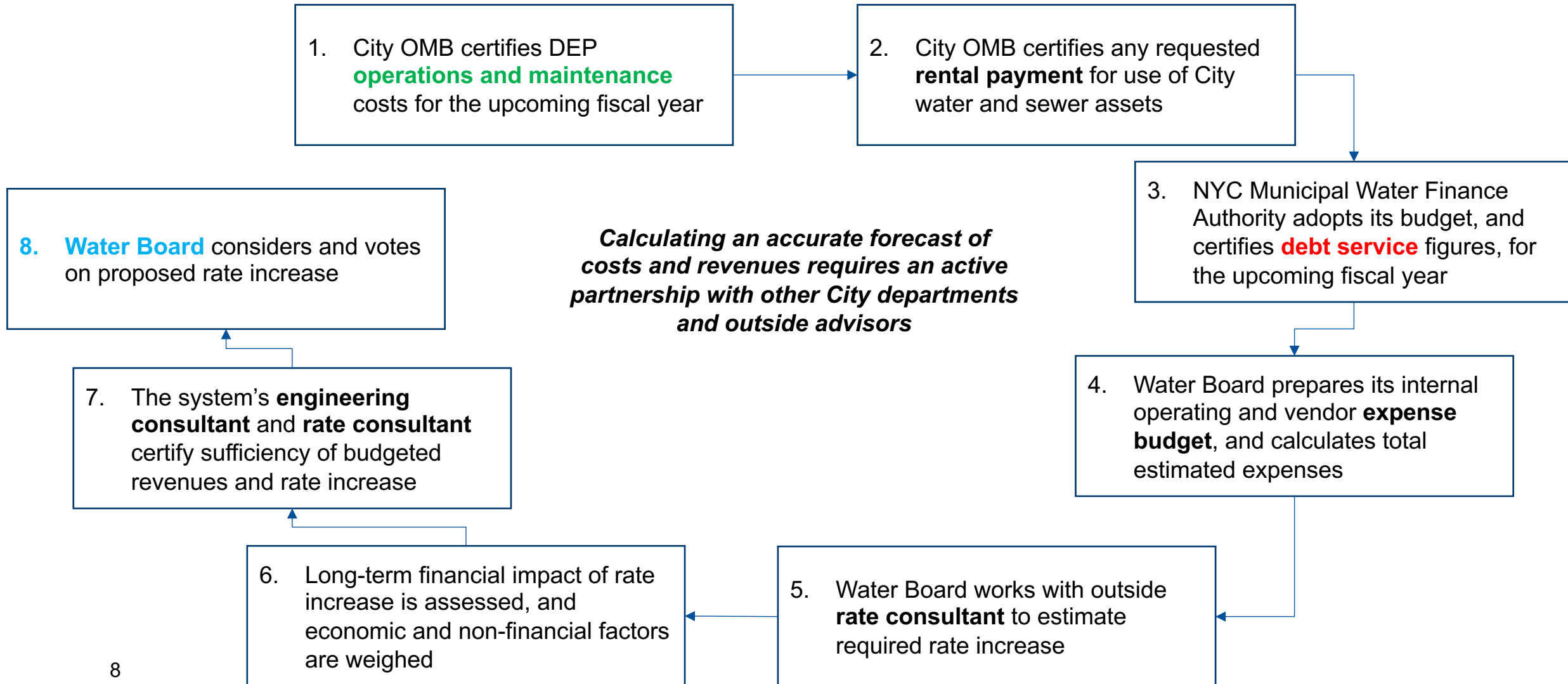
Local City legal sources

- The Board and Authority are mainly governed by New York State law
- The New York City Council has authority over certain policies affecting the Board, including:
 - Interest rate on overdue bills
 - Sale terms for liens backed by delinquent water bills
- Interest rates set in cooperation with the Banking Commission and Finance Department
- Lien sale policy involves Law, Finance, the Budget Office, and private sector partners
- City Council reviews DEP's budget

Changes to water rates are based on multiple considerations

- Public input from residents and elected officials
- General inflation in wages, services, and materials
- Borrowing conditions in bond market
- Desire for conservative financial management policies
- Requirement to maintain specified ratios of revenues to amounts owed to bondholders (“coverage ratios”)
- DEP expense outlook
- Commentary from credit rating agencies
- Advice of legal counsel
- Upcoming large debt maturities
- Opportunities to refinance or prepay old debt
- Current year revenue outlook compared to plan
- Upcoming large regulatory mandates
- Interest rates charged on delinquent balances
- Trends in water efficiency
- Desire to smooth rate increases and avoid one-time, out-of-trend, rate increases
- Level of customer delinquencies and availability of delinquency management tools (e.g., outreach, payment agreements, notices, liens)
- Overall economic outlook
- Requests by the City to make rental payment for use of water and sewer assets
- Desire for strong system liquidity profile

New York City water rates are calculated using a cost recovery method paired with a multi-year financial forecast



Illustrative summary format budget from the Board's June 2021 budget adoption

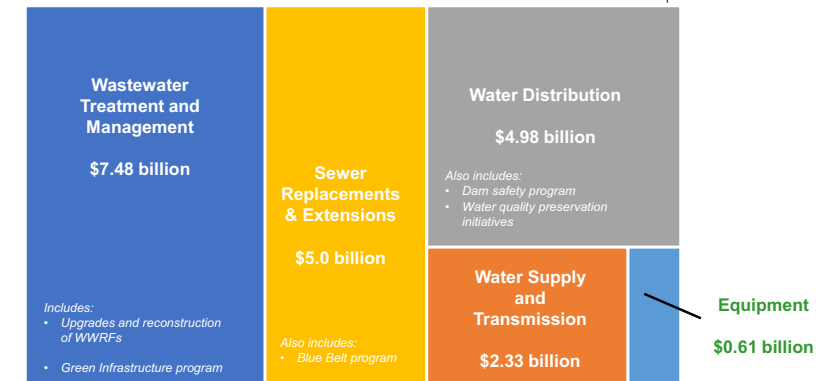
Budget Item	\$ billion
DEP expenses, net of prior year true-ups	\$1.63
Water Authority / Water Board expenses	\$0.11
Current year debt payments to bondholders	\$1.56
Debt prepayments and/or cash construction work	\$0.33
Target year-end cash balance	\$1.00
Less:	
Cash available from prior year-end balance	\$0.96
Release of previously escrowed funds	\$0.12
Investment income	\$0.02
Net budgeted expenses for the year	\$3.53

Core system activities

Capital construction-related items

Items related to financing policy, managing the structure of system debt, and investment income

Total City capital project funds, FY 2022 – FY 2031: **\$20.4 billion**



DEP and the Water Board offer several major rate plans

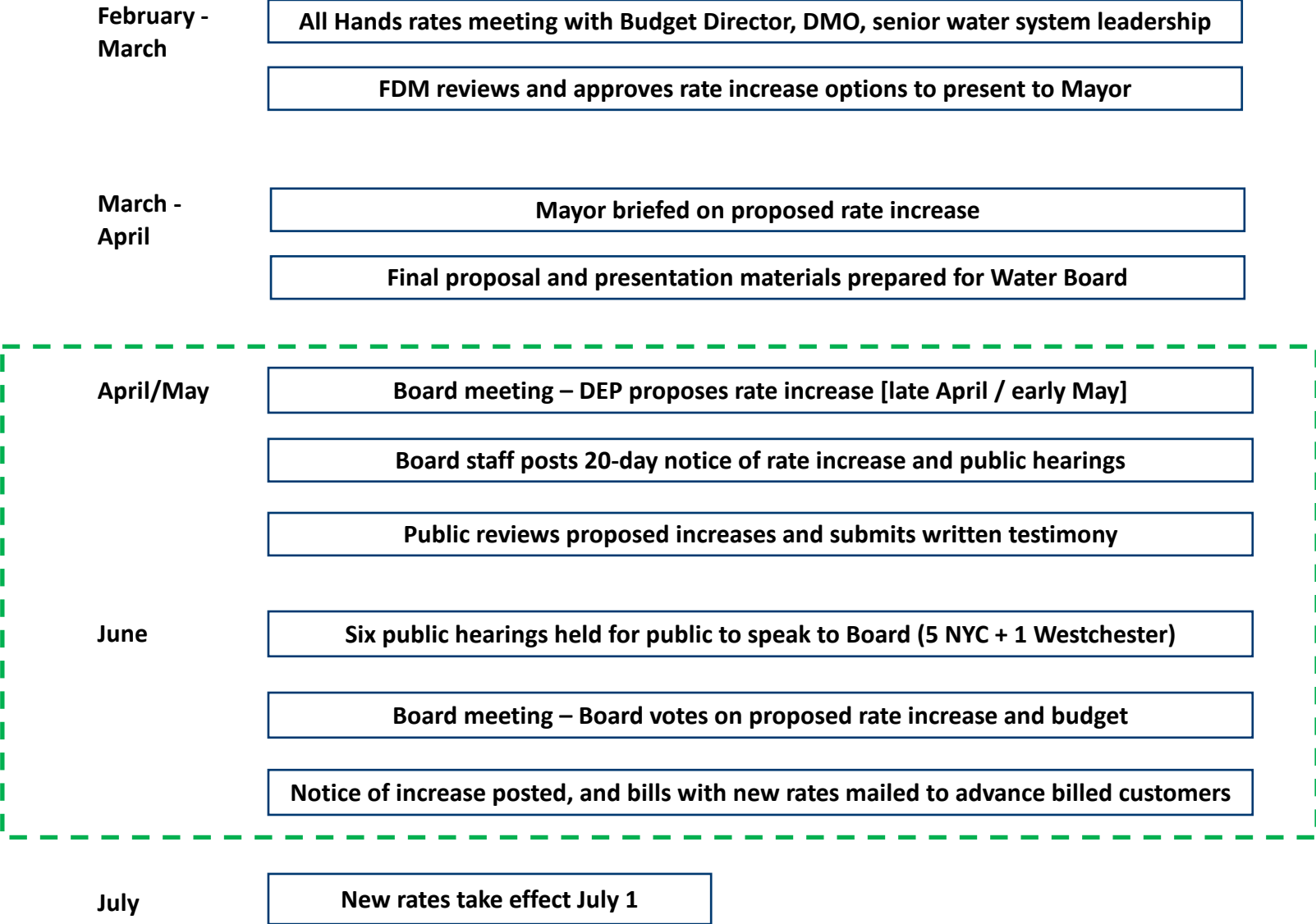
Rate plan	Description
Metered billing	<ul style="list-style-type: none">• Customer pays for volume of water supplied to property• Subject to a minimum charge
Flat rate programs	<ul style="list-style-type: none">• Main flat rate program is a per apartment rate for affordable multifamily properties with water efficiency upgrades installed• Small number of older rate plans• Flat rate plans still require a meter to be installed to avoid surcharges
Minimum charge	<ul style="list-style-type: none">• For properties using just under 90 gallons of water per day, total annualized combined water and sewer bill of \$463
Incentive rates	<ul style="list-style-type: none">• Designed to encourage or support a specific policy objective• Examples: property owner investment in water efficiency or wastewater reuse improvements; wastewater allowances for small businesses in water intensive industries• Incentive rates work in tandem with a metered or flat rate plan

DEP's customer base is oriented toward residential properties and metered billing

	Number of Water Accounts	Typical Rate Plan
1-3 family residential buildings	665,000	Metered billing
4+ unit residential buildings	105,000	Combination of metered billing and flat rate conservation rate
Commercial and industrial uses	64,000	Metered billing
Utility company plant and equipment	550	Metered billing

A typical timeline for setting a rate increase and annual budget

Rate setting typically occurs during May and June, and takes 6-8 weeks from start to finish



Residential use charges in NY are lower than in other large cities

Typical Annual Residential Water Charges				
		New York City	30 Large City Average ¹	NYC vs. Average
Based on 80k gallons per year	2016	\$1,055	\$1,101	-4.2%
	2017	\$1,055	\$1,156	-8.7%
	2018	\$1,055	\$1,205	-12.4%
Based on 70k gallons per year	2019	\$945	\$1,119	-15.5%
	2020	\$967	\$1,173	-17.6%
	2021	\$967	\$1,216	-20.5%
	2022	\$994	NA	NA

The impact of recent rate increases has been modest – the 2.76% rate change last year increased typical bills by \$2-3 per month

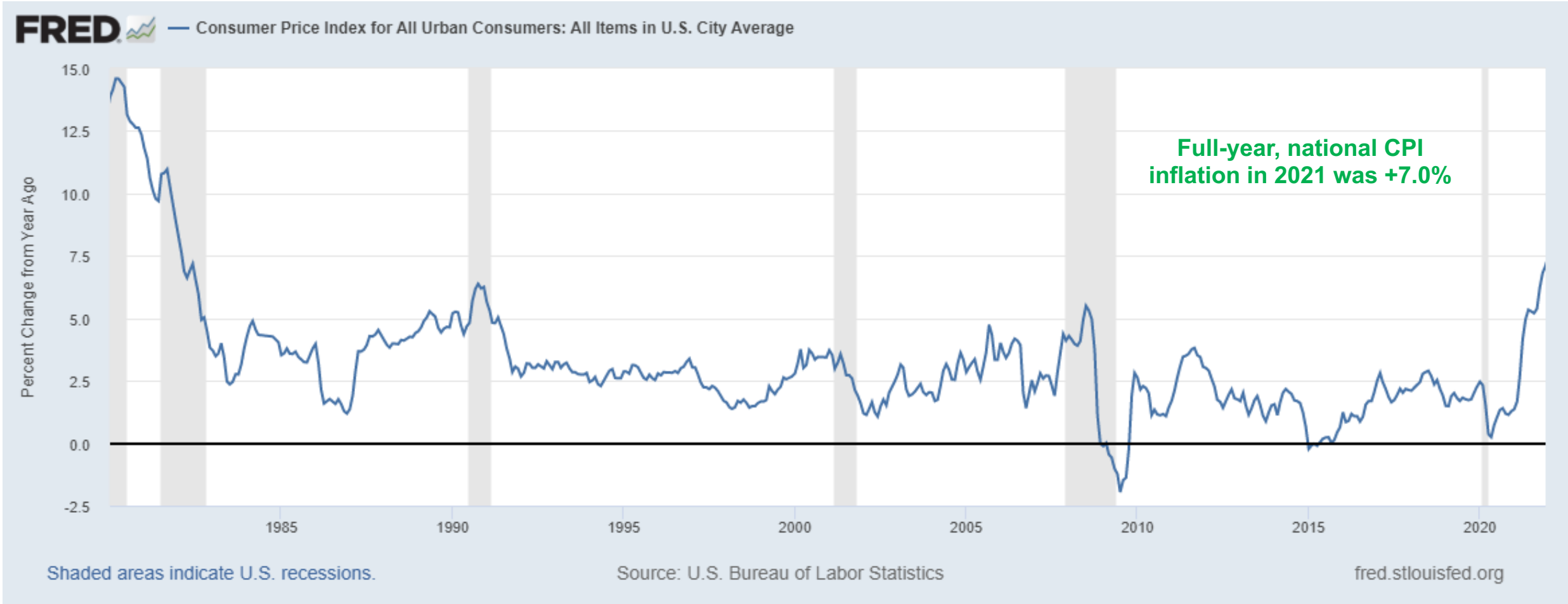
	FY 2021	FY 2022	Annual Change	Monthly Change
Single-family property (70,000 gallons per year)	\$967	\$994	\$26.69	\$2.22
Multi-family flat rate per residential unit	\$1,052	\$1,081	\$29.04	\$2.42
Minimum charge (90 gallons per day)	\$464	\$464	\$0.00	\$0.00
Cost of water and sewer service per gallon	\$0.0143	\$0.0142	\$0.00	

The Board has significantly expanded its affordability budget in recent years

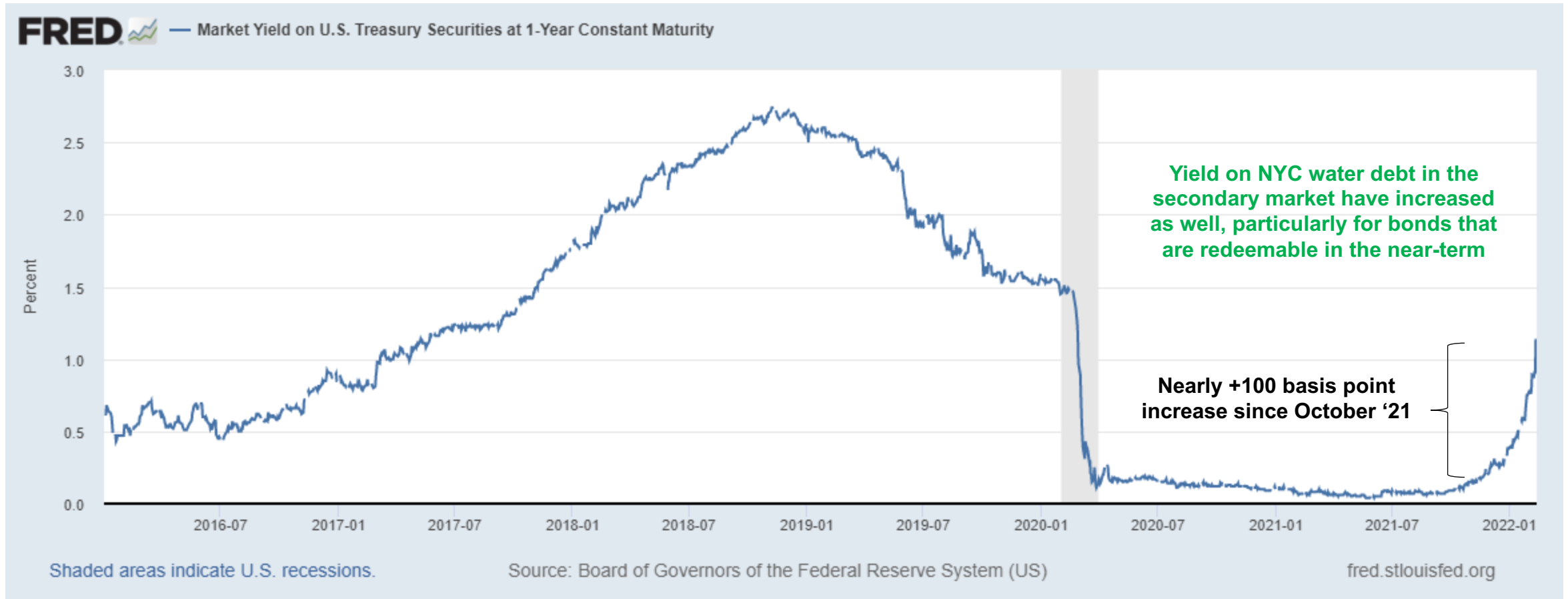
- Significantly more focus was placed on water bill affordability from 2015 onward
- Customer programs involve placing a credit on property owner water bills

Rate plan	Description
Small property owner bill credit	<ul style="list-style-type: none">• Auto-enrollment program that issues credit equal to ~10% of typical metered bill to properties with verified incomes• Lists of pre-screened, verified eligibles obtained from City finance and housing agencies• Program benefit expanded to ~15% of typical metered bill in FY 2022
Affordability-protected multifamily bill credit	<ul style="list-style-type: none">• Application based program that issues a credit equal to 25% of typical flat rate charge, or 30% of typical metered charge, to multifamily rental properties subject to a long-term affordability agreement and with an investment in water conservation property improvements
Special one-time bill credit	<ul style="list-style-type: none">• The system issued a one-time bill credit in 2018 to 1-3 family properties, as the partial use of a one-time change in City financial policies
Leak forgiveness program	<ul style="list-style-type: none">• Application based program open to any number of applicants that experience a water leak and make a repair that returns water use to normal levels• Approved applicants receive a bill credit equal to 50% of the dollar cost of the leak, provided evidence of repair is visible

A final comment, we are closely watching inflation and interest rates right now



Short-term borrowing rates are trending upward, albeit from the very low stimulus rates during the pandemic



Questions?

Sustainable Rate Structure Analysis Update

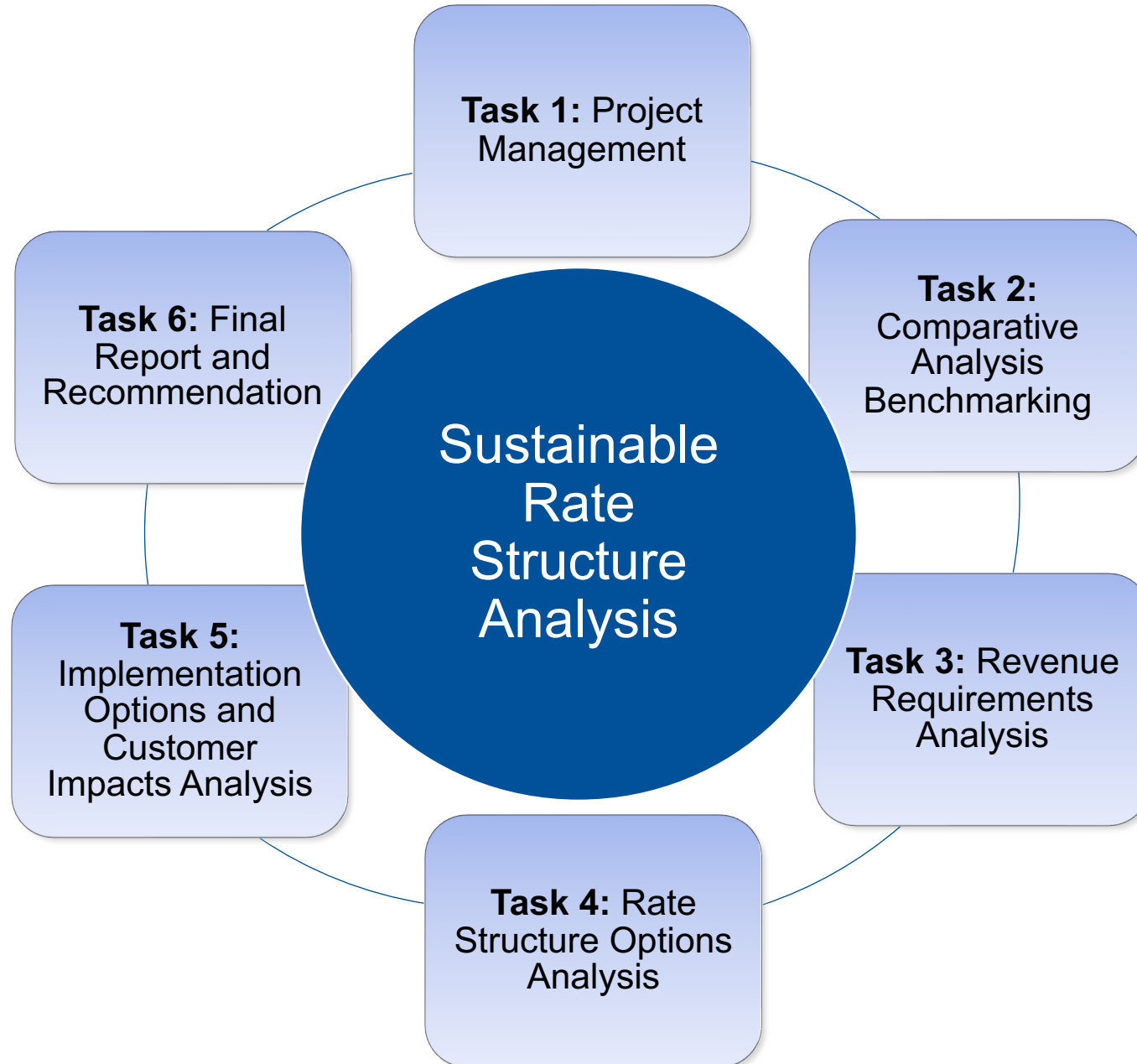
Alan Cohn

MANAGING DIRECTOR, INTEGRATED WATER
MANAGEMENT



Overview of Study

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SRSA Study Rate Structure Goals

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Balance competing needs including State of Good Repair, Level of Service, climate resiliency, conservation, and green infrastructure



Promote equity and customer affordability among customer classes based on characteristics of service and demographic indices



Promote rate and revenue stability



Achieve a reasonable correlation between cost of service and usage



Achieve compatibility with DEP's billing system (ease of implementation from a billing and customer service perspective, plus flexible ongoing maintenance)

Task 2: Comparative Analysis Recap

Utility	Fixed Charge	Stormwater Charge	Development Investment Charge	Affordability Rate Design ⁽¹⁾
New York				
Atlanta	✓			
Baltimore	✓	✓		
DC Water	✓	✓	✓	✓
Ft. Lauderdale	✓	✓	✓	✓
Houston	✓	✓	✓	✓
Ithaca	✓	✓		
Philadelphia	✓	✓		
San Francisco	✓	✓ ⁽²⁾	✓	✓
Seattle	✓	✓	✓	
Tampa	✓	✓	✓	

Notes:

⁽¹⁾ Cities that specifically designed rates to provide affordability (e.g., “lifeline” rates), outside of CAP program

⁽²⁾ San Francisco plans to implement a stormwater charge in FY 2022.

Rate Structure Options to be Analyzed

1. Fixed Charge option
2. Stormwater Charge & Credit option*
3. Development Investment Charge option
4. Rate option for low-income customers
5. Hybrid option (Combination of 1 - 4)

**SRSA rate structure options include a baseline with sewer & stormwater combined (i.e., no stormwater charge).*

Fixed Charges

What are fixed charges?

- Charges that are collected regardless of metered water use
- Reflect that fact that DEP must maintain facilities and be prepared to provide service regardless of actual use

How would they be determined and implemented?

- Set to recover portion of fixed costs: administrative and readiness-to-serve
- Typically scaled by meter size to reflect potential demand on systems (i.e., larger the meter size the higher the fixed fee)

What are the potential benefits?

- Provide a fixed revenue stream to the utility (revenue stability)
- Provide dedicated funds / can be set to provide funds for system reinvestment

Example:

Philadelphia, PA

Monthly fixed charge

Meter Size	Water	Sewer
5/8"	\$5.21	\$7.01
3/4"	\$5.55	\$8.93
1"	\$6.70	\$13.07
1-1/2"	\$8.88	\$22.97
2"	\$12.32	\$35.42
3"	\$19.44	\$63.82
4"	\$35.39	\$108.49
6"	\$66.29	\$213.81
8"	\$100.66	\$338.27
10"	\$147.50	\$488.25
12"	\$239.32	\$887.22

Stormwater Charge and Credit Program

What are stormwater charges and credits?

- Charges that are intended to recover all or portion of the cost of providing stormwater management (currently recovered in sewer rates)
- Credits are ongoing reductions in stormwater charges for onsite stormwater management

How would they be determined and implemented?

- Stormwater charges are typically assessed based on the amount of impervious area on a parcel (more impervious area results in greater runoff/contributions to system)

What are the potential benefits?

- Align cost of service and amount paid for service
- Provide increased rate and revenue stability
- Can provide dedicated funding stream for stormwater management

Example: Baltimore, MD

Monthly stormwater charge

Single-Family	
Impervious Area (sq. ft.)	Monthly Charge
< 820	\$3.97
820 - 1,500	\$5.95
> 1,500	\$11.90

Non-Single-Family	
Impervious Area	Monthly Charge
Per 1,050 sq. ft. of impervious	\$5.95

Development Investment Charge

What are development investment charges?

- One-time charge that is assessed to new customer joining the water and/or sewer system to recover portion of cost of capital investments required to serve
- Also often applied to redevelopment that requires an increase in capacity within the utility system

How would they be determined and implemented?

- Investment charges are typically based on the cost of historical capital investments
- Charges are often assessed based on the size of customer connection (i.e., meter size)

What are the potential benefits?

- Charges provide alignment with cost of service (“growth pays for growth”)
- Can provide additional funds to meet capital needs of the system

Example: DC Water

One time charge applied to new development / redevelopment

Meter Size	Service Availability Fee	
	Water	Sewer
5/8"	\$1,135	\$2,809
3/4"	\$1,135	\$2,809
1"	\$1,135	\$2,809
1-1/2"	\$5,491	\$13,591
2"	\$11,125	\$27,536
3"	\$32,500	\$80,442
4"	\$83,388	\$206,394
6"	\$229,246	\$567,408

Rate Options for Low Income Customers

What are “lifeline” rates?

- A water rate structure that provides an initial “lifeline” quantity of water at a reduced water rate (DEP currently charges the same unit rate for all metered water)

How would they be determined and implemented?

- Lifeline volume of water determined based on basic/essential indoor water needs
- Lifeline rate can be offered to all customer classes to provide equity

What are the potential benefits?

- Assists with affordability of water service
- Encourages the wise use of water resources

Example: San Francisco

Rate per unit of billed monthly water use

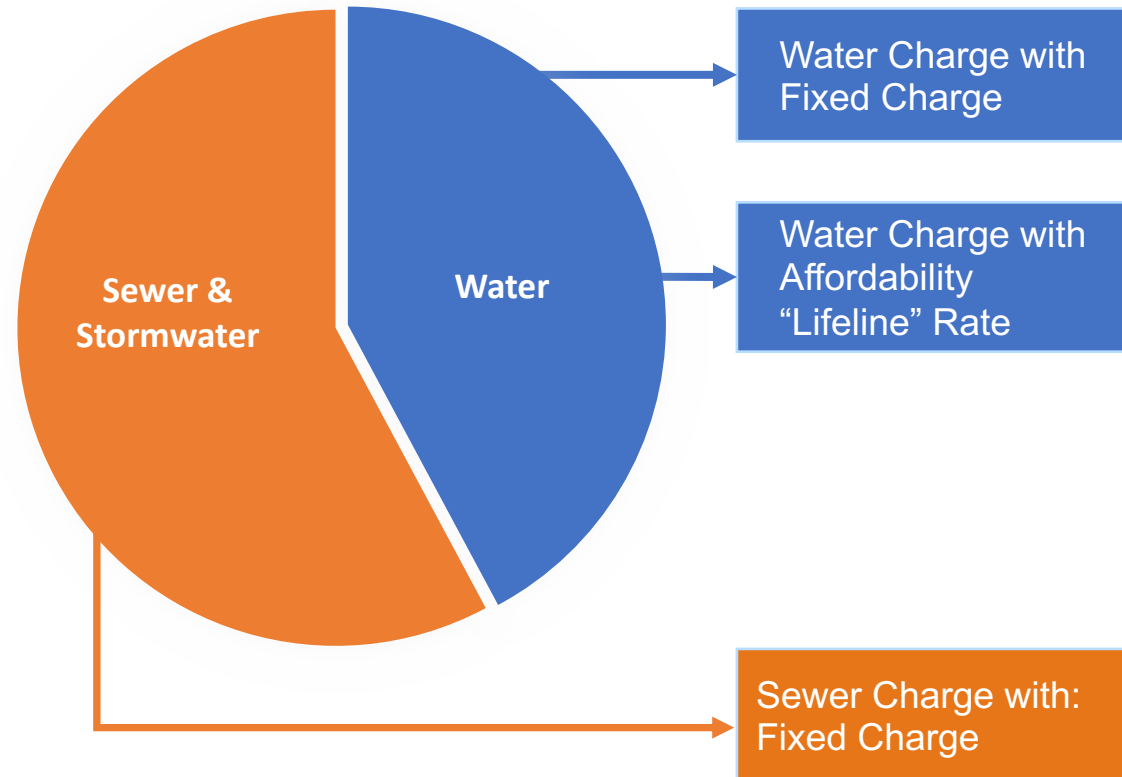
Single-Family	
Water Use	Water Rate per CCF
0 - 4 CCF	\$8.68
> 4 CCF	\$10.15

Multi-Family	
Water Use	Water Rate per CCF
0 - 3 CCF*	\$8.73
> 3 CCF*	\$10.23

*Per dwelling unit

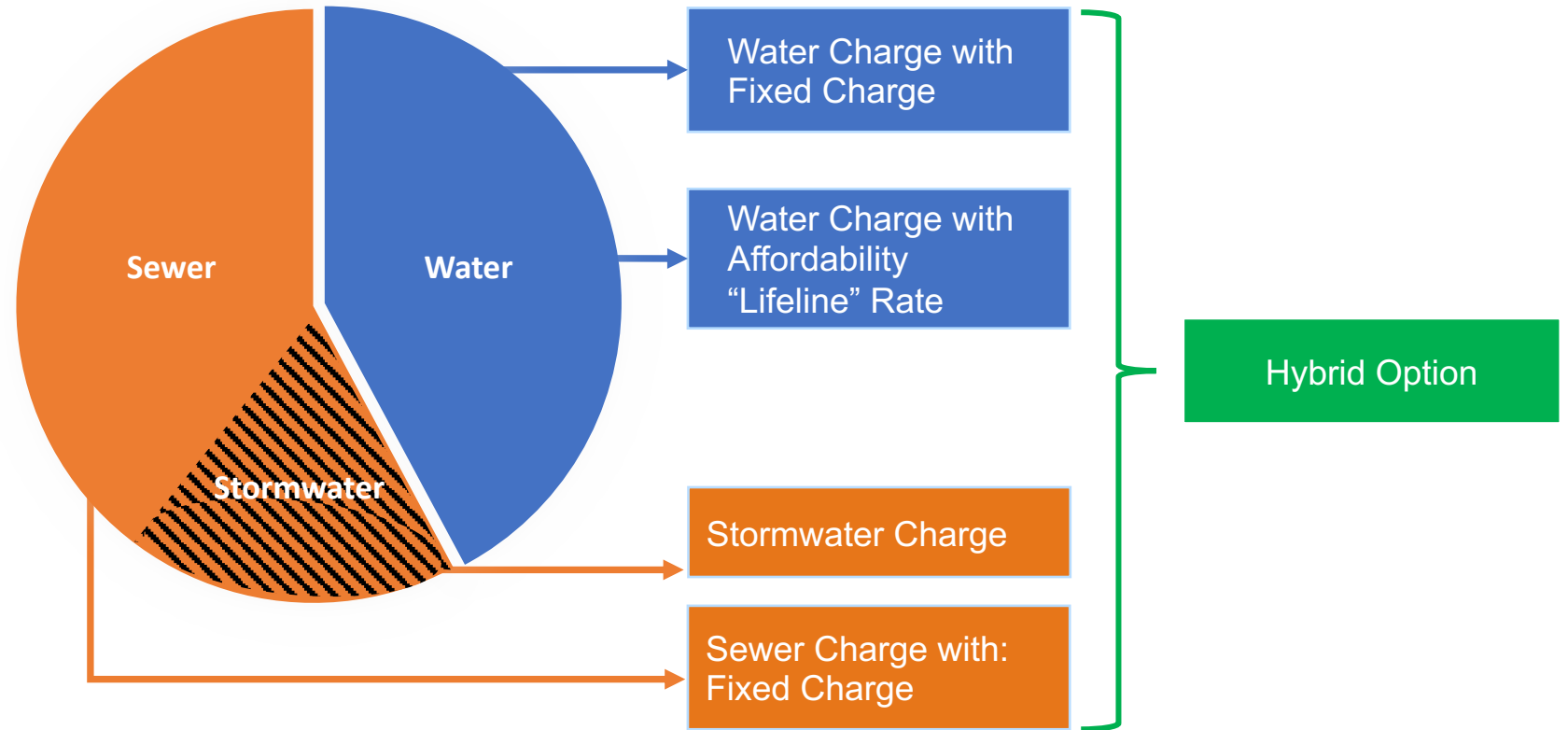
Overview of Current / Upcoming Tasks

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Overview of Current / Upcoming Tasks

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Questions & Next Steps

Thank you!