



Philly's New Water Pricing Model for Low-Income Residents Is a U.S.-first

By Erin Bonney Casey



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The City of Philadelphia has thrust itself into the broader national discussion on the affordability of water with its newly launched and unique water pricing model.

In an era of rising water rates and constrained municipal budgets, Philadelphia is adapting to shifting market conditions. The goal of Philadelphia's innovative pricing structure, the first of its kind in the United States, has been designed to insulate the poor from rising water rates, while mitigating the rise of late and unpaid water bills.

Nationally, residential water and wastewater bills have steadily increased by an average 5.7 percent annually over the past five years, outpacing average annual income growth (5 percent) and inflation (1.9 percent), according to Bluefield Research. Rate increases in Philadelphia are necessary for the publicly-owned water utility to cover annual operating expenses and capital expenses totaling an estimated \$1.04 billion from 2016 and 2025. Rate increases like these are placing pressure on low-income customers and magnifying the financial challenges facing municipal water utilities.

In Philadelphia, water and sewer bills make up approximately 14 percent, or \$64 per month, of average household utility bills including gas, power, mobile phone service, and cable-internet. As a result, delinquency has become a major issue for the Philadelphia Water Department (PWD). In total, unpaid water bills exceed \$260 million, coupled with 40 percent of customers falling behind on bill payments at any given time. This has undermined water and sewer services and forced new pricing strategies.

The issue of water affordability is especially pronounced in Philadelphia, which ranks 22 out of the top 50 large metropolitan areas for water bills. Philadelphia households' water and sewer

bills have already increased 29 percent since 2012, and another 5 percent increase is planned for 2018. Further, over 20 percent of households faced a water shutoff at least once since 2012. With the city's poverty rate at 26.4 percent, well above the 13.5 percent national average, placing additional burdens on the lowest income residents is unsustainable.

Attempting to address these issues, the City of Philadelphia has launched a tiered assistance program (TAP), an income-based water rate structure, making the city the first in the nation to establish water rates based on income. The change stems from Philadelphia City Council's establishment of an Income-Based Water Revenue Assistance Program (IWRAP) in 2015. What makes the program unique is that it applies to all households making less than 150 percent of the poverty line, without requiring residents to fall behind on bills or undergo a lengthy applications process before qualify for rate assistance.

The program requires households making 0 to 50 percent of the poverty line to pay 2 percent of monthly income for water, households at 51 to 100 percent of the poverty line will pay 2.5 percent of income for water, and a household between 101 and 150 percent of the poverty line will pay 3 percent for water. The department estimates that close to 60,000 customers will be eligible for the

TAP program, up from the approximately 7,500 currently enrolled in the Water Revenue Assistance Program (WRAP). Philadelphia's new income-based pricing structure follows the example of the energy sector, which implemented income-based rates in Pennsylvania when the industry was deregulated in the 1990s.

Broadly speaking, tiered water pricing structures have traditionally been the most common mechanism employed by utilities and municipalities to limit the cost of critical water supplies, while charging premiums for higher water usage (e.g. swimming pools, lawn irrigation). Nevertheless, Bluefield's analysis shows that rate increases since 2012 have had a greater impact on low water users in 26 of the top 50 largest water utilities in the United States.

Nationally, water utilities are seeking innovative strategies to recoup water utility costs. In some cases, utilities are shifting to higher fixed rates to protect utility revenues from consumption fluctuations. Austin Water, for example, is moving towards a structure that relies on higher fixed rates to smooth out utility revenues. Utilizing a different innovative pricing mechanism, the City of Atlanta has levied a 1 percent sales tax that goes towards water, sewer, and stormwater projects instead of raising rates by 25 percent over the next three years. Meanwhile, the State of California is in the process of designing a statewide program to provide aid to residents who need help paying their water bills.

The effectiveness of Philadelphia's new pricing model remains to be seen, but it is clear that rising costs and public pushback are forcing utilities to move beyond traditional pricing practices to keep pace.

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