



Fact Sheet

Restructuring Rates for Long-Term Affordability: Guidance for the Water Sector

Overview

As income inequality increases and water rates go up, particularly for low-volume residential customers, more people will be unable to afford their bills, which can hurt utilities' financial stability.¹ Customer assistance programs can be a useful tool, but they tend to reach only about 10–15 percent of eligible customers (although further research is needed to better understand the effectiveness of these programs).² Increasing enrollment in assistance programs requires utilities to dedicate more time and resources to outreach, which can be challenging—particularly if they do not already have staff with the right skillsets. In some cases, customer assistance programs would not be financially viable for utilities if there were full participation. While utilities should build internal capacity for outreach to increase enrollment, they can also consider affordability strategies that are applied without application processes.

Adjusting rate structures and cost recovery mechanisms can be some of the most effective approaches to eliminating the need for shutoffs and liens. After the initial research and adjustment period, affordable rate structures can support a more sustainable financial model, and they generally do not have ongoing administrative costs or require people to fill out paperwork. Utilities may find that having a basic customer assistance program in place is still useful to support extremely low-income households, but most low-income customers will not need assistance when rates are more affordable for the levels of service required to meet basic needs.

Opportunities for Action

There are many rate structure and pricing options that can help ensure long-term affordability. In addition, operational cost savings and revenue-generating measures can help keep residential rates low for all customers. Shifting costs from residential to commercial and industrial customer classes can also help reduce the burden on low-income communities. Utilities should explore the model that works best for the context they work in and the communities they serve.

Utilities may face legal constraints and political pushback to restructuring rates for affordability. Several arguments can help make the case for this strategy. Charging rates that people can realistically pay is more effective in the long term than charging unaffordable rates and having to do collections, perform shutoffs, and administer extensive customer assistance programs. Utilities can calculate these costs and compare them to the changes in revenue associated with more affordable rates. Another point to consider is that existing rate structures may be inequitable; for example, under declining block structures, lower-income households with low water usage effectively subsidize higher-volume water users. Finally, ensuring that everyone has access to the water services needed for survival contributes to public health and well-being.

Below is an overview of different rate structure options:

Rate structure	Description	Pros	Cons	Examples
Inclining block	Rates for low-volume residential usage are low; higher-volume water usage corresponds to higher rates.	Makes survival water use more affordable for all residential customers; incentivizes water conservation; relatively simple to implement; does not require customers to apply or enroll.	May negatively impact large low-income households without additional measures such as adjusting for household size.	Los Angeles Department of Water and Power uses an inclining block rate structure.
Lifeline	A baseline quantity of residential water usage needed for survival is free or heavily discounted; after that threshold is crossed, higher rates are charged.	All households are guaranteed essential water usage; incentivizes water conservation; does not require customers to apply or enroll.	May negatively impact large low-income households without additional measures such as adjusting for household size.	DC Water's Lifeline Rate heavily discounts the first unit of water usage (about 3,000 gallons). In 2017, customers paid \$3.23 for the first 3,000 gallons of water in a month.
Income-indexed	Low-income customers' bills are calculated as an affordable percentage of their income, regardless of consumption.	Makes bills unconditionally affordable for low-income people.	Requires customers to apply for the lowered rate and requires utilities to verify income, creating administrative burdens and costs; does not incentivize conservation without additional measures.	Philadelphia Water's Tiered Assistance Program charges low-income households rates based on their income.
Tax-based	Uses local income, property, or sales tax funds to cover certain system costs and supplement customer rates.	Reduces the need for rate increases; recognizes that water access (like schools and roads) is a societal good and that costs should be shared across the tax base; does not require customers to apply or enroll.	Sales taxes can be regressive; property tax-based funds may increase the property tax burden and lead to more foreclosures without additional measures.	Atlanta Department of Watershed Management's Municipal Option Sales Tax uses a one percent sales tax to support water and sewer system investments. This tax revenue has made it possible to avoid a 25 percent increase in water and sewer rates.
Property-based charges	Pays for a portion of utility costs associated with public health through charges based on property value, square footage, frontage feet, or other premise-based variables.	Reduces the need for rate increases; recognizes that water access is a societal good; does not require customers to apply or enroll and instead uses proxies for income like property value and size.	May negatively impact outlier cases (like low-income people living in large homes or homes that have increased in value) without additional measures such as accounting for the property value when the home was last sold.	The US Water Alliance's Pricing Water Pilot is exploring how an alternative pricing model would impact people, rates, taxes, and system stability using real-world utility and city data.

Notes

- 1 Manny Teodoro, “Squeeze Play,” Manny Teodoro (blog), December 19, 2019, <https://mannyteodoro.com/?p=1346>.
- 2 Sridhar Vedachalam and Randall Dobkin, “H2Affordability: How Water Bill Assistance Programs Miss the Mark” (Washington, D.C.: Environmental Policy Innovation Center, 2021), 19, http://policyinnovation.org/wp-content/uploads/H2Affordability_AssistancePrograms.pdf.

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