



# Detroit Water and Sewerage Department

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## Legislation Text

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The Board of Water Commissioners for the City of Detroit, Water and Sewerage Department **authorizes DWSD management to include \$2.25 million for water affordability actions in the FY 2018 budget and to further develop an inclining block rate structure** and also authorizes the Director to take such other action as may be necessary to accomplish the intent of this vote.

**Agenda of February 15, 2017**

**Item No. 17-0045**

**Title: Approval of Affordability Action Items for Development and Inclusion in FY 2018 Budget**  
**Marcus Hudson**

**TO:** The Honorable  
Board of Water Commissioners  
City of Detroit, Michigan

**FROM:** Gary Brown, Director  
Water and Sewerage Department

**RE:** **Approval of Affordability Action Items for Development and Inclusion in FY 2018 Budget and to further develop an Inclining Block Rate Structure**

### MOTION

Upon recommendation of Marcus Hudson, Chief Financial Officer, the Board of Water Commissioners for the City of Detroit, Water and Sewerage Department **authorizes DWSD management to include \$2.25 million for water affordability actions in the FY 2018 budget and to further develop an inclining block rate structure** and also authorizes the Director to take such other action as may be necessary to accomplish the intent of this vote.

### JUSTIFICATION

Currently, 40 percent of Detroit's residential customers live below the poverty line. Further, the monthly water and sewerage bill for approximately 55 percent of Detroit residences exceeds three percent of their monthly gross income; the level considered a burden by the United Nations. The income-bill relationship has led to significant collection costs and an excessive bad debt percentage which, even with improved collection efforts, currently stands at approximately 8-10 percent of revenue. DWSD Finance analysis suggest the financial benefit of a reduction in bills through improved collections, reduced collection costs, and lower customer contact management costs exceeds the costs of implementing the programs; hence, ratepayers as a class will be in a better financial position post program implementation.

### BACKGROUND

DWSD has calculated the probability of delinquency given the income-bill relationship. Our analysis has allowed us to estimate the impact of varying pricing and affordability mechanisms. We have settled in three:

- Inclining Block Rate Structure
- Toilet Replacement
- WRAP Expansion with permanent assistance

Inclining Block: The inclining block rate structure would charge a reduced rate for the first 2 ccf of water usage for ALL customers. The lower rate would reward customers for lower water usage while providing for a more equitable distribution of costs to those that

use the system the most. On average, we anticipate the average resident, based off of historical usage, to receive approximately a 3.5 percent discount on their current bill. Implementation of the rate structure is cost neutral, but we anticipate the net benefit to ratepayers to approximate \$1 million.

Toilet Replacement: In addition to drainage charges, much of the bill for the average resident is driven by sanitary water use; approximately 25-30 percent of the average Detroiters' bill is driven by toilet use. Given the typical Detroit home has 5 to 7 gallon toilets versus today's standard 1.6 gallon toilet, significant opportunity exist to reduce bills of lower income residents through toilet replacement. DWSD finance analysis suggest replacing these toilets at DWSD's expense provides a net benefit to rate payers through lower costs allocation and higher collection rates. DWSD is requesting \$1.25 million to pilot this program in FY 2018.

WRAP Expansion: Currently DWSD's WRAP participation is time limited. While this may help a significant number of customers "catch-up", our analysis suggest that the program is delaying an inevitable financial struggle for other WRAP participants given the increase in their bill-income relationship post their participation in WRAP. Further, DWSD Finance analysis shows a point exist where, given the bill-income relationship, DWSD loses money on a certain subset of customers at our current rate's, increasing costs to all rate payers. For this subset, analysis suggest permanent assistance would be more appropriate. DWSD management is requesting \$1 million for WRAP expansion to pilot this endeavor in FY 2018.

The recommendation was reviewed by the Finance Committee on February 8, 2017.