

Keeping Water Affordable: Accounting for the Drivers Behind Increasing Rates

The California Urban Water Agencies (CUWA) collectively treat, monitor, and deliver water to approximately 26 million Californians. In 2018, CUWA agencies collectively sold over 2 billion gallons of water per day, delivered through over 20,000 miles of pipe. Considering the extensive systems and resources needed to provide this reliable service, tap water is a great value—and yet, for many households, it is becoming less affordable.

CUWA agencies are committed to keeping water services both reliable and cost-effective, recognizing that water bills compete with many other household expenses. Agencies are implementing new technologies and operational efficiencies to mitigate costs, such as robotic pipeline inspections and use of alternative energy sources. However, infrastructure is aging, water quality standards are becoming more stringent, and our climate is changing. Despite new efficiencies, the cost of delivering clean, safe water continues to rise.

UPWARD PRESSURE ON COSTS TRANSLATES TO HIGHER RATES FOR CUSTOMERS

Public water agencies operate on a cost-of-service basis, funded primarily from water sales. Every dollar from customers' water bills is invested back into the water system to support day-to-day operations and maintenance, long-term improvements, and regulatory compliance. Over the years, CUWA agencies' increasing costs have driven up residential water bills an average of 7% per year from 2007 to 2014 (Figure 1)—more than double the rate of inflation. In more recent years, bills declined due to emergency conservation during the drought. Looking ahead, costs and water bills will rise as the CUWA agencies invest in capital improvements (estimated at nearly \$24 billion over the next 10 years), largely to address aging infrastructure, supply diversification, and other needs.

THE AFFORDABILITY CHALLENGE

Although the cost of water is increasing, there is a limit to what ratepayers can afford and are willing to pay. Water is becoming less affordable for communities across California—according to a recent survey, the average water bill statewide increased 125% from 2003 to 2013, while median incomes increased only 12% in the same timeframe.¹

CUWA agencies alone serve over 5.5 million low-income customers, and under Proposition 218, ratepayer funds cannot be applied to rate assistance programs. Still, all CUWA agencies with retail customers offer some form of low-income rate assistance funded by non-rate revenue. In conjunction with the state, CUWA is exploring other approaches within existing regulatory constraints to make water affordable for our communities.

CUWA's Ask of State Leaders – Account for the Costs of New Proposals.

By evaluating the costs of new proposals—and the consequential impact on ratepayers—state and local agencies can make informed, collaborative decisions about future programs and requirements that benefit our communities without introducing a significant cost burden. Legislation and regulations that are accompanied by a source of funding and weighed against other demands on the ratepaying public can limit the overall cost impact and help keep water affordable.

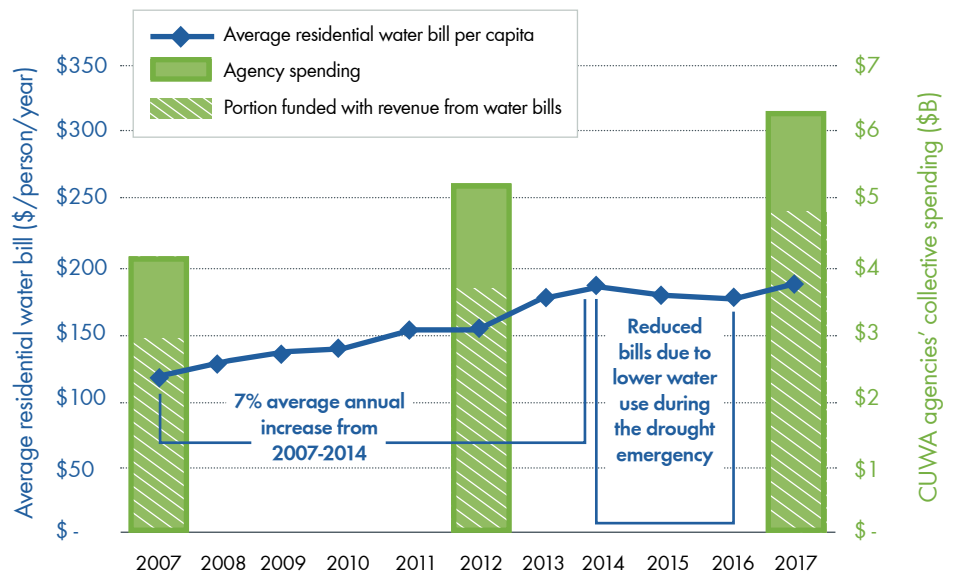


Figure 1. The rising cost of delivering water is leading to higher water bills for our communities.

Note: Other funding sources include debt proceeds, grants, interest income, taxes, development fees, recreational fees, and other miscellaneous income.

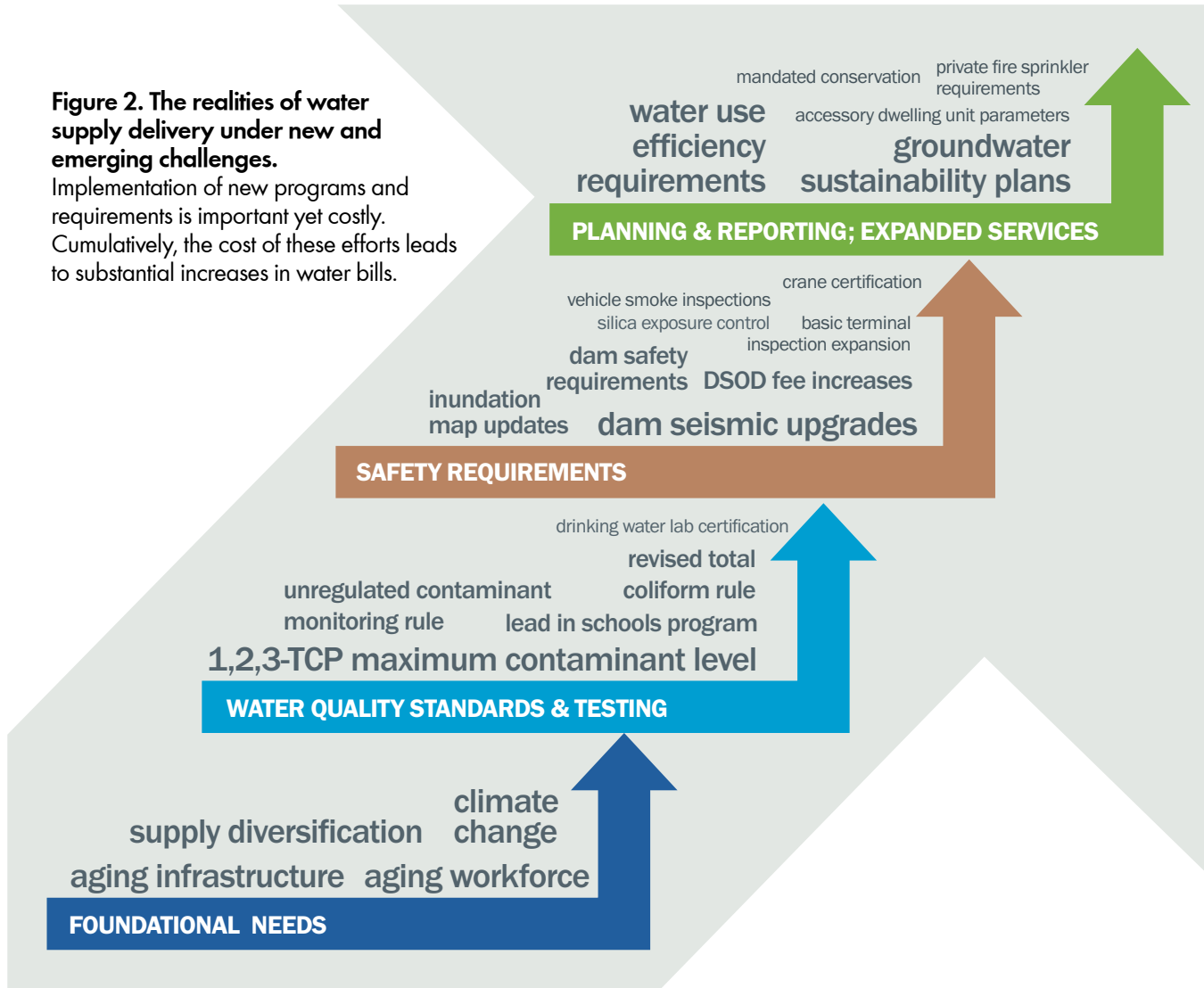
¹Gaur, Sanjay, and Magu Diagne. "California Water Rate Trends: Maintaining Affordable Rates in a Volatile Environment." *Journal - American Water Works Association*, vol. 109, no. 9, 1 Sept. 2017.

THE CUMULATIVE IMPACT ON RATEPAYERS

CUWA agencies are committed to delivering safe, reliable water supplies. While state and local programs support this mission, the cumulative cost of implementing these programs and addressing emerging challenges is approaching the limits of affordability, particularly for low-income customers. A CUWA analysis conducted in 2015 found that low-income customers were spending an average of 4.5% of their income on water bills alone, and current trends suggest that this number will continue to rise. Therefore, affordability must be a key consideration when introducing new efforts that will increase costs. CUWA urges state leaders to acknowledge and account for these costs and explore funding mechanisms that minimize the burden on ratepayers.

Figure 2. The realities of water supply delivery under new and emerging challenges.

Implementation of new programs and requirements is important yet costly. Cumulatively, the cost of these efforts leads to substantial increases in water bills.



WHO IS CUWA?

CUWA is a non-profit corporation of 11 major urban water agencies, whose mission is to advance reliable, high-quality water supplies for California's current and future urban water needs in a cost-effective manner. The water delivered by CUWA agencies is a lifeline that supports two-thirds of the State's population and the bulk of its \$2.7 trillion economy.

For more information, visit www.cuwa.org