

# WATER AFFORDABILITY AND FEDERAL WATER ASSISTANCE PROGRAM

Internal deliberative pre-decisional - FOR USE BY 2024 PRESIDENT-ELECT TRANSITION TEAM MEMBERS ONLY

## ISSUE SUMMARY:

Water affordability is a growing issue, impacting millions of households throughout the country. Many, low-income households in communities are struggling to pay their water bills, leading to economic stress, and the potential to lose access to water services or even their homes. Some utilities also struggle to meet the rising costs for operations and maintenance and upgrading aging infrastructure. The EPA is committed to ensuring that all Americans have access to essential water services and clean water. A cornerstone of the EPA's work to address water affordability is the development of a Water Affordability Needs Assessment and Report to Congress. As part of the 2021 Infrastructure Investment and Jobs Act (IIJA), Congress directed the EPA to conduct a Water Affordability Needs Assessment that characterizes the extent and scope of water burden impacts to households and utilities across the country. This assessment is to include recommendations for a long-term federal Low-Income Household Water Assistance Program.

## KEY POINTS:

Water affordability is a growing issue that impacts millions of households throughout the country. Many low-income households in communities struggle to pay their water bills, leading to economic stress, potential loss of water services, or even loss of their homes. Some utilities also struggle to meet the rising costs for operations and maintenance and the rising costs for upgrades to aging infrastructure.

The EPA is committed to ensuring that all Americans have access to essential water services and clean water. A cornerstone of the EPA's work to address water affordability is the development of a Water Affordability Needs Assessment and Report to Congress. Additional work in this space includes the development of tools to assist in rate setting, an updated customer assistance program compendium, work with our Environmental Financial Advisory Board on financing approaches for customer assistance programs and strategies for reducing infrastructure costs.

## Background

Congress directed the Agency to conduct a Water Affordability Needs Assessment in IIJA, with specific language and requirements to be included in a Report to Congress (Division E of IIJA/BIL, Sections 50108 and 50109). These sections do not contain authorizations of appropriations which is unlike the rest of the new water programs authorized in Division E. In the Explanatory Statement that accompanied the FY 2023 Omnibus appropriation bill, Congress provided additional language on what should be included in the assessment. The IIJA language includes specific metrics and data for the EPA to collect from the water sector. *Some of metrics will require significant data collection, and the Agency would need to pursue an ICR for a robust needs assessment.* The report will include any additional information with respect to the affordable access to water services provided by water service providers and consultation with all relevant stakeholders, including rural advocacy associations. Finally, the report will include the EPA's recommendations for increasing access to affordable water services.

## Needs Assessment Scope

IIJA requires the EPA to identify municipalities with households that disproportionately face unaffordable bills for drinking water and wastewater services and requires the EPA to recommend methods for reducing the burden on low-income households, such as through customer assistance programs. At a high level, the Water Affordability Needs

Assessment is focused on providing a national picture of the impact of water burden on households and utilities. The three major parts planned for the Needs Assessment/Report to Congress include: (1) an examination of the percentage of utilities that serve a majority of households that qualify as high-water burden and the extent of debt held by utilities due to large customer arrears; (2) an examination of the definition of affordability, defining lack of access to affordable water, and number of households impacted by high water rate, as well as an analysis of the size of arrearages, number of households impacted by unaffordable rates, disconnect rates and fees, and tax lien data; (3) the scope and extent of the water affordability crisis in the U.S. along with recommendations, including cost, on how to address this challenge.

### **Approach**

The report will evaluate water affordability challenges around the country, with a focus on the percentage of income spent on water services by qualifying households and the level of debt and prevalence of water disconnections due to customer nonpayment. The EPA will rely on existing data sources in this study, such as the Low-Income Household Water Assistance Program (LIHWAP) assessment, EPA's other Needs Assessments/Surveys, several state surveys and rates dashboards, Census household datasets such as the American Community Survey, utility-specific water rate data, financial reviews, and input from stakeholder partners. EPA's report will also rely on affordability definitions and criteria used by states in the Clean Water and Drinking State Revolving Fund programs, Financial Capability Assessment Guidance, commonly used definitions by industry groups, as well as stakeholder input.

The overall report will build on the vast amount of research and resources that have focused on addressing water affordability. The intent is to leverage existing datasets, while filling gaps in particular areas such as disconnection fees and rates, rural areas, and small systems. By engaging with expert stakeholders early and throughout the report and assessment time, EPA intends to incorporate expert advice to provide informed recommendations and an informed analysis approach. There are also limitations to utilizing this approach rather than conducting a full survey. The identification of these gaps will set the stage for future research.

An important part of this work is ensuring that this report and the work EPA is conducting on water affordability, shares the story on impact of water burden to households, communities, and utilities. These viewpoints will be a critical piece of the report, as well as shared in other ways.

### **Areas of Stakeholder Engagement**

The EPA has gathered stakeholder input for this Assessment and the Report to Congress, particularly from experts who have worked to address water affordability for years. EPA held individual meetings, as well as a series of joint stakeholder calls, for utilities, associations, nonprofits, community advocacy groups and the public to provide input on the impacts of water affordability. This engagement was aimed at gathering data, examples of the impact of water burden and generating recommendations on how the federal government can address water affordability challenges for households and utilities.

**1. Challenges for water affordability:** Water affordability presents a range of challenges to communities across the country. In this report and subsequent work, the Agency wants to ensure that the range of challenges faced by households and utilities related to water costs are captured. Challenges include deferred maintenance or improvements that lead to high capital costs of infrastructure, water shutoffs, credit report impacts to households and budgeting decisions for households and utilities.

**2. Additional resources/tools/references:** Experts have worked on addressing water affordability challenges for decades. Rather than replicate prior efforts, this report intends to build on previous research and highlight findings and resources that already exist.

**3. Case studies:** Stories of the impact of water burden are critical to grounding the importance of developing long-term, sustainable recommendations to make a difference at the household and utility level. The EPA partnered with utilities and associations for examples, stories, and viewpoints of water burden impacts to include in this Report and to include in a learning module on water affordability.

**4. Affordability definitions and considerations:** Determining the methodologies and approach for defining affordability is complicated but a necessary process in compiling this report. Defining affordability will include a discussion of existing definitions that have been used, recent updates to affordability criteria, and input from stakeholders on recommended approaches to be considered for this assessment.

**5. Areas for further research and follow-up:** There is a significant amount of work that still needs to be done to address water affordability. While this assessment will fill many gaps, the EPA acknowledges that there will be remaining questions. Through the data analysis process and stakeholder engagement, the EPA has identified areas to focus on following completion of the report.

**6. Recommendations:** Challenges in addressing water affordability are complex and will require multiple solutions and strategies. Recommendations include approaches for the implementation of a long-term federal water assistance program (like LIHWAP). Specific recommendations will include funding levels for an assistance program, approaches to address renters in bill payment, and approaches to reduce overall capital costs and alternative rate structures.

#### ONGOING/UPCOMING REVIEWS FOR FY2024:

**Water Affordability Needs Assessment/Report:** A report summarizing the extent of available information related to water affordability needs, definitions of affordability, and gaps not addressed in this assessment that merit follow-up. The report will also include recommendations to address affordability challenges.

#### KEY EXTERNAL STAKEHOLDERS:

<input checked="" type="checkbox"/> Congress	<input checked="" type="checkbox"/> Industry	<input checked="" type="checkbox"/> States	<input checked="" type="checkbox"/> Tribes	<input type="checkbox"/> Media	<input checked="" type="checkbox"/> Other Federal Agency
<input checked="" type="checkbox"/> NGO	<input checked="" type="checkbox"/> Local Governments	<input checked="" type="checkbox"/> Public			

#### MOVING FORWARD:

The EPA will continue to work with water sector and community stakeholders to finalize the Water Affordability Needs Assessment. Following the submission of the Report to Congress, the EPA intends to work with our partners to share recommendations and approaches to reduce water burden in communities around the country.

To increase awareness of utility driven initiatives to address affordability, the EPA plans to update the 2016 Compendium of Customer Assistance Programs (CAPs). This will include case studies and innovative funding strategies for CAPs. Pending authorized funding for IJA Section 50109, the EPA is prepared to develop and manage a new grant program to pilot customer assistance programs to utilities.