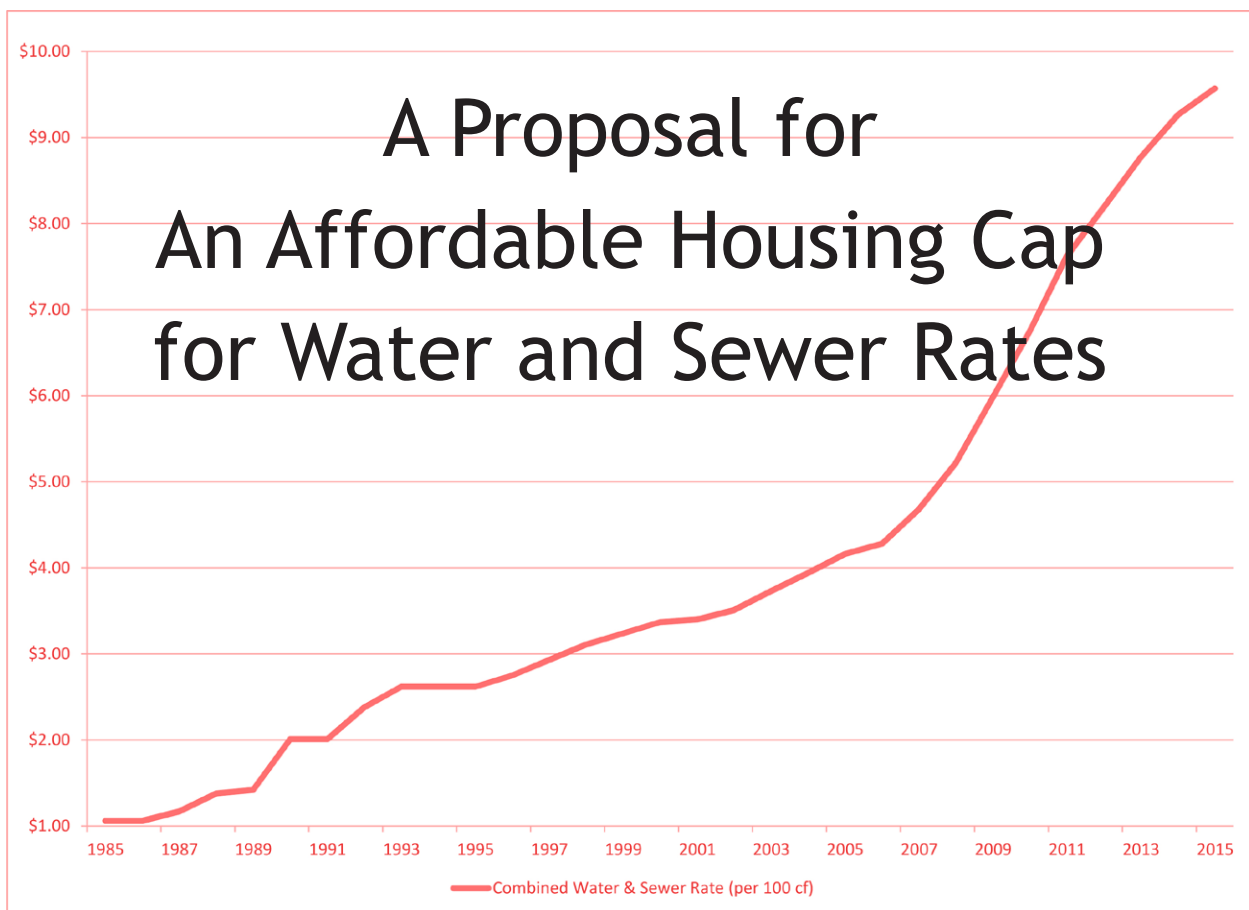


Affordable Water for Affordable Housing:



April 29, 2015

EXECUTIVE SUMMARY

The crisis of affordable housing in New York City cannot be addressed without simultaneously addressing the rising cost of water and sewer. In the context of the growing crisis of affordability, this report examines the history of rising water and sewer rates and their effects on affordable housing in New York City. Using Rent Guidelines Board data and water expense and usage data on a number of affordable buildings in the City, this report documents the disproportionate impact water costs have on affordable housing. The conclusion proposes a reduced water and sewer rate cap for buildings based on conservation and affordability commitments as an initial step in an effort to create an equitable rate setting formula. This proposed program would create a significant incentive to keep buildings from opting out of affordability regulatory agreements and a new tool to encourage owners to enter into regulatory agreements around affordability.

AN AFFORDABILITY CRISIS

“New York City’s shortage of affordable housing has reached a crisis point. A bold approach to increasing and protecting the supply of affordable housing is needed for New York City to retain the diversity and vitality of its neighborhoods...”¹ Mayor de Blasio’s housing plan addressed the affordability crisis directly. The Furman Center reports the number of rental units affordable to low income households in New York City shrank 25% between 2000 and 2012 (from 833,422 to 622,476) while the number of extremely low income and very low income households increased by 22% for the same time period (from 792,857 to 969,224).² Increasingly, New York City households are identified as rent-burdened -- spending significantly more than 30% of their income on housing. The concentration of severely rent-burdened households is highest in the west Bronx, where more than 40% of households were paying more than 50% of their income for housing in 2011.³ Given current income and rent trends, this percentage may have already reached a majority.

The problem is compounded by buildings with existing affordability regulations aging out of those restrictions. Another recent Furman Center report shows that 58,000 units of housing are eligible to opt out of all affordability restrictions between 2015 and 2024.⁴

To respond to this growing crisis, Mayor Bill de Blasio announced his “Housing New York: A Five-Borough, Ten-Year Plan” in the spring of 2014. The plan calls for the preservation and/or creation of 200,000 units over the next 10 years. Due to the severity of the affordability crisis and the scarcity of resources, the plan will need to employ multiple strategies to achieve its goal. The plan must address capital funding sources, income streams, and the reduction of

¹ “Housing New York: A Five-Borough, Ten-Year Plan.” Mayor Bill de Blasio, May 2014.

² “[Obstacles and Options for Obtaining Affordability in the City’s Unsubsidized Housing Stock.](#)” NYU Furman Center, December 2014, p. 6.

³ “2011 NYC Housing and Vacancy Survey.” US Census Bureau, 2011.

⁴ “Housing, Neighborhoods, and Opportunity: The Locations of NYC’s Subsidized Affordable Housing.” NYU Furman Center’s Moelis Institute for Affordable Housing Policy, January 2015.

operating expenses. This report concentrates on the reduction of a major line item in a building’s operating budget, specifically water and sewer charges, which, as UNHP’s Water and Sewer Rate Reform Summit pointed out, is “one [expense] area where price can be directly affected by modifications in public policy.”⁵ The rate charged for water and sewer service has nearly tripled in the past 15 years.

NYC Water Board Rate Schedule	
Year	Combined Water & Sewer Rate (per 100 cf)
2000	\$3.37
2001	\$3.40
2002	\$3.51
2003	\$3.73
2004	\$3.94
2005	\$4.16
2006	\$4.28
2007	\$4.68
2008	\$5.22
2009	\$5.98
2010	\$6.75
2011	\$7.62
2012	\$8.19
2013	\$8.77
2014	\$9.26
2015	\$9.57

The impact has been especially felt in housing with larger apartments occupied by lower income households in New York City neighborhoods, making this issue impossible to ignore when addressing housing affordability.

In its first two years, the de Blasio administration has acknowledged the impact of water costs more proactively than the previous two administrations. The Mayor has proposed the two smallest increases in water costs in 10 years, introduced the Home Water Assistance Program (HWAP), a program to provide a financial break on water in FY 2015 to assist approximately 12,500 low income seniors, and for FY 2016 he is proposing an expansion of HWAP’s eligibility to another 46,500 low income homeowners. He has also backed an extension of the freeze on the minimum charge which impacted another 594,400 accounts in FY 2014.⁶ This acknowledgment of the impact of the cost of water combined with the determination of the administration to focus on the issue of affordability, calls for a fresh look at the water and sewer rates. Addressing the cost of water in affordable housing may offer a way to stem the loss of affordable units and offer a path to gain new affordability commitments by using reduced water and sewer bills as an incentive.

⁵ “Water and Sewer Rate Reform Summit.” UNHP, April 2008, p. 1.

⁶ “FY 2016 Water Rate Proposal.” NYC DEP, March 2015, p. 26-27.

This report reviews why water and sewer costs have risen so dramatically over the past 25 years and shows the unintended consequences of the water policy in New York City on the preservation of affordable housing. The City's efforts to address the impact of that policy have fallen short in providing a long term resolution to these problems. The report examines the cost of water at a neighborhood level. Finally, the report suggests several ways to address the problem including lower rates for housing under existing affordability regulatory requirements and also available to owners willing to enter affordability agreements for the first time.

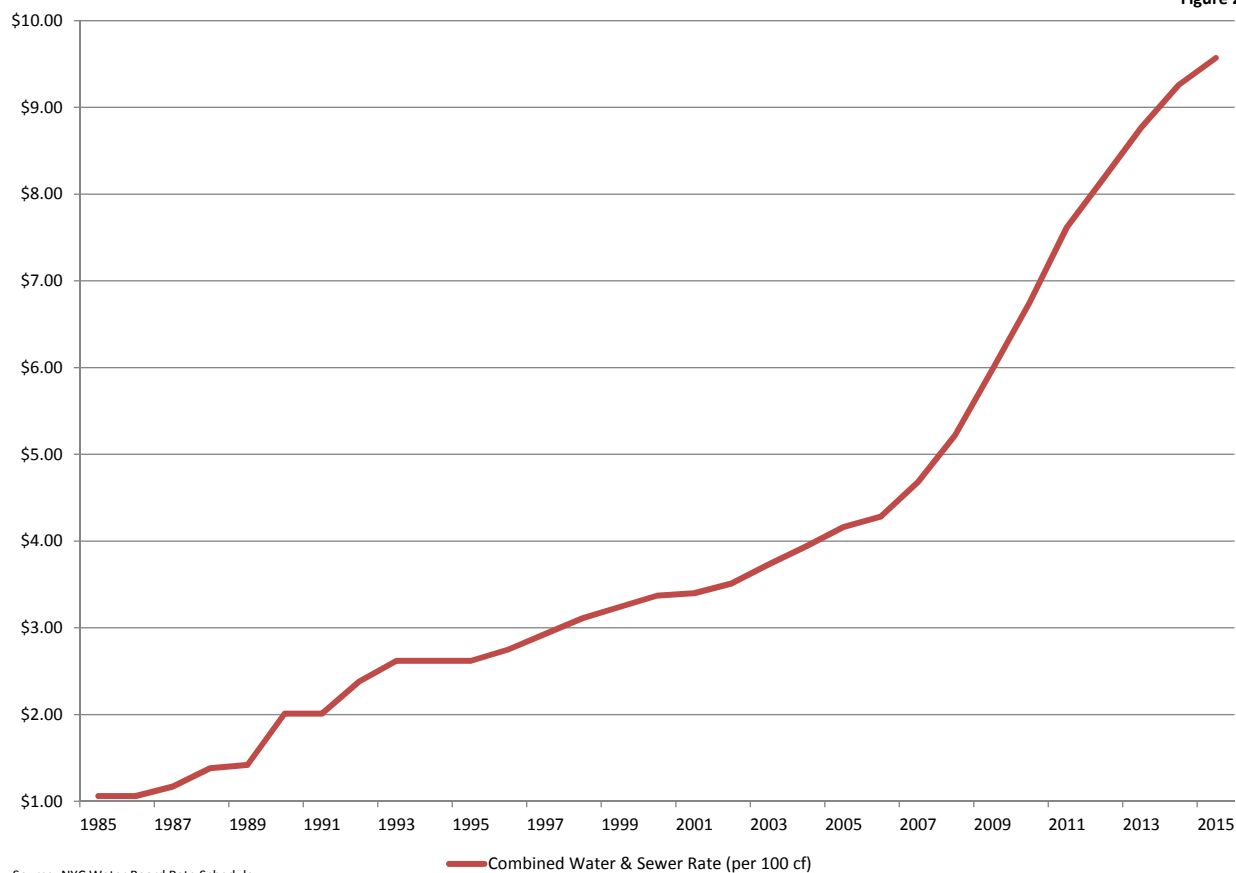
THE RISING COST OF WATER

Water and sewer rates have risen steadily since 1984, the year when state legislation was enacted allowing the City to fundamentally change the way in which the water system was operated and funded. The legislation moved direct responsibility of the provision of water and sewer service into the hands of the New York City Water and Sewer System, referred to in this report as "the System." This allowed the City to move the financial responsibility for operating and funding the System to the newly created entity, which was composed of the New York City Municipal Water Finance Authority ("the Authority") and the New York City Water Board. The Authority funded the capital costs of the System by issuing bonds. The Water Board was authorized to lease the System from the City and to set and collect rates, fees, rents, and other charges for the use of the System.

The board of the Authority is composed of seven members that include the NYC Commissioners of the Departments of Environmental Protection (DEP) and Finance (DOF), the City Director of Management and Budget, the State Environmental Commissioner, and three public members, two appointed by the Mayor and one appointed by the Governor. The Water Board, composed of up to 7 people appointed by the Mayor, is required to set rates at levels high enough to cover a) the operating costs of the system, b) the debt service for the bonds issued by the Water Finance Authority, and c) a rental payment payable upon request of the City equal to the greater of the amount of debt service on water related debt incurred prior to 1984 or 15% of the debt service payable to the Authority.

While the creation of the System allowed the City to meet other financial obligations and finance capital work unrelated to water, including the \$4.2 million Mayor Koch housing plan, it contributed to a sharp increase in water and sewer costs for ratepayers. By 1992, the water and sewer costs in New York City had increased by 125%, a trend that has continued as shown by Figure 2.

Figure 2



The City also decided in 1984 to implement a Universal Metering Program. The Koch administration committed to universal metering after New York City suffered through two droughts in five years.⁷ In 1985, the City Council passed legislation requiring meters in all newly constructed or substantially renovated buildings. Universal metering was subsequently included by the City in several consent decrees that were signed in response to state litigation against the City for exceeding flows to several sewage treatment plants. Al Appleton, then DEP Commissioner, viewed metering as a key part of the City's strategy to reduce water consumption while also reducing "flows entering sewage treatment plants, bringing them into compliance with their state permits" and eliminating the need for additional sewage treatment facilities saving hundreds of millions in construction costs.⁸

The situation for ratepayers grew worse due to the steady decline of federal grant support for the capital costs related to water. The Citizens Housing and Planning Council (CHPC) reported that, "in 1988, rate payers [sic] paid for 48 percent of the capital needs of the water and sewer system... By 1993 rate payers paid for 97 percent of the systems capital needs."⁹

⁷ Soll, David, "Empire of Water, An Environmental and Political History of the New York City Water Supply." March 2013, p. 161.

⁸ *Ibid*, p. 162.

⁹ Shultz, Harold, "The Urban Prospect: Liquid Assets." CHPC, March 2008, p. 2.

The City also decided to move away from its flat charge billing system known as frontage and transition to metered billing. Frontage bills were based on a formula that factored in the number of apartments, the number of fixtures, the height of the building and the length of the lot line along the front of the building. The switch to metering created a situation that would make water and sewer bills much more volatile for many customers. The predictability of a frontage charge simplified budgeting and loan underwriting with regard to water and sewer costs. Basing bills on actual use created an incentive to reduce water use. However, not all ratepayers are able to control their water use equally. Owners and managers of apartment buildings have one meter for their entire building and cannot control the water use in individual apartments. Owners of buildings with larger apartments and/or larger households are guaranteed to have higher usage and larger water charges.

A number of City leaders at the time noted the problem that was brewing. In 1992, Former City Housing Commissioner Roger Starr and former assistant Housing Preservation and Development Commissioner Peter Judd wrote, "Another problem with metering apartment buildings is that the heaviest water users turn out to be those who can least afford to pay higher rates.... Results of meter readings show that the highest household water use is in low-income neighborhoods, in part because of large families and overcrowding."¹⁰

The 2000 Report "The Impact of Water Metering on Affordable Rental Housing in New York City" confirmed Judd and Starr's earlier findings, stating that, "while metering will bring about a reduction in water and sewer bills for buildings in census tracts with low poverty rates, it will lead to substantial increases in neighborhoods with high poverty rates."¹¹ The validity of those concerns led to the creation of several programs by the Water Board and DEP (Retroactive Transition, Bill Cap, and ultimately the Multifamily Conservation Program) to try to stabilize rates in buildings with high water use.

While the programs provided some immediate relief for buildings with potentially high metered bills, the reprieve was temporary. These fixes could not solve the problem caused by an inherently flawed system. Water and sewer rates continue to climb along with rising annual debt service numbers.

CHPC reports that "Another component of the increase in costs is the rental payment made by the Water Board to the City of New York."¹² In 2005, as the Authority's debt continued to rise, 15% of the Authority's debt service payments exceeded the payments on the pre-1984 water related municipal debt triggering the lease requirement that the payment be the "greater" of the two amounts. As the old municipal debt declined, more of the steadily rising rental payment went into the City's general operating budget raising objections from advocates and some politicians. The City Comptroller William Thompson took the position that while the lease agreement

¹⁰ Peter Judd and Roger Starr, "How to Keep New York's Water Running." *The City Journal*, Summer 1992.

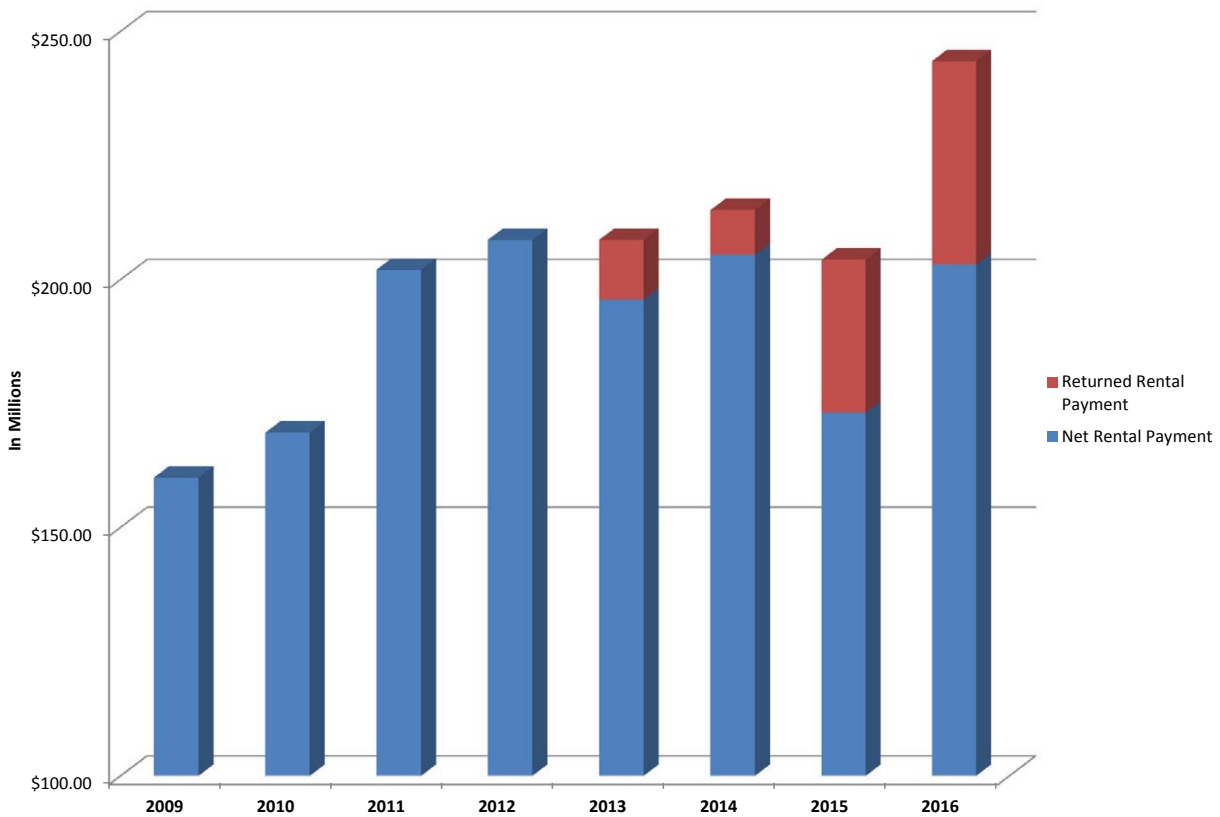
¹¹ Dick Netzer, Michael Schill and Scott Susin, "The Impact of Water Metering on Affordable Rental Housing in New York City." March 2000.

¹² Shultz, Harold, "The Urban Prospect: Liquid Assets." CHPC, March 2008, p. 3.

required the rental payment be made each year, “he proposed that the excess rental payment be returned to the water/sewer system to be used for capital and operating expenses.”¹³ The City’s Independent Budget Office (IBO) reports that between 2005 and 2013 the System’s debt service grew from \$701 million to \$1.5 billion, and the Rental Payment increased from \$109 million to \$208 million for the same period with a substantial amount of it going into the City’s general operating budget. In response to the growing outcry, Mayor Bloomberg began to rebate a portion of the rental payment back to the System, returning \$12 million in 2013 and \$9 million in 2014. Mayor de Blasio has since increased the rebates as illustrated in Figure 3.

Water Board Rental Payment to the City

Figure 3



The various billing programs that the DEP created have helped to ease the extreme bills in the short term, but they cannot address the overall problem of steadily rising rates and bills in multifamily buildings with larger apartments located in lower income communities. The primary program to assist with high water and sewer bills in apartment buildings is the Multifamily Conservation Program (MCP). The MCP was created in October 2000 by a vote of the Water Board to “ ‘promote water conservation in multi-family buildings’ and give owners ‘a measure of control over their water and sewer costs.’ ”¹⁴ The program was designed to offer the security of a fixed rate charge as long as the building’s owner arranged a water audit, addressed leaks, and

¹³ Shultz, Harold, “The Urban Prospect: Liquid Assets.” CHPC, March 2008, p. 7.

¹⁴ “RGB 2001 Price Index of Operating Costs.” Rent Guidelines Board, 2001, p. 15.

met program guidelines to conserve water. The October 2000 Water Board meeting established the MCP initial rate at \$424.00 per apartment per year, plus the rate increase to be approved for July 1, 2001. The MCP rate is indexed to the annual water and sewer rate increase; (there was a one-time correction in 2012, when the rate was reset to \$894.15 per apartment). Last year, the 3.35% increase brought the MCP rate up to \$975.83 and the proposed 3.24% increase for FY 2016 would raise the DEP stated rate to \$1,007 per apartment per year.

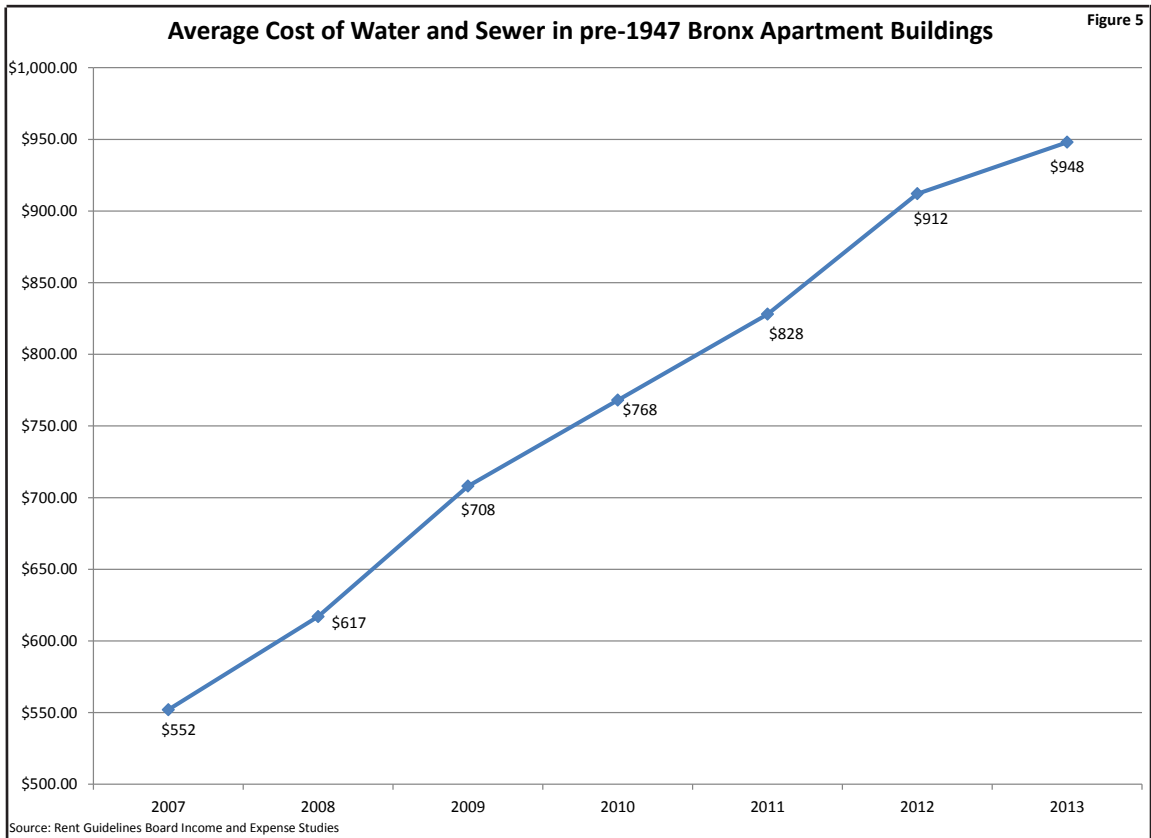
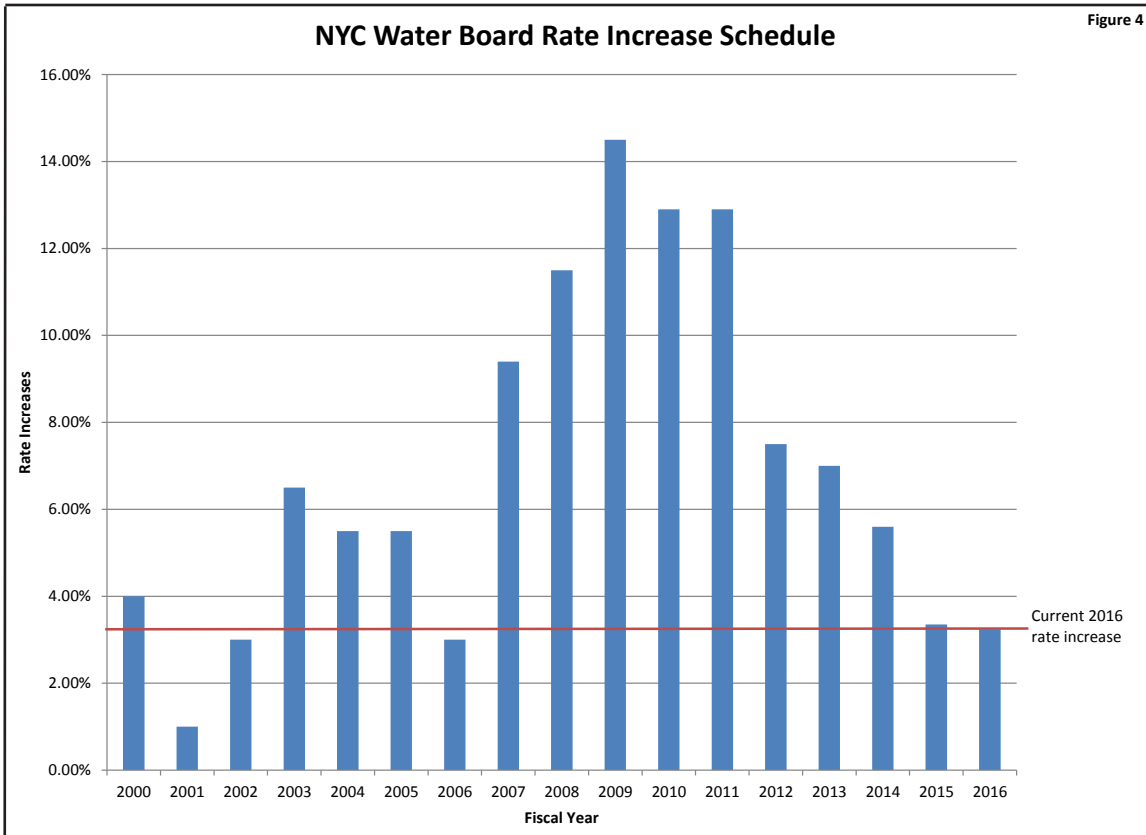
BALANCING FAIRNESS, AFFORDABILITY AND WATER CONSERVATION

As noted earlier, the shift to metering resulted in a sharp increase in bills for some ratepayers, especially owners of multifamily housing with larger apartments that contain larger households. The goal of universal metering was to make water consumers conscious of water use by charging based on consumption, but there was an unintended consequence that had a major impact on the operating costs of apartment buildings with larger apartment sizes and households housing low and moderate income tenants. The previously used method, called Frontage Billing, effectively created a system that spread the cost of the water infrastructure based on building and property size, not use. The challenge is to come up with a system that spreads the cost of the water system more evenly across all users while encouraging water conservation.

While the proposed increase for FY 2016 of 3.24% and the FY 2015 rate increase of 3.35% represent the lowest increases in water rates in the past 10 years, celebration in the affordable housing community has been muted because the underlying issues affecting affordable water rates have not been addressed, keeping the System in an unworkable holding pattern. Annual rate increases have dropped in the past, only to rise again when capital costs go up, when interest rates increase, or when collections drop. (Figure 4)

The projections in the most recent Preliminary Official Statement for the Water Finance Authority's bond sale had been 4.9% increases for each of the next 4 years. The FY 2016 proposed increase of 3.24% is less than the projection in the first of those 4 years. However, a change in expenses, for example an increase in interest rates, may result in a return to larger increases in the future.

The material in this report is drawn from the annual DEP presentations in support of the proposed rate increases. The DEP presentation, which is referred to as "the Blue Book," presents a large amount of backup information for proposed rate increases. In FY 2015, the Blue Book stated that the average annual per apartment bill in an apartment building billed on a metered basis, based on use of 52,000 gallons of water, was \$666. In the FY 2016, that number will be \$688. In reviewing the information with a group of for-profit and not-for-profit building managers, the consensus was that these averages were not representative of the affordable housing that they managed. University Neighborhood Housing Program (UNHP) compared the DEP average against the actual water use in several affordable housing buildings and found the water and sewer costs in the affordable housing were substantially larger than the Blue Book estimates. The study was designed to determine if the water charges in affordable housing are generally higher



than the average per apartment metered bill and to explore the implications of our findings.

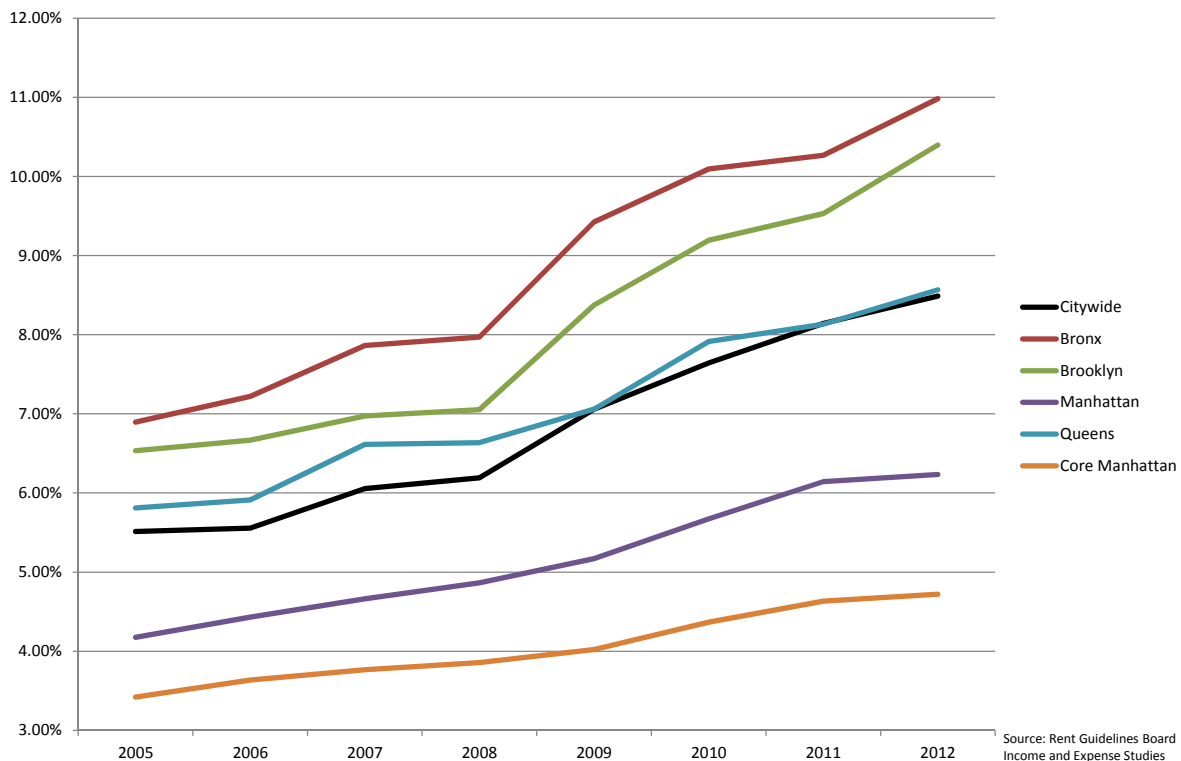
The study first examined aggregate data gathered annually by the Rent Guidelines Board (RGB) on actual expenses of multifamily buildings throughout the City. The RGB annual Income and Expense Study collects and averages income and expense information then analyzes it on a citywide and 5 borough basis; the report also divides Manhattan into Core Manhattan and Upper Manhattan using 96th Street on the east side and 110th Street on the west side as boundaries. The Annual Income and Expense Study documents the steady increase in the cost of water. Between 2007 and 2013, the per apartment per year cost of water in pre-1947 Bronx buildings steadily increased from \$552 to \$948. (Figure 5)

All of the boroughs experienced somewhat similar increases. However, the impact is substantial when the cost of water and sewer as a percentage of operating expenses is examined. On a citywide basis, the cost of water was 6.06% of a building’s expense budget in 2007 rising to 8.5% in 2013. During the same time period, in the Bronx the cost of water rose from 7.8% to 10.9%.

From 2007 to 2013, the Bronx has continued to have the highest percentage of operating costs on the water and sewer expense line. Meanwhile, Core Manhattan’s water and sewer expenses have represented 3.7% of their expenses in 2007 and 4.6% in 2013. The cost of water has had a more significant impact on neighborhoods outside the Core Manhattan area, with its ramifications felt most acutely in the Bronx.

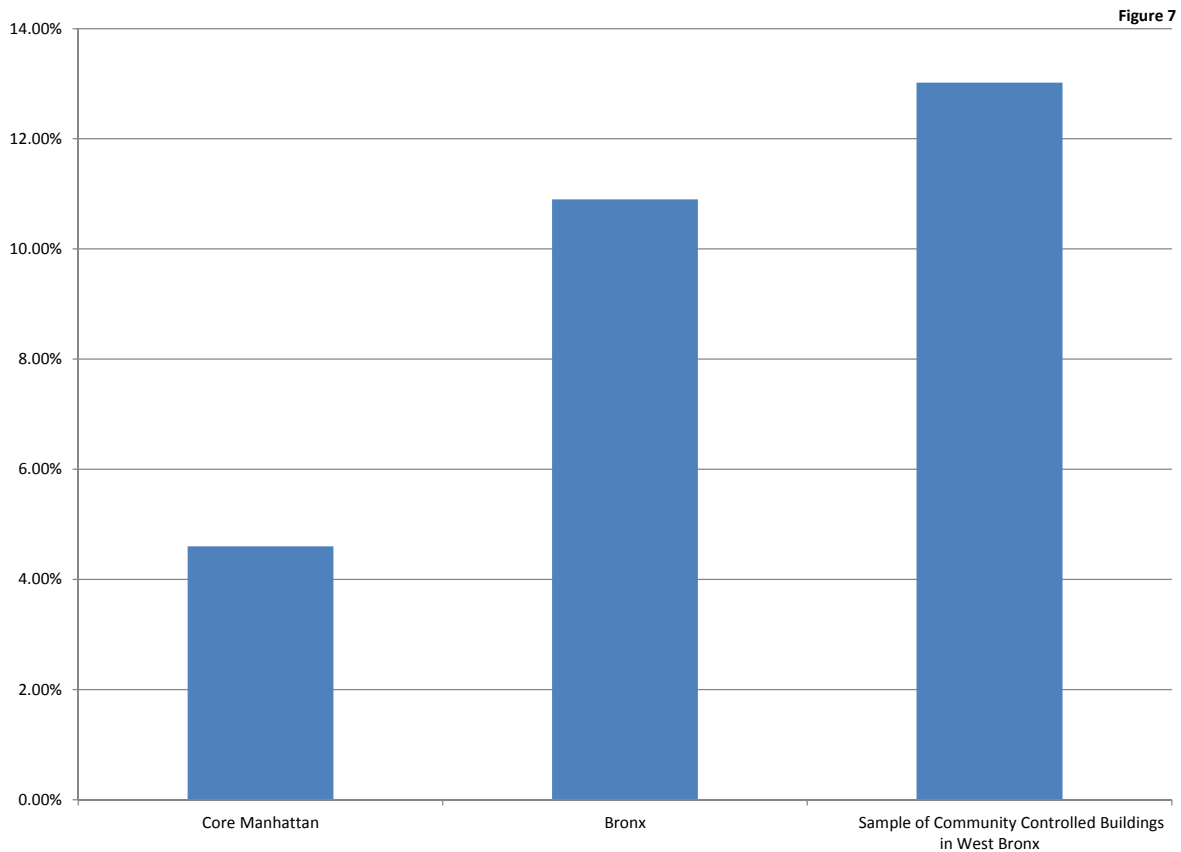
Water & Sewer Charges as a Percentage of Expenses in Buildings Built before 1947

Figure 6



Note: Figure 6 in the print version of this report displays data by the year of publication of the RGB report. This graph is corrected to reflect the year that data was collected

The study examined a sample of 38 community-controlled buildings in the west Bronx. All are rent regulated buildings and provide affordable housing to households and families in the Bronx. The ownership and management have had extensive experience with tracking water and sewer use. The majority of the buildings are in the Multifamily Conservation Program, which capped water and sewer charges in FY 2015 at \$975.83 per apartment per year, which based on the current year's water rate is the equivalent of approximately 77,000 gallons of water per apartment. An analysis of the most recent annual expense budgets for these properties shows an average water expense budget line of 13.02%.



In addition to these 38 buildings, the study reviewed available information on two other sets of affordable multifamily housing. Information was gathered on a set of 115 affordable housing buildings, for which apartment sizes could be confirmed, and for which a full year of water use data was available. Of this set of properties, only seven buildings (6% of our dataset) had water use below 52,000 gallons per apartment per year, DEP's average use in metered buildings. A review of those seven properties showed that most of the properties were largely comprised of studios and 1 bedroom units. Our study found that 13 buildings (11%) had water use between 52,000 and 77,000 gallons of water per apartment per year and 95 buildings (83%) had water use in excess of 77,000 gallons of water per apartment per year. Based on available data, these 95 properties' water usage would have generated bills in excess of the MCP rate (most of these buildings are currently enrolled in the MCP program).

Looking at the detailed information available on the buildings, there are certain areas of additional research that can be identified:

- **Condensing boilers:** a review of water use data showed that water use in a sample of building that had recently replaced their boilers with condensing boilers were using less water than comparable sized buildings with steam boilers. Additional analysis should be done on a case by case basis to determine whether the capital costs of a new condensing boiler would result in enough water and energy savings to justify the cost of boiler replacement.
- **Laundry rooms:** The data did not confirm whether the presence of a laundry room in a building resulted in substantial water savings. The assumption is that laundry rooms would discourage tenants from using portable washing machines and result in water savings. However, the comparison of water usage in buildings with and without laundry rooms was inconclusive. Several additional factors would need to be examined regarding the quality and accessibility of the laundry rooms before reaching any conclusions.

The study examined data on a separate set of 177 affordable housing properties located in Brooklyn, the Bronx and Manhattan. The available data did not include the size of apartments, but included water billing data which provided the water usage for the year. In this set, 18% had usage numbers lower than 52,000 gallons per apartment per year; 37% had usage between 52,000 and 77,000 gallons per apartment per year; 45% had usage numbers in excess of 77,000 gallons per apartment per year.

A review of both sets of our research data totaling 292 buildings support the conclusion that many affordable housing buildings use significantly more water than the average apartment as defined by the DEP in their analysis.

In a separate analysis, we compared two properties of similar size, one located in the Core Manhattan section and the other located in the Bronx. The Core Manhattan building was selected from a list of multifamily buildings recently marketed for sale by several online sources. The Bronx property was selected from the group of affordable housing properties discussed earlier. The Core Manhattan building is a 45 unit building on East 79th Street with a mix of studios, 1, 2, and 3 bedroom units. The cost of water on its listing was confirmed independently on the NYC Department of Finance website. The Core Manhattan building's average per apartment monthly rent was \$2,772, or an annual average per apartment rent of \$33,264. The building's annual average per apartment water and sewer charge was \$622; only 2% of the average annual per apartment rent. The Bronx building is a 47 unit building on East 187th Street with a mix of 1, 2 and 3 bedroom units. The building's average per apartment monthly rent was \$756, or on an annual average per apartment rent of \$9,072. The building's annual average water bill per apartment was \$975; or 10.7%¹⁵ of the average annual per apartment rent. After paying the water

¹⁵Note: In the print version of this report, this figure is incorrectly stated as 8%

bill, the East 79th Street and the East 187th Street buildings have \$32,642 and \$8,097 respectively per apartment available for building expenses and debt service. Both buildings need the same infrastructure to have water and sewer service. The contrast is clear and illustrates the inequity of current water rate charges. Figure 8 illustrates this contrast with two pie charts representing each building’s annual per apartment rent proportionally by size.



FOCUS GROUP TOPICS

UNHP has drawn on the experience of several for-profit and non-profit management organizations that manage more than 500 buildings in the Bronx, Brooklyn, and Manhattan. These managers served as a sounding board for the data that was gathered and the discussions provided additional insight into the water and sewer issue. The observations of these individuals included the difficulties of managing water costs without the ability to control or monitor how much water is used in each apartment. The managers spoke positively of DEP’s efforts to make the monitoring of water use easier and have been actively checking automatic meter readings accessed through the “[My DEP Account](#)” online portal. This online portal can be set up to email an alert if water usage increases significantly over a period of several days, enabling owners to respond to potential water leaks and fix them before they become a billing problem. However, in some cases, the alert does not produce enough information to identify the reason for the increased use. Apartment by apartment inspections usually identify unreported leaks or drips, but in some cases inspections do not yield the answer. While none of the participants believe that individual

apartment metering is feasible; they do think that it might be cost effective to use technology that would allow monitoring water use on an apartment line basis to identify unreported leaks or extraordinary water usage. Managers have differed about the best way to address washing machines in apartments. The consensus was that a clean, safe laundry room with an adequate number of high-efficiency machines would help control water use in a building. However, the data gathered in this report is inconclusive in regard to buildings with a laundry room versus ones without. The City's latest [Toilet Replacement Program](#) was discussed and the managers felt that incentives for toilet replacement would be helpful to eligible buildings. Some suggested loosening guidelines to allow replacement of toilets that may have been changed in the DEP's previous Toilet Rebate Program that ran between 1994-97. The 1.28 gallons per flush model, currently the approved toilet fixture, uses significantly less water than those previously replaced.

All the managers pointed out the blatant inequity of the current system. The buildings that they manage are usually buildings with larger size apartments and have the goal of providing affordable housing for families. Managers indicated that their experience supported the data in the UNHP 2015 Building Indicator Project presentation in February of this year showing a steady increase in the percentage of renter households in the Bronx with more than one person per room.¹⁶ All participants expressed the importance of educating tenants about controlling water use. Several managers had anecdotes of observing tenants using water inefficiently such as using their shower as a humidifier. There was also discussion about developing financial incentives for tenants that show conservation efforts, an ongoing training program for managers and supers, and a program to recognize staff who successfully implement strategies that result in reduced water use. Reduced water expenses would help make money available for other improvements and in turn reduce the negative financial and physical results of deferred maintenance. A couple of private managers indicated that the incentive of a reduced water bill could be enough to convince them to enter into regulatory agreements related to maintaining affordability in buildings without such agreement. They felt that the reduced water rate would improve the financial bottom line for a number of owners and could be especially attractive to owners of smaller properties that might be struggling financially. The reduced water bill incentive could make entering a regulatory agreement more financially attractive.

PROPOSALS/RECOMMENDATIONS

Our report makes several recommendations for short term and long term policy and program changes as well as ideas for additional areas of research. The immediacy of the affordability problem strongly supports quick action on a proposal to create an Affordable Housing Cap as part of the MCP program. A new Affordable Housing Cap program, available to housing already under affordable regulatory agreements, would free up cash flow to put into maintenance activities or debt service to support necessary capital work. The Affordable Housing Cap program could also be made available to owners willing to enter into affordability regulatory

¹⁶ 2015 Multifamily Assistance Center and Building Indicator Project Lender Meeting Presentation. UNHP, February 11, 2015. p. 2.

agreements in exchange for participation in the program. Entry into the program would include compliance with current conservation and leak related criteria already in place for the MCP. The program should include an annual certification of education and training for tenants and management staff by owners to build awareness of the importance of water conservation. The rate for the program should be indexed to the DEP calculation for average water and sewer use in a metered apartment building; under the FY 2016 proposal that rate would be set at \$688 per apartment per year, which is a reduction of \$329 per apartment per year off the current MCP rate. The resulting savings could then be utilized for repair work and services in the building or to fund debt service for necessary capital work in the buildings.

The cost of creating the program could be covered by an increase in the amount of money that the City rebates back to the Water Board. The proposed rebate for FY 2016 is \$41 million, while the Net Rental Payment to the City would still exceed \$200 million. (For example, at the cost of \$329 per apartment, an additional rebate for this program of \$10 million would assist 30,000 units.) The benefits of assisting existing affordable units and increasing the number of buildings under affordability regulatory agreements would counterbalance the cost of a new Affordable Housing Cap program.

A conservation education program for tenants and management should be developed from existing DEP and HPD efforts with input from affordable housing managers. A program with commitment from both tenants and building staff would go a long way towards reduction of water use in buildings. We propose that HPD and DEP staff work with affordable housing providers and community organizations to devise a tenant and management water conservation education program. We also propose a concerted effort be made by the DEP to raise awareness of efficient water use practices.

LONG TERM PROPOSALS

The unheeded warnings back in the early '90's calling for a change in DEP billing still needs to be addressed. Our proposal for a new Affordable Housing Cap program is an important step, but it does not address the underlying problem of how water rates are set. There have been several attempts over the years to look at proposals, but the difficulties of implementation have made it politically expedient to postponing action. The Independent Budget Office has made several proposals:

- Identification of the System's operations that are not tied to water use and wastewater; for instance, "stormwater management [has] a set price regardless of how much water customers actually use." Such "fixed costs would then be financed like other city services that do not have to cover their costs through user fees."¹⁷

¹⁷ "Setting the Water Rate." NYC IBO, May 2014.

- Improved oversight of construction authorized by the System has long been identified as a need; there are several examples of water system construction costs that have far exceeded the predicted costs, including the cost of building the filtration plant in Van Cortlandt Park. The Filtration plant was originally estimated to be \$900 million in 2000;¹⁸ in a recent IBO report, the cost is estimated to be \$3.7 billion.¹⁹

Finally, there are several issues that have been identified that should be further researched:

- a) Do the savings shown by condensing boilers provide enough incentive to ensure that such boiler replacement is encouraged in city programs;
- b) is there value in having laundry rooms and do they aid in water conservation;
- c) are there other programs that could be developed to assist smaller apartment buildings;
- d) examination of a base/fixed rate charge to cover the water related infrastructure that all buildings need to access water and sewer infrastructure to buildings no matter how much or little water the building actually uses;
- e) technology that could be made available to narrow down leak or excessive water use detection in lines of apartments; and
- f) exploration of a program to create a financial incentive for tenants to conserve water.

AFFORDABLE WATER AND AFFORDABLE HOUSING

For many years, advocates, including UNHP, have pushed for a revision of the rate setting formula to eliminate the regressive nature of the water and sewer charges. The de Blasio administration has shown a real commitment to addressing the issue of housing affordability and a willingness to explore new approaches regarding the cost of water. This report proposes a way to accomplish both. The main proposal to create a new Affordable Housing Cap program should be viewed as a part of a process of creating a more equitable charge for water that would encourage conservation without penalizing affordable housing. It would begin to address the problem by assisting currently affordable properties, offering a new reason to keep owners from opting out of affordability restrictions and creating an incentive to convince owners to commit their buildings to affordable housing by entering into a new regulatory agreement. This report's ideas should not be viewed as the ultimate solution, but rather a first step in a larger strategy to develop a fair and equitable water and sewer rate setting formula for New York City.

¹⁸ "The Impact of Catskill/Delaware Filtration on Residential Water and Sewer Charges in New York City." IBO, November 2000.

¹⁹ IBO Letter to Father Richard Gorman, November 25, 2014.

ACKNOWLEDGEMENTS

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University Neighborhood Housing Program

2751 Grand Concourse

Bronx, NY 10468

718.933.3101

www.unhp.org • mail@unhp.org • @UNHP