The Case for Low-Income Ratepayer Assistance in the San Lorenzo Valley Water District

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Introduction

The San Lorenzo Valley Water District (SLVWD) announced this month that it is initiating a one-year pilot program for Low-Income Ratepayer Assistance (LIRA). The pilot program is limited in scope and is intended to help the District assess and improve its ability to offer an expanded LIRA program on a permanent basis. Some individuals, though, continue to question the fundamental desirability of such a program. This memorandum makes the case for a LIRA program as an essential and entirely appropriate component of the District's modern water-delivery toolkit.

Background

There is widespread agreement that the District, like its companion districts across the state and country, currently finds itself on the horns of a vexing dilemma. On the one hand, due in part to decades of underpriced water and underinvestment in infrastructure, the District is facing long-term expenses that significantly exceed its projected long-term revenues. Opportunities to increase revenue, other than via increasing water rates, are very limited, especially for a low-growth district like SLVWD. Conversely, opportunities to reduce operating costs are even more limited, as the vast majority of the District's expenditures are devoted to essential operations and fixed expenses.

On the other hand, water rates have already increased substantially in the past decade, and this is understandably a significant concern for SLV ratepayers. Moreover, for some subset of these ratepayers (e.g., the estimated 15% currently eligible for PG&E CARE discounts), increased water rates are more than a concern – they constitute a serious hardship and a threat to basic water access. The upshot is this: in order for the District to continue to fulfill its responsibility to the SLV community, it must simultaneously enlist community support for higher water rates and offer relief to those who are least able to manage the resulting financial burden.

This challenge would not be particularly difficult to meet if, for example, the state would provide funding for some sort of rebate program targeting those who are least able to pay the true cost of water delivery. At present, though, the state appears to be multiple years away from making such a commitment. The question therefore is: what should the SLVWD do?

The Solution

The obvious answer is that the District should offer its own special “lifeline” rate (or some similar LIRA program) to this same subset of customers. However, this is trickier than might first appear. Basically, the District’s ability to offer different water rates to different customers is constrained by the combination of a 1996 ballot initiative (Proposition 218) and a subsequent court ruling. Fortunately, other water districts have already successfully responded to this challenge, and the SLVWD is now cautiously following in their footsteps with a pilot LIRA program of its own.

FSLVW believes not only that this path is entirely appropriate but that the District would be negligent if it were to not avail itself of this solution. However, not everyone is yet persuaded of this. It is important, therefore, to lay all of the opposing arguments on the table and to address each of them in turn.

<u>Argument #1: SLVWD should wait for the state to solve this problem.</u>

Virtually everyone in the SLV would prefer a statewide solution with state funding. The state has expressed a vague intent to move in this direction, and the SLVWD and its allies should certainly continue to lobby state representatives to pursue this. However, this is not a reason for the SLVWD to ignore this issue in the interim. A subset of SLVWD ratepayers are in immediate need of relief, and it is the responsibility of the SLVWD to promptly address this.

<u>Argument #2: SLVWD can’t afford a LIRA program.</u>

A LIRA program appears in the SLVWD budget as yet another significant expense. The pilot program will only cost $25,000, but a meaningful LIRA program could conceivably consume ten times this amount. This expense would ultimately need to be absorbed by the remaining ratepayers, but a simple calculation shows that the incremental cost would only be on the order of $3 per month. This scarcely seems like an insurmountable obstacle.

<u>Argument #3: SLVWD can’t guarantee Prop-218-compliant funding for a LIRA program.</u>

As explained in a separate FSLVW memorandum, the legal constraints associated with Proposition 218 prevent the District from using any ratepayer revenue to fund its LIRA program. To comply with this requirement, the District is using separate lease revenue to fund the pilot program. For a permanent program, this revenue will be insufficient, and the obvious solution will be for the District to apply some of its roughly $800,000 in property tax revenue to LIRA. It is true that the state could potentially withhold this tax revenue in a budgetary crisis, but it is difficult to see why it would be better to have no LIRA program than to have a LIRA program that is at risk of this possible disruption.

Argument #4: The SLVWD LIRA program violates the “spirit of Proposition 218.”

There is no question that the SLVWD LIRA program, by design, effectively charges some customers less than others for the same amount of water. If the “spirit of Proposition 218” is that no customers should be allowed any individualized rate relief, then this intervention does indeed violate this spirit. So too, though, will the hypothetically-pending state-funded LIRA program that we are all anxiously awaiting. Moreover, a strong case can be made that the SLVWD LIRA program is a reasonable and ethical response to the realities of Proposition 218. This is explained in a separate FSLVW memorandum.

Summary

The bottom line is that, no matter whether water rates increase or decrease, there will be inevitably be some ratepayers who lack the financial means to pay full price for this essential resource. Nearly everyone in the District would prefer to see a statewide solution with rebates provided directly via a state-funded LIRA program. But district-funded rebates, for now, are a perfectly viable alternative. The reality is simply that certain ratepayers urgently need relief, and this currently requires the SLVWD to commit to a full-blown LIRA program of its own.