

Lessons Learned from the California Water Arrearage Payment Program

The COVID-19 pandemic made it difficult for many Californians to pay their utility bills. In response, the Governor and Legislature authorized a first-of-its-kind program to pay off customers' water debt. In less than six months, the State Water Board successfully launched this major new program, which helped keep water flowing to over 500,000 customers. Despite an incredibly successful program roll out, this one-time program will not solve California's growing water affordability challenges.

Major lessons include:

- Limited recipient qualifications helped aid get distributed quickly.
- Intensive outreach was required due to the voluntary program design.
- Public water systems have limited options for providing rate assistance to low-income customers.
- A universal, rather than voluntary, state program could decrease costs and increase benefits.

Voluntary Arrearage Program Roll Out & Results

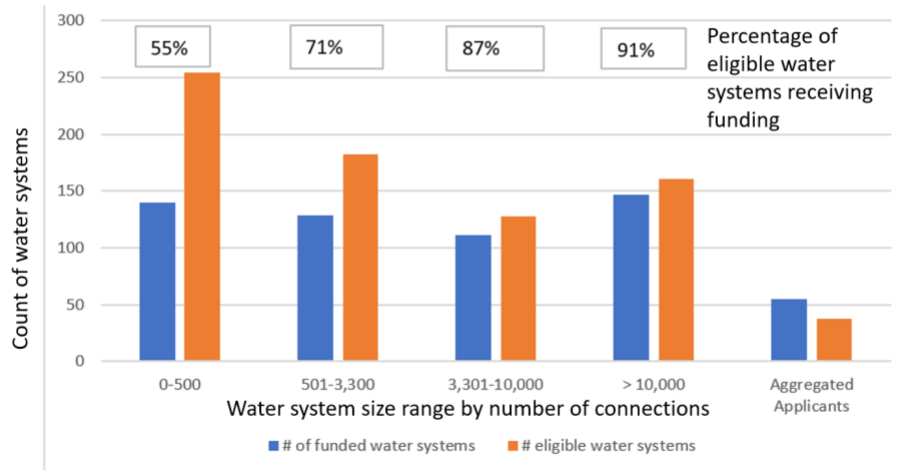
Stellar Outreach: Every Eligible Water System Contacted Numerous Times

With \$985 million in federal funding allocated by the state legislature in September of 2021, the State Water Board created the California Water and Wastewater Arrearages Payment Program (CWWAPP) to provide water debt relief. Almost 50 Water Board staff were re-directed to this program to develop emergency regulations, conduct robust outreach, and administer payments to water systems. By the end of 2021, every eligible water system had received multiple emails and phone calls with information about this new funding and how it could help both them and their customers. Staff also responded to hundreds of inquiries about the new program. Water associations and advocates agree that program roll out was efficient and effective as a one-time emergency response.

Some Water Systems Did Not Apply, Particularly Small Water Systems

Despite robust outreach to water systems, almost 100 eligible water systems did not apply. Small water systems (serving fewer than 500 customers) had the lowest participation rate (55%), whereas the vast majority of larger systems participated (91%). There are a number of possible reasons for the lack of participation. First, there was confusion about whether the funding would be treated as taxable income, and the IRS did not clarify that the program was tax-exempt until November 17, 2021. Second, accepting federal funding involves accepting the possibility of audit. Third, some water districts transferred customer debt to other entities for collection, including counties and third-party debt collectors. When the debt was transferred, water districts were paid upfront by those entities and no longer could relieve that debt. Finally, at least one water system indicated that staff did not believe their customers needed assistance.

Number of Funded Water Systems Versus Number of Eligible Water Systems By Size (# of Connections)



Source: State Water Board presentation, March 14, 2022

Over 500,000 Customers Assisted, Yet Some Funds Remain

Over \$300 million was credited by the end of March to over 500,000 drinking water customer accounts, and the wastewater arrearage program is still underway. Yet, there is likely to be some remaining funding after the program concludes in April 2022. The Water Board anticipates allocating over \$500 million by the time the program concludes at the end of April 2022, leaving approximately \$300 million unspent. There are several reasons for this underspending.

First, and most obvious, is that water systems serving an estimated 20% of the population chose not to apply and, therefore, their customers were not able to benefit. Second, debt was originally surveyed by the Water Board in November 2020, yet the arrearage payment program was not initiated until almost a year later in October 2021. Third, the Water Board's initial survey asked for the full debt amount on customer bills, which in many cases included more than just water debt (e.g., debt accrued due to wastewater collection, energy provision, or other services that are sometimes included on water bills). Finally, there is anecdotal evidence that customers prioritized paying water debt, some due to fears of water shutoffs during the pandemic. In several cases, customers paid off their water debt by accruing additional third-party debt (e.g., credit cards and payday loans).

SURVEY AND PROGRAM RESULTS

	Applications for Water Arrearages Payment Program	Applications for Wastewater Arrearages Payment Program
Dates	October 2021-January 2022	January 2022-March 2022
Number of eligible systems	763	In progress
Number of responses	668	In progress
Total funding requested	\$301 million	In progress

Lessons Learned

State Created a Streamlined Program

Program participants found the water arrearage payment program to be simple and streamlined. It benefitted from the State Water Board’s relationships with water systems, including existing grants, memorandums of understanding, and technical assistance contracts. In addition, the program did not have any income or immigration status verification requirements.

Stellar Outreach Efforts Came at a Cost

Program administration costs were increased by the intense outreach needed to contact over 700 eligible water systems multiple times through a variety of methods. Advocates for making this kind of program universal, rather than voluntary, believe greater cost efficiency would be realized over time.

Water Affordability is a Growing Challenge

Investments to replace aging infrastructure, meet new treatment standards, diversify supplies, and maintain a well-trained workforce mean that water bills will continue to rise faster than inflation in most parts of California. “In a majority of water systems, water bills exceed 1.5% of poverty-level incomes in the county where the system is based. In these systems, this signifies that households earning at the county poverty level face significant challenges in affording their

drinking water” (Office of Environmental Health Hazard Assessment 2021). This means that water affordability is a growing challenge for water systems and customers alike.

Public Water Agencies are Restricted and the State Can Help

It is surprisingly tough to provide assistance to ensure all Californians have access to water. Public agencies have been constrained since the 1996 passage of Proposition 218—a California constitutional amendment that requires, among other things, that water rates do not exceed the cost of providing service. To launch or expand customer assistance programs, public water agencies often choose to use non-rate revenue (e.g., property taxes or charitable contributions) to avoid the onerous process of seeking approval of new taxes by two-thirds of local voters. An alternative would be a universal, low-income rate assistance program for all Californians.

Founded in 2011 and serving as an independent foundation since 2017, the Water Foundation has delivered nearly \$50 million in new funding to the field, convened hundreds of diverse nonprofit, private, and community-based organizations, and worked with its partners to secure landmark policies to improve water management. Find more information at www.waterfdn.org.

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