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Setting the Water Rate:

How Much Does the Rental Payment for the City's Water System Effect Customer's Water Bills?

Summary

An annual rite of spring in New York City has been the often contentious debate over the setting of the rate customers will pay for the city's water and sewer system in the coming fiscal year. Since 1995 the rate has increased every year, some years by as much as 10 percent or more. The de Blasio Administration recently made its first water rate proposal, calling for an increase of 3.35 percent, which would bring the annual water bill for a typical single-family homeowner to an estimated \$1,025 next year.

Although the water and sewer system is run by entities under the auspices of City Hall, the New York City Water Board pays rent for use of the city-owned system of reservoirs, aqueducts, treatment plants, and other facilities. The annual rental payment, based on the debt service paid for funds borrowed to improve the water system, has been growing and contributing to the annual rate increases. Under the Mayor's proposal, the rental payment would be \$233 million of the \$3.5 billion to be raised in 2015.

Public officials, homeowners, and others have criticized the rental payment, arguing that it siphons revenue from ratepayers to the city's general fund. Indeed, then-Public Advocate de Blasio was critical of the rental payments as recently as last year. To stem criticism and save ratepayers nearly \$100 million, a three-year pilot program was adopted to cap increases in the annual rental payment beginning in 2012. IBO has examined the extent to which the rental payment has contributed to recent increases in water rates as well as the effect the cap has had on limiting rate increases. Among our findings:

- From 2005 through 2013, the rental payment rose by 91 percent, from \$109 million to \$208 million, an average increase of about \$12 million a year. The increase in the rental payment is a direct result of growth in debt service over the same period, which more than doubled from \$701 million in 2005 to \$1.5 billion in 2013, or on average about \$95 million a year.
- The cost of operations and maintenance has grown at a comparatively modest rate of 40 percent, rising from \$836 million in 2005 to \$1.2 billion in 2013, or about \$42 million a year on average. The slower growth rate results in part from the fact that 85 percent of water system staff have been working under expired labor contracts since 2010.
- Although ratepayers will see the savings that the pilot program to cap the rental payment was expected to produce, those savings largely stem from lower-than-expected debt service costs rather than from the cap itself.

Lowering the rental payment has only a limited effect on reducing water and sewer rates. More substantial savings would require reducing debt service by curtailing capital spending for the system, lowering operations and maintenance costs, or changing the structure of the system's financing.



