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Mayor Plans to Sink Rental Payment for Water System:
But Only One- to Three-Family Homeowners Will See Savings This Year

In the Executive Budget for 2017, the de Blasio Administration eliminated the annual fee the city charges the Water Board for its use of the city-owned water system, accelerating the Mayor's plan to end the "water rental payment" that had previously been scheduled to be phased out over the next several years. Eliminating the rental payment will reduce the water system's costs by $122 million in 2017. Instead of passing the savings on to all ratepayers through a reduction in next year's water rate, the city will provide the 664,000 owners of one-, two-, and three-family houses (Class 1 in the property tax) with a $183 one-time credit on their water and sewer bills in 2017. The payments that were canceled for 2018 through 2021, totaling $290 million, will be used to mitigate future water rate increases for all ratepayers. (All years refer to fiscal years.)

The rental payment, which most recently has been set at 15 percent of the annual debt service on New York City Water Authority bonds, was originally implemented to pay debt service on water capital projects that remained on the city's books from before the separate Water Authority was created, as well as to reimburse the city for services the water system receives. (See IBO's 2014 report for details on how the rental payment is calculated.) In recent years, as the older debt was gradually paid off, critics—including then-Public Advocate de Blasio—pushed for eliminating the payment, calling it a regressive and hidden revenue source that only bolstered city revenues. Last year, the de Blasio Administration announced a plan to phase out the payments by reducing the amount the city requests from the Water Board each year. Removing the payment will be reflected as a reduction in revenue to the city's general fund.

In early April, prior to the decision to eliminate the payment completely beginning in 2017, the Department of Environmental Protection (DEP), which operates the city's water system, proposed a 2.1 percent rate increase to cover growing debt service and operations and maintenance costs. (To put these costs into perspective, debt service,operations, and maintenance costs were projected to total nearly $3.5 billion in 2017, an increase of $373 million from 2016, while the rental payment was expected to be $122 million.) The planned rate increase, which is the lowest proposed in 16 years, is expected to generate around $75 million in additional revenue—meaning the $122 million savings from the canceled payment would be more than enough to hold rates steady for all users in 2017.

Rather than do so, the city has chosen to go forward with the 2.1 percent rate hike to avoid the need for steeper increases in the future. According to DEP, a general policy of annual rate increases allows the water system to build its revenue stream steadily as expenses increase over time. Additionally, the extra funds available from the forgone rental payment this year are viewed as temporary because future decreases in the payment were already accounted for in the water system's budget. Therefore, if the 2017 rate were lowered to reflect this year's savings, sharper increases in the water rate would be required in future years to generate the same amount of revenue.

The de Blasio Administration decided to refund money only to its 664,000 one- to three-family homeowner accounts, arguing that this group makes up the majority of the city's ratepayers and a $183 credit would have a considerable impact on water expenses and be apparent on homeowners' bills. These Class 1 properties constitute around 85 percent of the city's residential buildings, but only about 35 percent of the city's households, because most city residents live in larger buildings—which will not receive the credit. If larger, multifamily and commercial

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buildings were also to receive the credit, the $122 million would be spread over a much larger number of properties, reducing the size of the credit. Moreover, the savings would only be apparent to tenants of apartment buildings if they were passed on in the form of lower rents. For 2017, multifamily and commercial properties will face the same 2.1 percent rate increase that was anticipated in early April before the shift in water rental payment policy, while the credit effectively decreases for the rate paid by Class 1 households. Starting in 2018, savings from ending the rental payment will go towards reducing water rate increases, which will benefit all ratepayers.

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