GOVERNMENT FINANCE RESEARCH CENTER

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Policy Recommendations for Water Rate Setting in Northwestern, Central, & Southern Illinois

Policy Bite

The Illinois General Assembly commissioned the Government Finance Research Center to conduct a "Water Rate Setting Study." This brief is based on the second report from the study, which focuses on Northwestern, Central, and Southern Illinois (NCSI). The report's findings suggest the need for the following policy recommendations:

- Training for municipal staff and local elected officials involved in water rate setting to alleviate challenges ranging from system financial management to affordable program design. Templates, web hosting services, and technical assistance for communities could help with establishing municipal websites.
- A state-level affordability program co-designed with municipal representatives to decrease household water burden. Reducing the upfront costs of engineering plans and administrative burdens could increase financing access, particularly for water systems servicing a smaller and/or lower-income customer base in rural areas.
- Enhancing existing coordination and cooperation in NCSI. Transparency in rate setting by wholesalers can alleviate concerns for municipalities considering engaging in formal agreements. Having more readily available grants or low-interest loans can mitigate coordination risks, particularly for smaller and lower-resourced communities. The common practice of operator sharing can be supported by establishing a system for training a network of experienced water operators.
- Decreasing the administrative burden of intergovernmental coordination to allow water systems in lower-resourced communities to benefit from various sources of state financing and intergovernmental coordination efforts.
- Establishing regional or state-level support to help implement best practices for water billing and promote the adoption of automatic billing systems and meter reading technologies.
- Training for municipal staff on the types of information to collect and partnerships with educational institutions to facilitate knowledge transfer and the creation of data dashboards and educational tools.

Research Brief

In 2021, the Illinois General Assembly commissioned the Government Finance Research Center (GFRC) at the University of Illinois Chicago (UIC) to conduct a "Water Rate Setting Study." This three-year project produced a series of deliverables, including reports, datasets, presentations, and other dissemination products. The first report, published in June 2023, focused on Northeastern Illinois, or the Lake Michigan Service Area (LMSA). *Water Rate Setting in Northwestern, Central, and Southern Illinois* is the second report, which provides a comprehensive review of rate setting in the Northwestern, Central, and Southern (NCSI) regions of Illinois. This second report discusses findings across several key themes: the rate-setting process, challenges in rate-setting among disadvantaged communities, reasons for rate increases, the role of federal and state policy in rate-setting, water bill components, intergovernmental coordination as a means of increasing equitable rate-setting, and the definition of affordability. These themes are heavily interconnected. For example, it is impossible to discuss rate-setting without examining infrastructure financing, which relates to water rate increases and state policies. In turn, examining financing leads to investigating access to funds by disadvantaged communities.

Community water systems have the complex challenge of balancing the costs of maintaining their systems and charging an affordable rate for safe drinking water. As such, the recommendations drawn from this

study do not address one report theme at a time but rather recognize the interconnectedness of affordability, sustainable operations and maintenance, and applications of policy and regulation. The report's findings suggest the need for the following policy recommendations:

Ensuring Communication Standards for Water Bills

Households receive water bills on a regular basis, and this represents the primary interaction that households have with their water providers. Using water bills as a public outreach and communication tool may improve trust between the public and water providers, as well as allow customers to budget for and consume water more efficiently. To achieve these goals, it is recommended to:

1. Establish regional or state support for billing. For example, some communities may need technical and financial assistance to implement best practices for water billing or to adopt automatic billing systems and meter reading technologies.
2. Use clear and accessible language in billing.
3. Include and itemize all charges that contribute to the total amount owed for water services on water bills.
4. Clearly separate charges unrelated to water or wastewater services as additional line items from the total water bill, if they must be included.
5. Provide comparisons of water use between individual household bills and average usage in the households' neighborhood to motivate conservation behaviors in heavy water users.

Increasing Municipal Capacity, Expertise, & Knowledge

Many municipalities face challenges with limited capacity to address their community's and water system's needs. The U.S. Environmental Protection Agency (EPA) offers capacity-building resources for "small drinking water systems," and these could be utilized more broadly. As such, it is recommended to:

1. Provide templates, web hosting services, and technical assistance for communities to establish municipal websites.
2. Provide resources for municipalities to gather data and conduct analyses as a first step to helping communities better understand how citizens fit water bills into their household budgets, to what degree households could absorb water rate increases in the future, and/or whether residents are willing to pay more for improved water quality or customer service.
3. Establish guidelines for municipalities to track information related to residential customers' difficulties with paying their water bills. These metrics could include water disconnects, liens placed on real estate, and late payment penalties.
4. Host regional and state-wide convenings of water operators, municipal leaders, elected officials, and community residents to discuss definitions and challenges with setting affordable water rates.
5. Develop recommendations for "rainy day" funds for water utilities.
6. Provide more support to disadvantaged communities for financial planning and system improvement plans, especially for municipalities with high water system loss.
7. Provide state-level technical assistance to municipalities for establishing contingency plans to mitigate the impacts of unforeseen cost shocks, such as natural disasters or sudden infrastructure failures.
8. Assist municipalities with investing in innovative and new technology through low-cost or no-cost financing to make water provision more efficient.

Establishing Strategic Investment & Support for Disadvantaged Communities

Lower-income households may not be able to afford a water rate that guarantees financial sustainability of the water system. Since water systems are generally funded by taxpayers and water ratepayers, the social and economic composition of municipalities heavily influences the level of resources available to municipal water operators. It is recommended to:

1. Provide water affordability program information broadly to engage households with the greatest need for water assistance.
2. Codify payment and penalty processes in municipal ordinances and communicate them to ensure equitable application where leniency is possible.
3. Decrease administrative burden of intergovernmental coordination to allow water systems in lower-resourced communities to benefit from various sources of state financing and intergovernmental cooperation.
4. Increase low-cost loans or grants to communities for technical assistance. This could include support for regular system audits and inspections, engaging third-party consultants, and preparing needed engineering plans to access funding opportunities and ensure proactive improvements rather than reactive.

Enhancing State-Level Policies & Programs

Few water providers offer payment assistance programs for low-income or otherwise at-risk households. To improve customer affordability and enhance system sustainability, it is recommended to:

1. Consider a state-level affordability program. This type of program would be most successful if co-designed

with municipal representatives from various communities across NCSI and the state.

2. Reduce barriers for application procedures for state and federal infrastructure financial support. Reducing the upfront costs of engineering plans and other administrative burdens could increase financing access across NCSI, particularly for water systems servicing smaller and/or lower-income customer bases in rural areas.
3. Consider coordinated and co-financed infrastructure programs, especially for disadvantaged communities and others in geographically isolated areas that cannot benefit from economies of scale through collaboratively creating water commissions or districts.

Increasing Support for Intergovernmental Coordination

Overall, there are opportunities to enhance existing coordination and cooperation and develop new forms of collaboration between government organizations that govern or support the provision of drinking water in NCSI and the state. It is recommended to:

1. Continue to increase regular communication and coordination between wholesalers and purchasers. More coordination and engagement could increase accountability and transparency in setting wholesale rates. Specifically, the AWWA's cost-of-service water rate methodology could be more readily utilized by wholesalers, water commissions, water districts, and 501c(12) utilities.
2. Archive and make intergovernmental agreements between wholesalers and purchasers publicly available. This type of information source would enable consistency and transparency, as well as offer a resource for municipalities who may be considering engaging in a formal agreement for water provision.
3. Mitigate coordination risks with more readily available grants or low-interest loans to support the initial costs of infrastructure and coordination to establish intergovernmental agreements, water commissions, or districts.
4. Establish a system for training a network of experienced water operators who can be shared.

Facilitating Consistent Data Collection

Reporting water rate data and other indicators associated with household water affordability are mandated at the state level in some states, including California and Illinois. However, these requirements are limited to private water utilities only. Recently, New Jersey passed legislation requiring the reporting of monthly data at the zip-code level for all public and private water systems. Reporting requirements include monthly water rates, average and median customer bills, usage, and number of customers, as well as disconnects and tax liens due to non-payment of water bills. In contrast, municipal water providers in Illinois are not required to report any of these types of data. It is recommended to:

1. Use existing tools for data collection.
2. Support additional data collection processes and platforms designed with municipal input.
3. Develop data dashboards and educational tools for municipal leaders, policymakers, and consumers. These tools would enable municipal leaders to continue data-driven benchmarking, encourage lawmakers to use data to support adjustments to policies and programs, and educate consumers about the cost and complexity of drinking water provision.

Implementation

Often, the most challenging step towards effecting positive change is the implementation of new approaches. The full report provides suggestions for possible implementation steps. It offers suggested agencies or levels of government that could lead implementation, identifies potential supporting partner organizations, provides timeframes for implementation to begin, and suggests potential ways to finance the recommendations. The recommendations were designed by the GFRC researchers, with consultation from the study's advisory committee composed of representatives from state government agencies, municipal and private water utilities, environmental justice and consumer advocacy organizations, and others.

Read the full report HERE.

The **Government Finance Research Center** at the University of Illinois Chicago shapes and informs public policy and scholarly discourse on government and public finance by identifying, planning, and executing research, providing reports and informed analyses, delivering educational opportunities and technical training, and offering inclusive venues to convene national and local discussion on fiscal and governance issues.