Need for Affordability Metrics and Target

Existing guidance directs the SFPUC to consider the impact of bills on customers

**SFPUC Ratepayer Assurance Policy**

“The Commission will consider SFPUC service affordability for all its customers. Prudent operating and capital planning ties annual spending to system demand and intergenerational equity, enabling financial engineering and reducing costly emergency expenditures. Rate design should also consider the burden imposed by SFPUC bills on low-income customers.”

**San Francisco Charter Section 8B.125**

“The Commission shall… Conduct studies of rate-based conservation incentives and/or lifeline rates and similar rate structures to provide assistance to low-income users, and take the results of such studies into account when establishing rates, fees and charges, in accordance with applicable state and federal laws.”

San Franciscans face general affordability challenges

- San Francisco has the 3rd highest cost of living of any US urban area
- A significant portion of San Franciscans’ income goes to basic necessities
  - The median 4-person household in San Francisco makes $144,100
  - 2 working adults with 2 children need $161,436 for a “living wage” covering housing, healthcare, childcare, food, transportation, and taxes
- Some SFPUC customers have trouble paying their utility bills
  - As of Nov 2023, 6,672 single-family water/sewer accounts and 2,132 Hetch Hetchy Power accounts have delinquent bills.

1) Council for Community & Economic Research Quarter 1 2023 Cost of Living Index
2) SF Mayor’s Office of Housing & Community Development 2023 Area Median Income
3) Massachusetts Institute of Technology 2023 Living Wage Calculator
Old Affordability Metric and Target

Combined water/sewer bill must be less than 2.5% of Median Household Income
Key Considerations in Developing Policy

1. **Integrated into existing budget and financial planning process**
   - Minimizes administrative effort and increase likelihood of targets mattering in decision-making
   - Rely on simple to calculate metrics

2. **Metrics and targets tailored to our service area**
   - High cost of living and income inequality vs. high average income
   - Retail residential households are indicative of cost to entire customer base

3. **Not a hard limit, but an early warning system to drive action**
   - Both a challenge and an opportunity to communicate to customers, regulators, elected officials
   - Goal is to make changes to meet targets, but sometimes tradeoffs may be necessary

4. **Cover entire agency**
   - Setting *metrics* for entire agency
   - Setting *targets* for water/sewer, power expected later
Affordability Evaluation Process

- Develop operating and capital budgets and 10-Year Financial Plan
- Calculate rate increases necessary to cover expenses and comply with financial policies
- Calculate combined water/sewer bill as percentage of typical and low-income household income
- Compare projected average bills to target percentages of income
- Pursue strategies to (hopefully) reduce need for future rate increases
- If exceeding targets, provide rationale and strategies to address affordability

Affordability Policy sits alongside other Commission-approved financial policies:
  - Debt service coverage policy
  - Fund balance reserve policy
  - Capital financing policy
• If you lined up all households in San Francisco by income…
  • The median household would be at the 50\(^{th}\) percentile
  • The second quintile household is at the 40\(^{th}\) percentile
  • The lowest quintile household is at the 20\(^{th}\) percentile

• San Francisco’s incomes are very high!
  • SF’s median is 83\% higher than the US
  • The median household in San Francisco makes more than 80\% of US households (fourth quintile)
Income: Consider Racial Equity

- Black, Indigenous, and People of Color households in San Francisco have lower median incomes than white or the City’s overall median.

- Using median as gauge of affordability does not account for racial inequality.

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San Francisco's Median Household Income by Race

<table>
<thead>
<tr>
<th>Race/Origin</th>
<th>Median Household Income</th>
</tr>
</thead>
<tbody>
<tr>
<td>All Households</td>
<td>$126,187</td>
</tr>
<tr>
<td>White</td>
<td>$156,581</td>
</tr>
<tr>
<td>Asian</td>
<td>$107,741</td>
</tr>
<tr>
<td>Hispanic or Latino origin (of any race)</td>
<td>$84,992</td>
</tr>
<tr>
<td>Black or African American</td>
<td>$44,142</td>
</tr>
<tr>
<td>American Indian &amp; Alaska Native</td>
<td>$38,750</td>
</tr>
</tbody>
</table>

Source: US Census Bureau ACS 2021 5-Year estimates
## Income: Using Two Metrics

<table>
<thead>
<tr>
<th>Typical Household = 40th Percentile Income</th>
<th>Low Income Household = 20th Percentile Income</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Keeps measure of how rates impact an average customer</td>
<td></td>
</tr>
<tr>
<td>• Lower than median to account for racial disparities and high cost of living</td>
<td></td>
</tr>
<tr>
<td>• Adds focus on customers who face greatest challenges from high cost of living and widening inequality</td>
<td></td>
</tr>
<tr>
<td>• Roughly aligns with eligibility for deepest discounts in Customer Assistance Program</td>
<td></td>
</tr>
<tr>
<td>• Used by regulators, industry associations</td>
<td></td>
</tr>
</tbody>
</table>
• Begin with national standards and industry practices
• Adjust down to account for San Francisco’s local economic conditions
Water & Sewer Typical and Low-Income Household Affordability Metric & Target

<table>
<thead>
<tr>
<th>Fiscal Year End</th>
<th>Water Rate Increase</th>
<th>Sewer Rate Increase</th>
<th>Combined Bill Impact</th>
</tr>
</thead>
<tbody>
<tr>
<td>FYE 2025*</td>
<td>5.0%</td>
<td>9.0%</td>
<td>8.8%</td>
</tr>
<tr>
<td>FYE 2026*</td>
<td>5.0%</td>
<td>9.0%</td>
<td>9.6%</td>
</tr>
<tr>
<td>FYE 2027</td>
<td>5.0%</td>
<td>12.0%</td>
<td>9.6%</td>
</tr>
<tr>
<td>FYE 2028</td>
<td>5.0%</td>
<td>12.0%</td>
<td>9.1%</td>
</tr>
<tr>
<td>FYE 2029</td>
<td>5.0%</td>
<td>11.0%</td>
<td>9.4%</td>
</tr>
<tr>
<td>FYE 2030</td>
<td>4.0%</td>
<td>10.0%</td>
<td>8.6%</td>
</tr>
<tr>
<td>FYE 2031</td>
<td>4.0%</td>
<td>10.0%</td>
<td>7.7%</td>
</tr>
<tr>
<td>FYE 2032</td>
<td>3.0%</td>
<td>7.0%</td>
<td>7.4%</td>
</tr>
<tr>
<td>FYE 2033</td>
<td>3.0%</td>
<td>7.0%</td>
<td>4.9%</td>
</tr>
<tr>
<td>FYE 2034</td>
<td>4.2%</td>
<td>9.6%</td>
<td>8.1%</td>
</tr>
</tbody>
</table>

* Adopted rates

10 Year Avg.

- Water Bill
- Sewer Bill
- Typical Household Affordability Target
- Low-Income Household Affordability Target
Water & Sewer Low-Income Discounted Affordability Metric and Target

- Discounted Sewer Bill
- Discounted Water Bill
- Low-Income Household Discounted Bill Affordability Target

Average Monthly Water & Sewer Bill

- FYE 2024: $85
- FYE 2025: $85
- FYE 2026: $85
- FYE 2027: $85
- FYE 2028: $85
- FYE 2029: $85
- FYE 2030: $85
- FYE 2031: $85
- FYE 2032: $85
- FYE 2033: $85
- FYE 2034: $85
- FYE 2035: $85
- FYE 2036: $85
- FYE 2037: $85
- FYE 2038: $85
- FYE 2039: $85
- FYE 2040: $85
- FYE 2041: $85
- FYE 2042: $85
- FYE 2043: $85
- FYE 2044: $85

Total: $262
CleanPowerSF Affordability Metrics
Questions & Discussion

Thank You!