



CITY OF SOMERVILLE, MASSACHUSETTS
JOSEPH A. CURTATONE
MAYOR

To: Honorable City Council

Subject: Owner-Occupied Exemption for Water & Sewer Bills

Date: March 12, 2020

The Administration and City Council share a deep commitment to preserving an affordable cost of living in Somerville, including on Water & Sewer (W&S) utility bills. Like other municipalities in Massachusetts, our tools to assist residents with W&S bills have included a senior discount, a no-shut off policy, and working with customers to create payment plans when appropriate. To expand this toolkit, the Administration and City Council submitted a Home Rule Petition in 2017 to enable the City to enact a W&S discount of up to 30% on charges and rates for property owners who occupy their homes. The discount, an owner-occupied exemption (henceforth OOX), was intended to reduce the burden of W&S rates, particularly for homeowners with fixed incomes.

The State Legislature approved the OOX home rule petition in November 2018, and the Administration committed to evaluating the implementation of the OOX for FY21. This memo summarizes the evaluation and impacts of the proposed OOX policy. In addition, a third-party consultant to the City on this matter, Stantec, will present a detailed overview of their financial analysis and findings to the City Council March 12.

Per the enabling legislation, the OOX policy must be revenue neutral. Therefore, any bill discounts to owner-occupants must be recouped by bill increases to non-owner occupant W&S customers. In order to understand the magnitude of bill impacts of the OOX, Stantec analyzed W&S billing data. In addition, an interdepartmental team met to review those results and evaluate them against the City's goals of equity and affordability.

Stantec calculated bill impacts if Somerville had implemented the OOX in FY20. Assuming a 30% exemption for owner occupants, non-owner occupants would have had an increase of 11% on their bills.

Average bill impacts and the difference in bills between owner and non-owner occupants are summarized in Table 1 below.

Table 1: Average Bill Impacts of 30% Owner-Occupant Exemption for FY20

Property Category	Average Annual Savings for Owner-Occupant Customers	Average Annual Bill Increase for Non-Owner-Occupant Customers	Difference in Average Annual Bill Between Non-Owner Occupant and Owner-Occupant
Single family properties	-\$231	\$84	\$315
Two-family properties	-\$413	\$151	\$564
Three-family properties	-\$595	\$217	\$812
Condos	-\$168	\$62	\$230

In most cases, landlords rather than renters are billed for W&S charges. It can be expected that landlords will pass increases in W&S bills to tenants over time. In addition, some inclusionary housing tenants are directly billed for W&S usage, meaning that they will immediately face increased costs. The Administration is concerned about the negative impact that these increases will have on fixed and low income renter households. The U.S. Census Bureau American Community Survey (ACS) estimates that 15% of Somerville's renter households are severely cost burdened, meaning that they spend 50% or more of their income on rent.¹ These households are especially vulnerable to rent increases. ACS data indicates that all severely cost-burdened renter households in Somerville have incomes less than \$75,000 and 90% of those have incomes less than \$50,000. Moreover, research suggests implementing an OOX policy may have the unintended consequence of exacerbating racial wealth disparities in Somerville, where home ownership rates are higher among white residents compared to non-white residents.²

Stantec also analyzed the impact of recouping the discount from non-residential customers only. In FY20, a 30% owner-occupant exemption would have required a 38% bill increase for non-residential customers. This 38% increase would apply to all sizes and types of non-residential customers, including small businesses. Bill impacts to example non-residential customers are summarized in Table 2 below.

Table 2: Example Bill Impacts for Non-Residential Customers for FY20

Property Category	Bill Increase
Large apartment building	\$119,714
Large textile company	\$535,687
Restaurant	\$2,133
Factory	\$6,392
Laundromat	\$9,618

¹ U.S. Census Bureau American Community Survey 5-Year Estimates. 2014-2018. B25074. Household Income by Gross Rent as a Percentage of Household Income in the Past 12 Months.

² Martha F. Davis, *A Drop in the Bucket: Water Affordability Policies in Twelve Massachusetts Communities* (Northeastern University School of Law: Program on Human Rights and the Global Economy, Boston 2019)

In addition, Stantec compared FY20 bills with projected FY21 bills including the OOX discount and anticipated W&S rate increases. The results showed even wider disparities between the average annual bill of owner occupants and non-owner occupants with equal water consumption.

Effectively, the OOX provides bill relief to owner occupants at the cost of tenants and businesses, making it an inequitable strategy to achieve affordability. Therefore, the Administration does not recommend moving forward with the implementation of an OOX policy.

To achieve the Administration and City Council's shared goal of affordability, the City must explore other methods to ensure that low- and fixed-income homeowners and tenants are protected against increasing costs of living, including W&S utility bills. Recent research points to income, not property ownership, as a more equitable criterion for ensuring affordable access to water.³ The Administration will work with the City Council to find the best tools for protecting low- and fixed-income water consumers.

³ Martha F. Davis, *A Drop in the Bucket: Water Affordability Policies in Twelve Massachusetts Communities* (Northeastern University School of Law: Program on Human Rights and the Global Economy, Boston 2019)