

NOW

BGR's Spotlight on Local Government Issues

S&WB Rate Increases and Reform, Hand in Hand

October 16, 2012

On October 17, the Sewerage & Water Board of New Orleans (S&WB) plans to continue evaluating possible sewer and water rate increases. It will consider its formal response to questions posed by the mayor in July. The mayor asked the S&WB, among other things, to look for ways to reduce the requested increases and to address stakeholders' concerns about governance. Last week, the S&WB executive committee discussed the issue and approved a draft response for submission to the board. That response recommends a series of 10%-per-year rate increases. Rather than providing a plan for governance reform, it calls for future meetings on the topic.

The recommended rate proposal calls for 10% annual increases for each system, beginning December 1, 2012, and continuing through 2020. Over that period, the average monthly residential bill would rise by a cumulative 136%. These sewer and water rate increases would generate an additional \$582.6 million by 2020.

The current proposal replaces the previous recommendation for a front-loaded set of annual increases. These amounted to 12% for water and 13% for sewerage each year for the next five years, followed by smaller increases through 2020.¹ The new proposal will generate less revenue and, due to the compounding effect of the 10% annual increases, push the average residential bill slightly higher in 2019 and 2020.² BGR plans to analyze the S&WB's proposed increases in greater depth before the City Council considers them.

1 The water increases from 2017 to 2020 would have been 5% per year, while the sewer increases would have been 10% in 2017 and 3% per year from 2018 to 2020.

2 BGR estimates the bill in 2020 would be \$123.75, compared to \$114.57 under the front-loaded option. BGR calculated the bill based on 5,300 gallons per month, the average consumption for the residential customer class, regardless of meter size. The residential average usage is not the average for single-family homeowners because the residential customer class also includes duplexes and small rental properties. The average does not include the city's sanitation charge.

The new revenue will primarily fund operating costs, the ongoing sewer system rehabilitation and upgrades to the water treatment plants. It will not, however, provide significant funding to fix the leak-ridden water distribution network.

For ratepayers, the prospect of paying more for sewerage and water service will always be unwelcome. In light of the S&WB's weak performance as a steward of the systems it oversees, the increases are particularly difficult to accept.

Unfortunately, significant rate increases are necessary. While the scope and the specifics of the S&WB's capital and operating needs are open to debate, no one who has looked at the issue closely would argue that the S&WB has enough money to meet its needs. Deferred investment has been a problem for decades, and today's residents and businesses have to deal with it.

But it is perfectly reasonable for the public to expect – indeed, to demand – serious governance reforms before it injects hundreds of millions of dollars into a troubled agency. Otherwise, that massive investment will be at risk.

BGR believes that governance reform must precede approval of the massive increases contemplated by the S&WB. Otherwise, the pressure to change the agency will ease, and the moment for reform could be lost. At the same time, BGR acknowledges that there are projects that cannot be delayed and obligations that the S&WB must meet in a timely fashion.

We are therefore proposing that the S&WB limit rate increases at this time to those that are necessary to meet its obligations under the federal consent decree that governs the sewer system. Additional increases should be contingent on, and adopted after, the implementation of meaningful governance reforms. Without material changes in governance, BGR is not able at this time to support additional increases on the scale requested.

IMPLEMENTING GOVERNANCE REFORM

The massive rate increases that the S&WB is calling for today are attributable in large part to its dysfunctional governance. The entity has suffered from a vicious cycle of underfunding, deferred maintenance, mounting costs and dramatic rate hikes. In its October 2011 report entitled [*Making the Waterworks Work*](#), BGR analyzed the root causes and proposed major governance changes to address them. It recommended extensive gover-

nance reforms designed to increase the S&WB's autonomy and reduce the influence of politics in future rate decisions. These include removing the elected officials from the board and giving the S&WB limited authority to raise rates to keep up with cost increases, maintenance and repairs once the major needs are addressed.

BGR also recommended revamping the board's structure and redirecting its focus to broad issues of policy and oversight. The board currently squanders too much of its energy on contracting, while giving short shrift to critical functions, such as financial oversight, strategic planning and the evaluation of executive management. (For the full list of BGR's recommendations, see Appendix A.)

Most of these reforms are prerequisites to a well functioning organization. Some of them, such as refocusing the board's energies, can be implemented by the S&WB immediately. Others, such as changes to board structure and increases in rate-making authority, require state legislation. Some require a corresponding city charter amendment.

The legislation could be enacted in the next legislative session, which runs from April 8 to June 6, 2013. Charter amendments could be considered at the regularly scheduled election in October 2013, or at an earlier special session. In short, if the S&WB and City Hall cooperate, the critical reforms could be implemented within eight months to a year. (See Appendix B for a chart of key 2013 deadlines for implementing reforms.)

CONCLUSION

The S&WB must fix more than broken pipes or aging plants. With the assistance of the State Legislature and City Hall, it must fix the way it is governed and the way it operates. That work must commence now, and in earnest.

The S&WB has for years been characterized by inertia. Time and again, it has returned to customers, hat in hand, for major rate increases after long periods without any. And during those years, as its systems have deteriorated, public confidence in a once-proud agency has deteriorated as well. Tying rate increases to substantive reforms would give citizens confidence that this time will be different.

Citizens should demand, and the Mayor, the City Council and the S&WB should deliver, a firm commitment to meaningful governance reforms.

APPENDIX A: BGR'S RECOMMENDED GOVERNANCE REFORMS

BGR has recommended a series of governance reforms.

To better align the S&WB's responsibilities with funding authority and improve the City Council's decision making:

- The State Legislature should amend state law to authorize the S&WB to increase water and sewerage rates annually by an amount tied to a suitable index or other measure, without City Council approval. State law and the city charter should be amended to allow limited increases for drainage fees.
- The City Council should consider requests for larger increases using a formal review process, which at a minimum should provide for independent analysis of the requests, appropriate opportunities for public comment and clear timelines. The City Council should also adopt a formal process for considering S&WB requests to levy taxes and fees.
- The City Council should develop a comprehensive, ongoing process for regulating the S&WB, which includes reviewing the S&WB's strategic and financial plans and reports, and regularly monitoring the S&WB's performance.

To increase the effectiveness of the S&WB board of directors:

- The State Legislature should amend state law to remove the mayor and City Council members from the board, reducing it from 13 members to nine. The City Council should initiate a corresponding charter amendment.
- The State Legislature should further amend state law to:
 - Reduce the terms of board members from nine years to four years and stagger the new terms.
 - Limit members to three consecutive terms.
 - Require that seven of the nine mem-

bers of the board have extensive experience in one or more of the following areas: finance, accounting, business administration, engineering, law, information technology or public health.

- The S&WB's board should:
 - Limit its role in the agency's contracting primarily to broad issues of policy and oversight. It should establish appropriate policies and goals to guide management's contracting processes, and set goals for the Disadvantaged Business Enterprise (DBE) program. It should monitor management's performance toward those goals and adherence to board policies. It should restrict its review of individual contracts to extraordinary ones, such as significant privatizations.
 - Establish an annual process for evaluating the performance of the executive management, including but not limited to measuring performance against objectives identified in strategic or financial plans adopted by the board.

To improve the upkeep of local drainage:

- The city should transfer responsibility for the maintenance and repair of its subsurface drainage from the Department of Public Works to the S&WB.
- The city and the S&WB should develop a new funding source for subsurface drainage.

APPENDIX B: KEY DEADLINES FOR IMPLEMENTING GOVERNANCE REFORM

State Legislature 2013

Late February
Notice Published of
Bill To Be Introduced



Late March
Bill Filing Deadline



April 8
Legislative Session
Begins



June 6
Session
Ends

Charter Election 2013

By Mid-April
City Council
Introduces Ordinance
Calling Election



By Early May
Council Adopts
Ordinance and Mayor
Approves



Mid-May
Call Submitted to
State Bond
Commission



Mid-June
State Bond
Commission Approves
Election



July 17
Secretary of State
Deadline for Ballot
Propositions



October 19
General Election

Sources: La. Const. Art. III, Secs. 2 and 13; Louisiana Secretary of State.