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BGR MEDIA RELEASE

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BGR Releases Analysis of S&WB's Proposed Rate Increases

Today BGR releases *Time to Pay the Pipelayer? The Proposed S&WB Rate Increases in Perspective*. The report reviews a proposal by the Sewerage & Water Board of New Orleans (S&WB) to raise water and sewer rates 10% a year for the next eight years. It examines the proposed water and sewer rate increases and their impacts on customers. It also examines the proposed uses of the additional funding and how far it will go in fixing the systems' problems.

The S&WB's rate proposals come at a critical juncture for the agency. The water and sewer systems have suffered from decades of chronic underfunding and deferred maintenance, damage caused by the Katrina disaster and deteriorating financial conditions. The S&WB must make substantial capital investments in the systems, address rising costs and strengthen their finances.

The rate increases are significant. If adopted, customers' bills would more than double by 2020. Assuming his usage remained the same, the average residential customer would see his monthly bill rise steadily from \$52.50 to \$112.67.

However, based on BGR projections, the average residential customer's bill would remain in line with similar customers in peer cities. And they would meet basic affordability standards.

The rate increases would allow the S&WB to make critical investments in its water and sewage treatment plants and related facilities, and in the sewer network. It would also allow for other capital improvements, including new technology for meter reading and customer service.

However, less than half of the revenue from the rate increases would go toward infrastructure and other capital improvements. A significant portion of the additional revenue must be spent to position the S&WB to issue bonds at reasonable rates. Improving the S&WB's debt coverage ratios and

building its fund balances are prerequisites to making significant infrastructure investments.

Ratepayers should be aware that the requested rate increases would cover only a portion of the S&WB's capital needs. The new revenue could not be used to address drainage system needs, which the S&WB estimates at \$356 million during the next eight years. And the revenue would make no more than a dent in the leakage plaguing the water distribution network.

The biggest weakness in the S&WB's requests for rate increases is the lack of a plan for spending the additional O&M revenues. The lack of a well-conceived and articulated plan increases the potential for waste and inefficiency and raises the specter that the agency will merely plod along. Developing a clear spending plan should be a high priority for the S&WB.

Despite this weakness in the plan, BGR supports the proposed rate increases. Coupled with reforms to governance, the increases would lay the necessary foundation for the S&WB to serve the public more effectively.

"There is no question that the Sewerage & Water Board is deeply underfunded," said BGR Chairman J. Kelly Duncan. "While the rate increases will be painful, they are clearly necessary."

Time to Pay the Pipelayer? is available on BGR's website, www.bgr.org.

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BGR is a private, nonprofit, independent research organization. Since its founding in 1932, it has been dedicated to informed public policy-making and the effective use of public resources in the Greater New Orleans area. For more information call 525-4152 or visit BGR's website, www.bgr.org.