

**Rosemary Menard**  
**Water Director,**  
**City of Santa Cruz Water Department**  
**Testimony before the Senate Committee on Environment and Public Works, Subcommittee**  
**on Fisheries, Water and Wildlife**  
**On**  
**Water Affordability and Small System Assistance**

**2:30pm on May 31, 2021**

Chairman Padilla, Ranking Member Lummis and members of the Subcommittee, my name is Rosemary Menard. I am the Water Director for the City of Santa Cruz Water Department located at the north end of Monterey Bay on California's central coast. Thank you for the opportunity to share with you my perspective on the important issue of the affordability of water services.

The Santa Cruz water system serves just under 100,000 customers and all water supply is locally sourced; we are not connected to any of California's federal or state water supplies or infrastructure. We own, operate, and maintain a water system with a replacement value of over \$1 billion and that includes a dam and reservoir in the Santa Cruz mountains, 50-plus miles of untreated water transmission pipelines, several water diversion structures, a large surface water treatment plant, two well fields, more than 250 miles of distribution system pipelines, and 15 treated water storage tanks. We protect public health by treating the water we produce and deliver to our customers to comply with state and federal drinking water standards covering dozens of contaminants, and we routinely monitor for dozens more.

Santa Cruz's water customers already face challenges related to water affordability, and the key driver of that issue is our need to make major reinvestments in our water system to address aging infrastructure, adapt to climate change, and comply with current and anticipated regulatory mandates. Most of the water system's major facilities were constructed before 1960 and have reached the end of their useful lives. And Santa Cruz is already experiencing significant impacts of changing climate in the form of longer, deeper, and more frequent drought conditions that put us at risk of running out of water and extreme wet weather events that result in crippling damage to water infrastructure such as we experienced throughout this past winter as well as in the winter of 2017.

Adding to our infrastructure and climate challenges is the cost of complying with California and federal water quality regulations, including the forthcoming National Primary Drinking Water Regulation for PFAS, anticipated revisions to the Lead and Copper Rule, and potential changes to the Microbial and Disinfection Byproducts rules currently being explored by EPA. As part of Santa Cruz's commitment to meeting all current and future regulatory requirements, we are currently working on a project with an estimated construction cost of \$158 million that will upgrade our water treatment process and facilities. This project is just one example of a driver of

increasing costs that will ultimately be borne by our customers further exacerbating water affordability challenges for those least able to pay.

Santa Cruz initiated its water system reinvestment initiative in 2016 with the development of a Long-Range Financial Plan. This plan included a project financing strategy heavily dependent on debt financing and developed recommendations for significant rate increases to support implementing our Capital Investment Program (CIP). The Santa Cruz City Council unanimously approved a five-year rate increase schedule in August 2016. With funds generated by these rate increases we moved forward with more than \$200 million in large construction projects to rehabilitate, replace, and climate-proof critical elements of the water system. We applied for and received \$150 million in funding from the California Drinking Water Revolving Loan program to fund two of the larger projects that are already under construction.

In 2021, the Long-Range Financial Plan was updated, and a second five-year rate increase schedule was recommended, unanimously approved by the Santa Cruz City Council, and is now being implemented. These new rates are supporting an additional \$370 million in capital reinvestment in the Santa Cruz water system. In addition to the water treatment plant upgrade mentioned earlier, other projects being funded include replacing critical water transmission pipelines and providing significant resources to develop additional water supply to improve supply reliability in the face of more frequent drought. A recently closed federal Water Infrastructure Finance and Innovation Act loan of \$128 million will support some of the planned work in the coming five-year period. Still, at the end of this five-year rate increase schedule, continuing rate increases are expected for at least another decade to replace and climate-proof other elements of the water system that have reached the end of their useful life.

From the customer perspective, the result of our work to begin addressing water system reliability and resiliency issues is reflected in the steadily increasing cost for water service. Specifically, the cost of water for essential indoor use for a typical single family residential customer has increased from about \$30 per month in 2014 to about \$80 per month in 2023 – an increase of more than 250%. And we know that by 2026 this cost is going to increase to \$120 per month or a further 50% increase over the current cost.

Given the trends for rising costs of water service in Santa Cruz, and for utility customers around the country where costs are or will be increasing to address aging infrastructure, emerging contaminants, and climate change, we must ask how we will maintain equitable access to water service for those customers least able to pay those higher costs.

To better understand how rising costs are impacting Santa Cruz's customers, the utility has commissioned several detailed analyses of water and wastewater affordability looking at census block group level data. Attachment 1 provides summary level details of this work. These analyses show that about 20% of the households in our service area are already heavily financially burdened by the water and wastewater rates they're being asked to pay; these impacts will only grow over time. To mitigate these conditions and maintain access to water service for all our customers some form of ongoing water rate assistance is necessary.

Unfortunately, providing adequate ratepayer assistance to our low-income customers is not something that Santa Cruz can do on its own. California is one of a handful of states that statutorily prohibits publicly owned water systems from using rate revenues to support rate assistance programs for low-income customers. Without access to these rate revenues, we simply do not have the resources to offer meaningful assistance on our own to our customers who need it.

Nationwide, according to a 2017 analysis commissioned by the Association of Metropolitan Water Agencies and other water sector organizations, very few states expressly permit publicly owned water systems to support customer assistance programs with ratepayer revenue, and in many states the question falls into a legal gray area.<sup>1</sup> This discourages water systems from pursuing such programs, and demonstrates the need for a federal initiative such as the Low-Income Household Water Assistance Program (LIHWAP), or other potential approaches.

Still, to support our low-income customers Santa Cruz has actively accessed available federal and state resources focused on addressing pandemic impacts. For example, through our participation in LIHWAP, 858 water service account holders received \$579,583 from utility arrearage funding through January 2023. An additional 582 customers received \$217,802 in assistance for past due costs of wastewater services. And, with the recent lifting of California's Covid-era prohibition on water service disconnections for non-payment, 44 additional customers received one-time support from the LIHWAP program. These one-time payments are helpful but are only a short-term fix. Just as the federal Low-Income Household Energy Assistance Program is a longstanding initiative to help qualifying households maintain home heating and cooling service, a similar permanent federal program is needed to ensure that all customers can continue to maintain water service.

It is also important to recognize that as part of the Bipartisan Infrastructure Law, Congress authorized the Rural and Low-Income Water Assistance Pilot Program at EPA, representing another initiative that holds promise in addressing the water affordability challenge. That program will allow EPA to award grants to support public water and wastewater affordability programs nationwide, thus providing funding to communities like Santa Cruz that are barred from using their own ratepayer dollars to fund local-level customer assistance programs. This EPA pilot is still awaiting funding, so I hope Congress will provide the necessary resources to make it operational as soon as possible.

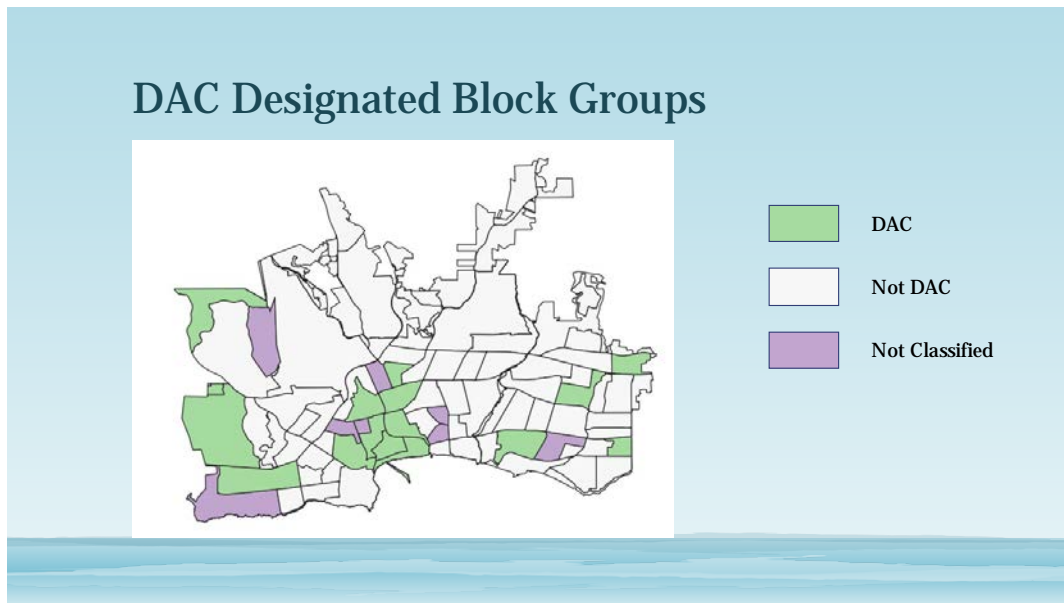
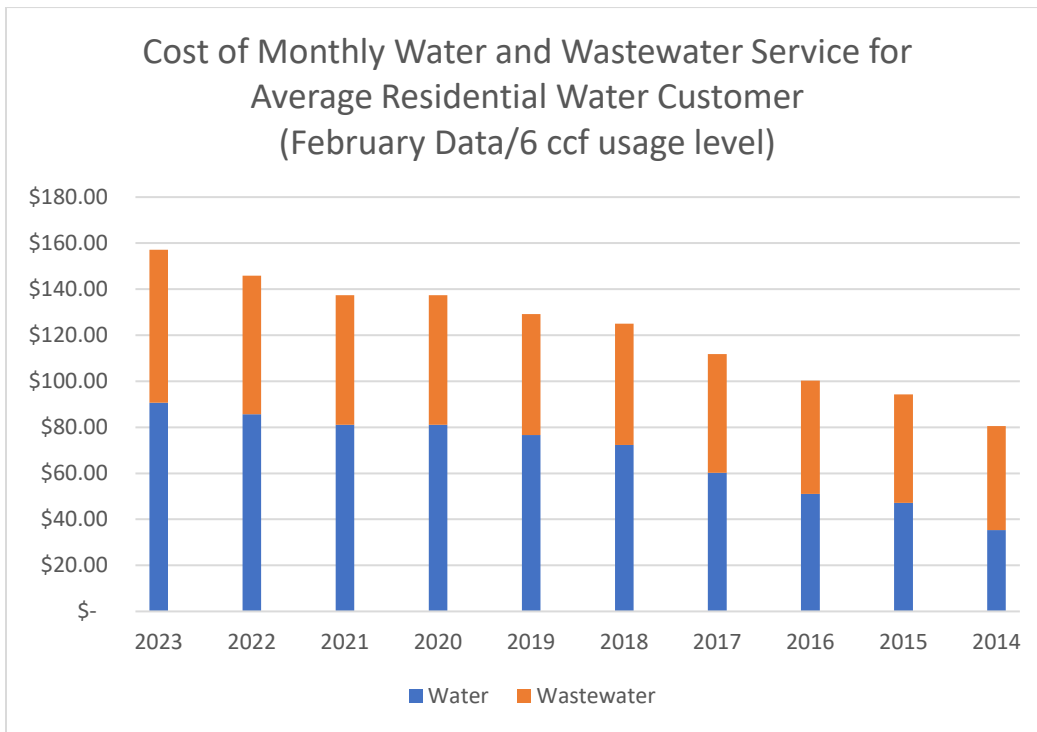
I appreciate the opportunity to share Santa Cruz's affordability challenges with you today, but I do not want to leave you with the idea that Santa Cruz's needs or circumstances are in any way unique. We have stepped up to the challenge in undertaking a major reinvestment in our water system, but I know that many of our nation's water utilities are facing similar reinvestment needs. Ongoing funding for a federal water rate assistance program will help both utilities and customers alike as we make these investments in our nation's critical infrastructure and continue our important work to protect our citizen's public health.

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<sup>1</sup> *Navigating Legal Pathways to Rate-Funded Customer Assistance Programs: A Guide for Water and Wastewater Utilities.* <https://www.amwa.net/publication/navigating-legal-pathways-rate-funded-customer-assistance-programs-2017>.

# Attachment 1

## Water and Wastewater Affordability in Santa Cruz



DAC: Disadvantaged Community

## Scoring Affordability with the Financial Burden Matrix

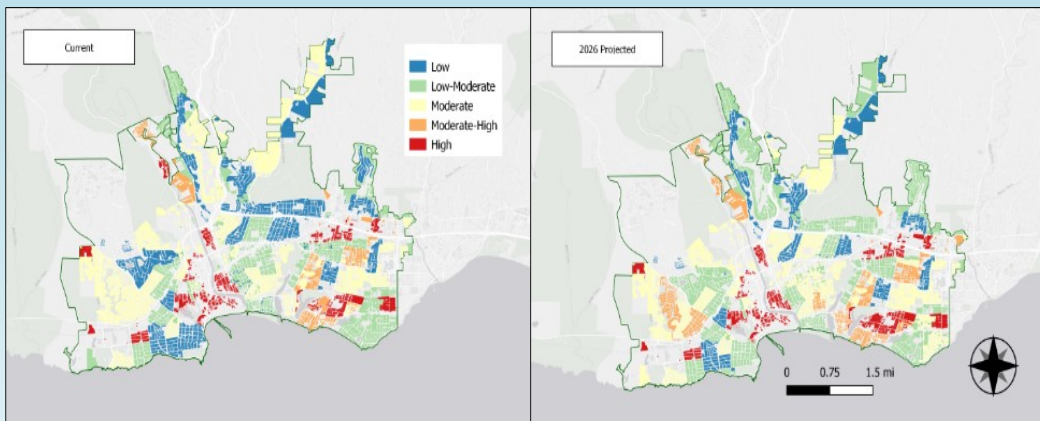
AR <sub>W&amp;S</sub>	Poverty Prevalence Indicator (PPI)			
	< 10%	10 – 30%	30 – 50%	> 50%
< 1.5%	Low	Low	Low-Moderate	Low-Moderate
1.5% - 2.5%	Low	Low-Moderate	Moderate	Moderate
2.5% - 3.5%	Low-Moderate	Moderate	Moderate	Moderate-High
3.5% - 4.5%	Moderate	Moderate	Moderate-High	High
> 4.5%	Moderate-High	Moderate-High	High	High

Notes:

AR<sub>W&S</sub>: Combined water and sewer cost at essential level of service as a percentage of MHI adjusted for housing costs

PPI: Percentage of households in block group with income less than 200% FPL.

## Change in Financial Burden Scores



## Change in Financial Burden Scores

