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To the New York City Council Committee on Environmental Protection, Resiliency, and Waterfronts on the Water Board Rental Payment and the Multi-Family Conservation Program
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Good afternoon, Chair Gennaro and members of the Environmental Protection, Resiliency, and Waterfronts Committee. I am Jordan Paige, Environmental Budget and Policy Analyst for the New York City Independent Budget Office (IBO). I am joined here today by my colleague, Brian Cain, Assistant Director of Housing, Environment, and Infrastructure. IBO is an independent, non-mayoral City agency that conducts fiscal and policy research for the City.

Earlier this month, IBO published a report examining the rate setting and billing process of the City's water and sewer system. My testimony today will highlight key takeaways from this research.

Water Board Rental Payments

Fiscal Year	Rental Payment (in millions)
2011	$205
2012	$196
2013	$207
2014	$214
2015	$205
2016	$137
2017	$0
2018	$0
2019	$0
2020	$128
2021	$137
2022	$0
2023	$0
2024	$145
2025	$289 (projected)
2026	$313 (projected)
2027	$325 (projected)
2028	$369 (projected)

SOURCE: IBO analysis of Office of Management and Budget data
NOTES: The 2025 through 2028 rental payments are the amounts requested by the City, as reflected in the City's 2025 Adopted Budget (released June 2024). All prior year amounts reflect the actual payments in those years.

Rental Payment

After the 1970s fiscal crisis, investors were hesitant to buy general obligation bonds backed by the City's general fund. In the 1980s, the water and sewer system was financially separated from the City government to issue water & sewer bonds. Water bill revenue was removed from the general fund and moved to the control of the Water Board to be used exclusively for water system maintenance, operations, and the debt service on the new Water Finance Authority bonds.

The 1985 Water Board lease agreement granted the Water Board permission to use the City's water and sewer system. However, one provision in the agreement allows the City to request an annual payment from the Water Board. The so-called "rental payment" was intended to make the City whole as it paid off pre-existing debt related to the water system. That debt—the initial justification for the rental payment—was fully paid off in 2005, but the City's collection of the rental payment did not end there. Since then, the rental payment has simply become a mechanism to move revenue from the water system to the City's general fund as a source of additional revenue. Once in the general fund, it can be spent at the discretion of the mayoral administration and can be put towards any of the City's budget priorities.

In recent years, the City's use of the rental payment has varied.

- Referring to City fiscal years here, every year from 1985 through 2015, mayoral administrations requested the rental payment.
- In 2016, notably when the City saw particularly strong revenue collections, the de Blasio administration requested only a partial rental payment. The City did not request rental payments for the next three years.
- When the City faced financial uncertainties during the pandemic in 2020 and 2021, the de Blasio administration then requested partial rental payments.
- Under the Adams administration, there were no rental payments in 2022 and 2023. The rental payments were resumed midway through 2024, when the Adams administration requested a partial rental payment of $145 million. This was predicated on the basis that the City needed help covering the rising costs of caring for asylum seekers, although IBO's revenue and expense forecasts painted a less dire financial picture than the administration's.
- Under the same justification, the City plans to charge the maximum annual rental payment from 2025 through 2028, around $300 million each year.

Whatever amount of rental payment the City requests, the Water Board has to set rates to cover not only the cost of maintenance and operations for the water and sewer system but also cover the cost of the rental payment. Of the 8.5% total water bill rate increase in 2025, 3.1 percentage points has been attributed to the rental payment request. These rate increases are seen directly by property owners because they receive their water bill. Rate increases also indirectly impact residents of rental, condo, and coop apartment buildings, because economic theory suggests that some, if not all, of water bill costs for apartment buildings are ultimately borne by the residents. However, renters rarely see water bills directly and are likely to miss public notices included therein.

Whether or not the City will request the rental payment lends to uncertainty in the Water Board's rate setting process each year, and has fiscal implications for city residents. Additionally, with the retirement of the water system-related general obligation debt in 2005, the rationale for the rental payment continuing is unclear.

Metered vs. Multi-Family Conservation Program Billing

Turning our attention now to water billing structures, IBO would like to briefly highlight a key finding from our analysis. New York City has four billing structures for water and sewer ratepayers. The two most common structures make up about 94% of all water bill charges in the City. The first is metered bills, which are assessed based on the amount of water used at a property (about 70%). The other is the Multi-Family Conservation Program, or MCP, which charges a flat rate per residential unit to qualifying multi-family buildings (about 24%).

The other two billing structures making up the remaining 6% of water bill charges are for legacy "frontage" billing which are based on physical characteristics of a property, and water bills charged for City municipal buildings. IBO would like to focus on some observations related to property bills under the metered and MCP structures.

- Using 2020 water bill data, IBO found that among large multi-family properties, 82% of metered properties were charged less per residential unit than the flat MCP rate of $1,052.29 per unit. In other words, 82% of large apartment buildings that pay metered water bills owed less than those bill under MCP, per apartment.
- MCP properties are typically larger, older apartment buildings. The Bronx has the highest concentration of MCP properties, and many NYCHA properties are enrolled in the MCP.
- New York City has some of the lowest water rates in the country. However, in general, water bills are seen as regressive, in the sense that everyone pays the same rate regardless of having limited income or ample disposable income. But if MCP properties are charged more on average than most metered multi-family buildings, that could signal an even greater level of regressivity.

Without seeing actual water usage for these MCP properties, it is impossible to say whether they would pay more or less if they switched to metered billing. Because MCP is not tied to water usage, there is no direct incentive to reduce water waste (beyond the initial program requirement to install low-flow fixtures). It could be that the MCP either charges these properties more than they would otherwise pay under metered billing, fails to discourage the water conservation, or both. On the other hand, some property owners may prefer rate certainty and are willing to potentially pay a premium to avoid unexpected bill shock.

IBO would like to thank you for this opportunity to testify, and we welcome any questions.