



TO: The Honorable Felicia Marcus, Chair  
and members of the State Water Resources Control Board  
c/o Clerk to the Board – State Water Resources Control Board  
1001 I Street, 24<sup>th</sup> Floor  
Sacramento, CA 95814

FROM: Collin Tateishi, Sustainable Housing Policy Analyst, California Housing Partnership  
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DATE: March 15, 2017

SUBJECT: **Public Comments on Including Multifamily Affordable Housing in the  
Development of Low-Income Rate Assistance Program (AB 401)**

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Dear Chair Marcus and Members of the Board:

California Housing Partnership (CHPC) and Pacific Institute appreciate the opportunity to provide comments to the State Water Resources Control Board (Board) on program design, implementation and funding for the State's Low-Income Water Rate Assistance Program (Program) initiated by AB 401. We support a Program that is available to all low-income Californians regardless of their housing type. In a multifamily rental apartment, this may involve both the property owner and the non-account-holding tenant.

Affordable water helps maintain and preserve affordable homes for low-income Californians. This comment letter highlights key issues regarding multifamily affordable housing<sup>1</sup> that a statewide low-income water rate assistance program will need to address.

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<sup>1</sup> *Multifamily affordable housing* refers to multifamily rental properties that have regulatory restrictions on rent and where the owner pays for their tenants' water use but is not able to pass those costs on to the tenant.

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CHPC and Pacific Institute will continue to work with affordable housing organizations and policy experts to prepare more detailed recommendations for the Board on program design, implementation and funding during the next round of public workshops expected this spring.

CHPC is a private nonprofit that provides statewide technical assistance and leadership on affordable rental housing finance issues to nonprofit and local government housing agencies. Its 13 financial consultants have helped these agencies leverage more than \$12 billion in public and private financing to create and preserve more than 60,000 affordable rental homes. Its sustainable housing policy experts convene the Green Rental home Energy Efficiency Network (GREEN), a network of over 80 mission-driven affordable rental housing, environmental and sustainable energy organizations working to increase access to energy efficiency, clean energy and water conservation resources for affordable rental properties in California.

The Pacific Institute envisions a world in which society, the economy, and the environment have the water they need to thrive now and in the future. In pursuit of this vision, the Institute creates and advances solutions to the world's most pressing water challenges, such as unsustainable water management and use; climate change; environmental degradation; food, fiber, and energy production; and basic lack of access to fresh water and sanitation. Since 1987, the Pacific Institute has cut across traditional areas of study and actively collaborated with a diverse set of stakeholders, including leading policymakers, scientists, corporate leaders, international organizations such as the United Nations, advocacy groups, and local communities. This interdisciplinary and independent approach helps bring diverse groups together to forge effective real-world solutions.

### Affordable Water Helps Maintain and Preserve Affordable Homes

Affordable and safe drinking water helps maintain and preserve affordable homes for Californians living in multifamily affordable housing. If rising water costs become greater than a property's operating budget, then owners may need to tap into reserve funds<sup>2</sup> intended for major and long-term property improvements to cover costs, or in the case of properties without deed restrictions, potentially raise rents. Multifamily affordable housing owners must operate their properties close to the margin to maintain affordability. As a result, rising utility costs such as water can lead to deferred maintenance and may eventually result in noncompliance with affordability requirements<sup>3</sup>. This may compromise the health, safety and long-term affordability of rental homes for low-income Californians.

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<sup>2</sup> Multifamily affordable housing properties are underwritten with an operating budget based on typical operating costs and maintenance needs such as fixing leaks, replacing broken fixtures, cleaning indoor and outdoor spaces and other activities required for basic upkeep of the property. Each property also has *operating reserve* and *replacement reserve* accounts that serve as rainy day funds to pay for unexpected operating costs and expensive repairs such as replacing a roof, boiler, central air conditioning system, toilets and other major rehabilitation needs beyond basic maintenance.

<sup>3</sup> Property owners that do not have rent restrictions and can charge tenants for water costs benefit from market rents that replenish operating budgets and property reserves over time. Multifamily affordable housing owners are not able to do this because of strict regulations on rent and how utility costs are factored into the rent.

This Program should ensure that all low-income Californians living in multifamily affordable housing have access to safe and affordable drinking water regardless of their status as an owner, renter, account holder or non-account holder. Among California households, thirty-one percent (approximately 4.3 million) live in multifamily rental housing that is two or more dwelling units in size<sup>4</sup>. We estimate that the number of rent-restricted<sup>5</sup> multifamily affordable units in California is 478,654 out of 4,270,215 total multifamily units in the state, or about eleven percent<sup>6</sup>.

### Multifamily Rental Housing

Multifamily affordable housing is a specific type of multifamily rental housing that the Board should accommodate. These units differ from below market rental units included in multifamily market-rate properties that are subject to a local jurisdiction’s inclusionary zoning requirement. The type of water meter determines the identity of the water account holder and ultimately who pays for water in a multifamily property. Table 1 describes various meter and account scenarios to show how water costs are different in multifamily affordable housing and multifamily market-rate housing.

**Table 1 – Water Bill Payments by Meter Type for Multifamily Rental Housing**

| Type of Metering  | Water Bill Payment in Multifamily Market-Rate Housing   | Water Bill Payment in Multifamily Affordable Housing   |
|---|---|--|
| <b>Individual Meter</b><br><i>Each unit has an individual water meter. This type of metering is rare in multifamily housing.</i>                  | Tenant is the account holder and pays the water utility directly. Bill and costs paid by tenant.  | Tenant is the account holder and pays the water utility directly; tenant receives a Utility Allowance to reduce their rent. Bill and costs paid by tenant.   |
| <b>Master-meter</b><br><i>All the dwelling units are connected to one meter. This is the most common type of metering in multifamily housing.</i> | Landlord is account holder and pays master-meter bill; tenant reimburses landlord in 2 ways: (1) water cost is capitalized into rent or (2) tenant pays a water charge to the landlord. Bill is paid by landlord but cost is ultimately paid by tenant. | Affordable housing operator is the account holder and pays the master-meter bill. Tenants do not reimburse landlord for water costs. Landlord is legally restricted from raising rent to cover water costs. Bill and costs paid by landlord. |

<sup>4</sup> California Department of Housing and Community Development, 2017, page 15

<sup>5</sup> *Rent-restricted* refers to any of the following: Housing Choice Voucher units or Deed-restricted housing, one or more of the following sources: Low-Income Housing Tax Credits; U.S. Department of Housing and Urban Development Multifamily Programs; U.S. Department of Agriculture Programs; Other state and locally administered sources such as HOME, CDBG, RDA, Federal Home Loan Bank Affordable Housing Program, 501(c)(3) bonds, Inclusionary Zoning Programs, and Density Bonus Programs

<sup>6</sup> California Department of Housing and Community Development, 2017, page 29

|  |  |   |
|--|--|---|
| <p><b>Sub-meters</b><br/> <i>The multifamily building has a single master-meter, but the landlord has installed sub-meters to track each unit's water consumption.</i></p> | <p>Landlord is account holder and pays master-meter bill; landlord or third party company reads the sub-meters and bills each tenant for their water usage. Bill paid by landlord, costs paid by tenant.</p> | <p>Affordable housing operator is the account holder and pays the master-meter bill; affordable housing operator or third party company reads the sub-meters and bills each tenant for their water usage; tenants receive a Utility Allowance to reduce their rent. Bill paid by landlord, cost paid by tenant.</p> |
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Source: Adapted from UC Berkeley, Environmental Law Clinic, 2017

### Experiences from Multifamily Affordable Housing Owners

CHPC works with multifamily affordable housing owners in urban and rural communities throughout the state. The majority of these multifamily rental properties are master-metered for water so the owner pays for their tenants' water use but does not charge them for the cost. These owners cannot increase rent to pay for the higher cost of water because they are subject to legal restrictions on rental affordability. We spoke with multifamily affordable housing owners throughout California and learned:

1. **Affordable and Safe Drinking Water Preserves Affordable Homes for Low-income Californians:** Helping multifamily affordable housing owners that pay for their tenants' water use but are not able to pass on water costs to tenants helps maintain and preserve affordable homes for Californians living in multifamily affordable housing. A subsidy that goes to the multifamily affordable housing owner on behalf of low-income residents will directly subsidize the tenants' water costs that the owner is paying for but not able to pass on to the tenant. This helps address the financial impact of rising water costs that may compromise the long-term health, safety and affordability of these homes.
2. **Multifamily Affordable Housing Owners Pay for Tenant Water Use but are not able to Pass Water Costs to Tenants:** The majority of multifamily rental properties have a master-meter for water rather than individual tenant meters. Multifamily market-rate housing owners can include water costs in a tenant's rent, but multifamily affordable housing owners are not able to pass water costs to tenants due to strict rent regulations.
3. **Multifamily Affordable Housing Owners Must Reduce Tenant Rents if the Tenant Pays for Water Use:** When tenants are individually metered for water, multifamily affordable housing owners may allow each tenant to open their own water account. When a tenant pays for their own water as an account holder, multifamily affordable housing

owners must reduce the tenant's rent with a *utility allowance*<sup>7</sup> to ensure that a tenant's housing cost (rent) and utility expenses (electricity, gas, water, etc) are not overly burdensome.

4. **Multifamily Affordable Housing Owners need Financial Incentives and Resources to Make Water Saving Improvements:** Multifamily affordable housing owners have limited financial resources to retrofit properties because major building improvements require upfront capital. Owners may be reluctant to use replacement reserves if they are still several years away from a refinancing opportunity. They are not able to use traditional debt to pay for new building improvements because of complex financial structures and approval processes specific to multifamily affordable housing<sup>8</sup>.
5. **Water Costs Are Rising and May Outpace Cost-Savings from Water Saving Improvements:** Water costs are rising and may outpace cost-savings from proactive owner efforts to reduce water use with efficient fixtures, drought-tolerant landscaping and irrigation and tenant outreach. Water providers may offer incentive programs for water saving improvements but the savings may not be enough to offset the higher cost of water. While state and local programs may exist, they are often designed for single-family homes or commercial/industrial properties and do not overcome barriers with multifamily properties in general. The financial capacity and technical capabilities of local water providers varies across the state based on different customer bases and infrastructure costs. Statewide programs can reach multifamily properties that have otherwise been left out of traditional water affordability and efficiency programs<sup>9</sup>.

### Key Issues in Multifamily Affordable Housing

During the next round of public workshops, we will provide more detailed recommendations to the Board that address these key issues so that a statewide low-income water rate assistance program can work for multifamily affordable housing.

1. **Subsidy for Low-Income Renters that are Account Holders:** We support subsidizing essential water use for all low-income renters who are the account holders with their water utility. We will research the impacts of utility allowance adjustments to tenant rents as part of our final comment letter.
2. **Subsidy for Multifamily Affordable Housing Owners that are Account Holders but Restricted From Passing Water Costs to Tenants:** Where renters do not have a water account, the multifamily affordable housing owner could be eligible to receive the

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<sup>7</sup> *Utility Allowances* are based on average utility costs and determined by the local Public Housing Authority. Tenants do not receive a utility allowance adjustment for water when the multifamily property owner pays for their tenants' water use.

<sup>8</sup> California Energy Commission, 2012, page 13

<sup>9</sup> United States Environmental Protection Agency, 2016, page 27

subsidy on behalf of the eligible low-income tenants if they pay for their tenants' water use and are not able to pass that cost on to the tenant, as is the case in multifamily affordable housing<sup>10</sup>. We will research the extent to which multifamily affordable housing owners are subsidizing their tenants' water use and cost as part of our final comment letter.

3. **Area Median Income for Multifamily Renters in High-Cost Counties:** There are low-income households in both urban and rural regions where water costs are a significant household expense relative to local incomes and cost of living. In high-cost counties, a low-income household may be above the 200 percent of Federal Poverty Level limit but still need water rate assistance to afford drinking water. The Program could reach low-income Californians that are water cost burdened and live in high-cost areas by using Area Median Income (AMI) to determine eligibility. Affordable housing programs use AMI to determine housing cost burden. The Low Income Weatherization Program (LIWP) for multifamily properties is administered by the State's Community Services and Development Department (CSD) and uses AMI to determine eligibility of properties that fall within the Disadvantaged Communities guideline.
4. **Verification Procedure for Multifamily Renters and Affordable Housing:** An effective program will have straightforward and replicable verification procedures. It must balance the appropriate level of verification with enrollment. Our recommendations will be based on the verification procedures for energy utility programs such as Energy Savings Assistance (ESA) program. Due to the multifamily building type, it may involve both property owner and non-account-holding tenant in order for a renter that does not pay a water bill to receive the subsidy.
5. **Minimize Program Administration Time and Cost through Program Alignment:** Aligning this Program with water conservation, energy efficiency and rate assistance programs can minimize administrative time and cost<sup>11</sup>. If local water providers are responsible for administering this program, then there may be significant differences in the quality and accessibility of the subsidy. We have heard from multifamily affordable housing owners throughout the state that local water providers may have their own

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<sup>10</sup> Low-income renters may not be account holders in multifamily market-rate housing. Our comments will not address this challenging situation where a property owner is the account holder and can pass water costs to tenants. This is a common scenario in multifamily market-rate housing and creates concern that a property owner will receive a subsidy as the account holder but may not pass on the subsidy to tenants (United States Environmental Protection Agency, 2016, page 27).

<sup>11</sup> A California Energy Commission report on barriers for low-income customers to access energy efficiency and renewable resources finds that "the State should establish a task force to facilitate coordination of all state agencies administering energy, water, resilience, housing, and low-emission transportation infrastructure programs for low-income customers and disadvantaged communities. To reach more customers, the task force should seek to align program eligibility requirements and reduce redundancies and administrative overhead. This effort should encourage collaboration, standardization, streamlining, integration, and cofounding opportunities with related federal, state, and local agencies" (California Energy Commission, 2016, page 5)

low-income rate assistance programs but they are often not available to multifamily renters or multifamily property owners that pay for their low-income tenants' water use.

6. **Affordability, Conservation and Efficiency in Multifamily Properties:** Water conservation and efficiency can be the first step to lowering water costs for multifamily affordable housing owners, but financial incentives and resources are needed to help these owners make water saving improvements. We support a program design that incentivizes water conservation and efficiency.

## Conclusion

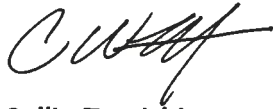
The average cost of water has been rising in California, but policymakers and water providers have not provided sufficient incentives to enable multifamily affordable housing owners to increase water conservation and efficiency enough to prevent water costs from jeopardizing the long-term financial sustainability of these low-income homes. Less expensive rate structures and direct financial assistance can also ensure that all Californians have access to safe and affordable drinking water.

More than 1.5 million low-income Californians lack an affordable home<sup>12</sup>. Facing high and rising housing costs, families are forced to make impossible choices between paying rent and other essential needs like utilities, transportation, food and healthcare. Low-Income Rate Assistance programs can make a tremendous difference in the lives of thousands of Californians by subsidizing the cost of drinking water for low-income households to ensure that all Californians have access to safe, reliable and affordable drinking water. We look forward to the upcoming round of community workshops and will provide expertise to the State Water Resources Control Board on multifamily affordable housing.

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<sup>12</sup> California Housing Partnership, 2015, page 3

Sincerely,



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