

Local Water System Finance and Governance

The Sewerage & Water Board of New Orleans (S&WB) has a critical mission: treating and delivering potable water, collecting and treating sewage, and pumping rainwater off the city's streets. Despite a history of innovation and some of the largest and most unique equipment of its type in the world, the S&WB is no stranger to controversy. In the wake of the August 5, 2017, flooding, it has been the subject of renewed harsh criticism and speculation about its future.

Semi-independent governance supports sustainable financing

The Sewerage and Water Board was chronically underfunded prior to 2005, then lost much of its customer base in the wake of Hurricane Katrina. Without sufficient rate revenue, it struggled to fund even basic functions, and its bond rating fell to junk bond status. Subsequent changes to the S&WB governance structure underpinned efforts to build a more efficient and functional public utility. In 2013, the city advocated for a change to the S&WB's state-granted charter to:

- reduce its board of directors from 13 to 11 members,
- limit members' terms from nine years to two consecutive four-year terms,
- eliminate three seats reserved for sitting City Council members, and
- add an eighth mayoral appointment.

The new process of filling board seats involves an independent 10-member selection committee, and specific criteria for candidates to be nominated for the mayor's consideration. *While improvements may be possible, the current structure of the S&WB does not preclude it from strengthening accountability and transparency.*

Those governance changes, coupled with the adoption of a multi-year water and sewer rate plan in 2012, helped the S&WB improve its bond rating to investment grade. Those credit rating improvements translated into millions of dollars in savings in interest and finance charges. Municipal bond rating agencies generally favor independence when reviewing water utilities.¹ However, in spite of those financial and governance improvements, and even before the events of August 5, 2017, frustration with the pace of change at the S&WB was widespread. Despite constructive efforts such as the S&WB's green infrastructure commitments and voters' renewal of a drainage millage in December of 2016, critics were calling for better customer service, faster repairs of visible water leaks, tightened accountability for spending, and streamlined hiring and contracting procedures.

Despite ancient infrastructure, an aging workforce, maintenance backlogs, and damaged public trust, the S&WB does have something many other municipal water utilities in the US wish they had: a semi-autonomous governance structure and independent bonding authority. Changing the S&WB's governing structure to make it a traditional city department, some people reason, would remedy the challenge posed by having the minor drainage system (including catch basins) maintained by the city's Department of Public Works while the major drainage system is overseen by the S&WB.

¹ Fitch, "Water and Sewer Revenue Bond Rating Guidelines," August 6, 2008, "While elected officials play a necessary role in regulating the utilities' monopolies in their jurisdictions, the most stable utilities will generally operate relatively free from day-to-day political interference or controversies concerning rate-setting policies. This is made easier by the long-term maintenance of financial management and planning practices, rate flexibility, manageable and well-planned capital programs, and segregation of enterprise fund finances from those of the general government."

In terms of best practice for water utility management, however, such a change would actually be a step backwards. Water utilities that are embedded in city governments as departments are often subject to city procedures that fail to meet the particular needs of the water sector and are forced to compete with more glamorous and visible municipal programs for the resources to build and maintain critical water infrastructure. (Remember: elected representatives served directly on the S&WB's governing body prior to 2013, and we're currently grappling with issues, such as deferred maintenance and an inadequate workforce, that were left unaddressed during that time.)

Stormwater utilities support more effective drainage systems

What New Orleans does *not* have is a unified drainage management system and a stormwater utility to invest in, operate, and maintain that system on a consistent basis. Many residents assume that when they pay their water bills, a portion is used to fund drainage, but that is not the case. Rates paid to local water or sewer utilities cannot be reallocated to drainage. Creation of a stormwater utility, as described in the Bureau of Governmental Research's (BGR) February 2017 report, "Beneath the Surface: A Primer on Stormwater Fees in New Orleans," would change the way we fund drainage in the city, from an arcane reliance on a tax millage that allows for tax exempt properties to avoid paying their fair share, to an equitable user fee that encourages property owners to build in a manner that minimizes runoff. "Such a fee would diversify existing revenue sources and provide accuracy and consistency in the fee calculation. It would also allow for a comprehensive funding approach across the entire stormwater management system, including both the S&WB-controlled infrastructure and the thousands of miles of drain pipes under the city's control," the BGR wrote.

A strong stormwater utility could also manage the S&WB power system more effectively, maximize the use of green infrastructure, and leverage creative financing and innovative technology being used elsewhere. More than 1600 U.S. jurisdictions now have some version of a stormwater utility.

Options for improving accountability and performance

What would it take to achieve a future where utility customers get the service they deserve, the S&WB workforce is productive and satisfied, and the iconic Crescent Box water meter cover is a point of pride, not derision?

The next mayor and City Council should thoughtfully consider the range of alternatives for future management and governance of the city's water, sewer and drainage systems using a collaborative and open process that includes knowledgeable and respected members the water utility industry, academia, and local communities. There are several models the city could consider, including further structural changes to the S&WB governance structure, hiring reforms, uniting the minor and major drainage systems under a new stormwater utility, and changing the S&WB charter from a state- to a city-controlled public corporation.² Some un-implemented recommendations from the April 2012 report of the New Orleans Citizen Sewer, Water and Drainage System Reform Task Force, such as more formal oversight by the City Council and a citizens' advisory council, bear revisiting.

On the horizon, there are opportunities for the S&WB to provide services to neighboring parishes, creating regional efficiencies and further strengthening its customer base while creating more workforce development and local business opportunities. A strengthened S&WB could also play a constructive role in "orphaned" issues such as groundwater stabilization, subsidence, and street drainage. But first, basic day-to-day functions and organizational culture must be improved. The stakes are high, and the challenges are daunting—but not impossible—to overcome.

² Community-owned utilities such as JEA in Florida, Knoxville (Tennessee) Utilities Board, Louisville Water Company in Kentucky are potential models; see: Rand Corporation, "Governance in a Changing Market: The Los Angeles Department of Water and Power," 2001.