



THE MARYLAND HOUSE OF DELEGATES
ANNAPOLIS, MARYLAND 21401

**HB 538 - Income Tax –
Subtraction Modification – Water Affordability Assistance**

Background

Across the United States, the cost of water has increased at three times the rate of inflation over the past decade, faster than increases in income.¹ As a result, water is becoming increasingly unaffordable for US residents. Increased water costs are generally attributable to rising infrastructure improvement costs for utility companies, a significant decrease in federal investment, and increasing frequency of extreme weather events that contribute to flooding and infrastructure stress.² Because of the high costs of repairs, water companies have put off replacing degrading infrastructure for many years, and because of the decreased federal support of the years, local water companies now shoulder a greater share of infrastructure maintenance, repair, and replacement costs. These costs are passed on to consumers, leading to higher household water rates.

Water services in Maryland are generally provided in three ways: (1) by municipal government authorities or the Washington Suburban Sanitation Commission (WSSC), a quasi-governmental Commission providing water to residents of Prince George’s and Montgomery counties, (2) by privately-owned utility providers, or (3) through well systems. Privately-owned utility companies are regulated by the Maryland Public Services Commission Water Division (PSC), while municipal authorities and the WSSC are not subject to PSC regulations. Privately-owned companies make up a small fraction of water utilities in the state, servicing approximately 11,000 residents, primarily in rural and suburban parts of the state. These privately-owned companies operate 22 water and water/sewage systems in Maryland, all of which are regulated by PSC. PSC oversees the infrastructure, rates, management, and billing for water systems in its jurisdiction. The primary providers of water in the state – municipal governments and the WSSC—however, are not subject to such state regulation and generally have the authority to oversee the supply, infrastructure, customer care, and rates of their own water systems, subject only to a broad “reasonableness” requirement.

¹ David Harrison, *Why Your Water Bill is Rising Much Faster than Inflation*, WALL ST. J. (Mar. 15, 2018), <https://www.wsj.com/articles/who-is-paying-to-fix-outdated-water-and-sewer-systems-you-are-1521106201>.

² See American Water Works Association, BURIED NO LONGER: CONFRONTING AMERICA’S WATER INFRASTRUCTURE CHALLENGE (2020), <http://www.climateneeds.umd.edu/reports/American-Water-Works.pdf>; see also KAVITA HEYN & WHITNEY WINSOR, PORTLAND WATER BUREAU, CLIMATE RISKS TO WATER UTILITY BUILT ASSETS AND INFRASTRUCTURE, Sept. 30, 2015, <https://www.wucaonline.org/assets/pdf/pubs-asset-infrastructure.pdf>.

Water Affordability

According to EPA, water is unaffordable if it costs more than 2% of household income. Under this definition, water is unaffordable to many residents across the state of Maryland. For residents who cannot pay their bills, the consequences can be dire: water shutoff, disconnection fees, reconnection fees, and/or houses can be placed in tax sale for unpaid bills. In addition, not having running water can be grounds for removing children from the home.

There are a few water assistance programs in Maryland that residents can access to help pay their water bills:

- 2-1-1 Maryland provides information on how residents can get help with their water bills.³ For WSSC customers (Montgomery and Prince Georges Counties), the Salvation Army has a water fund that provides up to \$500 per year to eligible customers.
- In Baltimore City, Water4All is an income-eligible program for residents making below 200% of the federal poverty level.
- Low Income Water Assistance Program.⁴ This federal program provides funds to states to assist low-income households with water and wastewater bills. Maryland operates this program through DHS and the Office of Home Energy Programs.⁵

One of the Problems - Taxability

One concern that has been raised, especially around the Water4All program, is that this form of financial assistance would be classified as self-employment income, and thus taxable income, by both state and federal regulators. Low-income tenants would be responsible for paying taxes on the assistance they receive and could lose as much as a quarter of the benefit to taxes. The assistance would also be factored into their total annual income and could potentially disqualify them for other means-tested financial benefits they receive, such as subsidized housing, SNAP, Social Security, or disability benefits.⁶

A solution: HB 538

HB 538 addresses the problem of residents being penalized by needing water assistance by making this assistance non-taxable. By ensuring that this assistance is not taxable, we can take a small step to help make sure these residents are not additionally financially burdened through a higher tax rate.

For these reasons, I respectfully request a favorable report on HB 538.

³ <https://211md.org/resources/utility-assistance/water-bills/>

⁴ <https://www.acf.hhs.gov/ocs/programs/lihwap>

⁵ <https://dhs.maryland.gov/office-of-home-energy-programs/low-income-household-water-assistance-program/>

⁶ <https://www.wypr.org/wypr-news/2021-08-02/activists-tax-experts-say-water-affordability-program-meant-to-help-city-residents-may-burden-them-instead>