

TO: Mayor Leffingwell and Members of the Austin City Council

FROM: Paul Robbins

DATE: December 1, 2014

SUBJECT: Wealthy Utility Customers Receiving Low-Income Discounts

Dear Council:

As an advocate for residential utility ratepayers for the last 37 years, I am writing to alert you to a serious deficiency in the Customer Assistance Program (CAP) that gives discounts to low-income customers of Austin's utilities through automatic enrollment. *Several hundred customers receiving these subsidies are not in need of them, and some appear to be quite wealthy. The discounts typically amount to \$756 per home if served by Austin's 3 participating utilities.*

A preliminary assessment based on a partial list of CAP participants in July of 2014 shows that over 1,100 participants resided in homes valued at more than \$300,000. Sixty-six distinct customers owned or co-owned total real property assets of over \$1 million.

Since these numbers were derived from a subset of the entire CAP program, the actual number of customers receiving subsidies who live in higher-priced homes could be much larger.

Though it is beyond the scope of my analysis to estimate the misallocated funds, it would not be surprising if it amounted to several hundred thousand dollars that could be spent helping deserving low-income customers.

While the flawed program design that allowed these unwarranted bill subsidies was completely unintentional, both Austin Energy and Texas Legal Services (the organization that championed the expanded CAP strategy for automatic enrollment) had resources to track the program to make sure it was working correctly.

One cannot throw money at a program and expect it to work well. While expansion of CAP was one of the best things to occur in the last electric rate case, I hope you will make corrections at your meeting December 11, 2014 to ensure the program's effectiveness. My suggestions follow.

1. If automatic enrollment is to continue, customers should *simultaneously* be on at least 2 of the 7 eligibility lists that CAP participants are drawn from.
2. A letter should be sent to new participants to sign and return *agreeing to be enrolled*. This would prevent situations where CAP recipients are unaware of their participation.
3. A relatively easy asset screen should be devised to allow program administrators to ensure that bill assistance is going to targeted low-income customers.
4. Council needs to allow City departments the ability to enact common-sense discretionary rules to ensure that future problems of this kind can be remedied without corrective action by Council.

Background of Automatic Enrollment

Austin Energy, like many other electric utilities, has operated customer assistance for economically disadvantaged customers for some time. Its original program began in 1985, with the Watershed Protection Department and Public Works as partners. Austin Water joined the effort in 2009.

As a result of the Austin Energy rate case in 2012, funding for CAP was greatly expanded and enrollment was greatly increased. The process for assistance was expanded so that participants were proactively and automatically enrolled in CAP based on participation in other programs that usually, but not always, overlap with programs that benefit lower income groups. (Low-income customers can still fill out applications that are reviewed for eligibility, though this process is much less proactive.)

While limited by the constraints of the CAP budget, new participants were automatically enrolled if they were part of any of the following programs: 1) Medicaid; 2) Supplemental Nutrition Assistance Program (SNAP); 3) Children's Health Insurance Program (CHIP); 4) Telephone Lifeline Program; 5) Travis County Comprehensive Energy Assistance Program (CEAP); 6) Medical Access Program (MAP); 7) Supplemental Security Income (SSI).

Fund collection for automatic enrollment began when the new electric rates were implemented in October 2012.

Not every CAP participant receives the same discount. One reason is that each of three utilities, Austin Energy, Austin Water, and the Watershed Protection Department's drainage utility, give discounts. Due to varying utility boundaries, not every CAP participant is served by all three utilities at once. This is particularly true of Austin Energy. Many out-of-Austin participants served by Austin Energy are served by public or private water utilities unaffiliated with the City of Austin. Another reason is that electric and water discounts are partially based on consumption, which varies by customer.

However, in 2014, a CAP participant that was served by Austin Energy, Austin Water, and the drainage utility could receive an average discount of \$756 per year.

Administrators of the CAP program do not have the discretionary ability to use asset screens, or any other alternative method, to determine if automatic enrollees are really in need of economic assistance.

Discovery of Problem

As a supporter of the expanded CAP program during the 2012 rate case, I became curious as to how well it was working. On September 10, 2014 in response to a public information request to Austin Energy, I received a list of CAP participants for each month of fiscal year 2014 to date. Only partial information was released. It included CAP participants that were customers of the Austin Water Utility and Austin drainage utility. CAP participants that were customers of Austin Energy were not provided, as the electric utility is governed by a different set of privacy rules.

The number of customer names and addresses provided for Water and Drainage CAP participants was about 18,600 in July of 2014, while the total number of CAP participants, including Austin Energy, was about 43,100 in that month. So the list included only 43% of total CAP participants.

I matched these against the value of homes on the Travis County Appraisal District and Williamson County Appraisal District Web sites. Over 1,100 properties that were assessed at over \$300,000 were found. Since the analysis did not evaluate every participant in the list, it is probable that there were several hundred more homes above this threshold. Though this \$300,000 value is arbitrary, it is much higher than the median value of a home in the Travis County Appraisal District for 2014 (\$236,139).

Twenty-two customers living in homes assessed at \$1 million or more were receiving CAP discounts. Moreover, 163 of the customers in this analysis owned or co-owned more than one property. When these other assets were added to the value of the homes, 72 customers were receiving CAP discounts owned or co-owned total real property worth \$1 million or more. (Sixty-six actual people or families with assets of \$1 million or more received CAP since 5 of these customers received CAP discounts at 2 or 3 addresses, and 1 had sold their home.)

In all, 298 customers were receiving CAP discounts who owned or co-owned total real property worth \$500,000 million or more when noting the multiple discounts and sale above.

Size of buildings is another way to assess wealth and was also reviewed. The analysis found 357 CAP participants had service addresses for homes that were 3,000 square feet or larger in size. Another 386 CAP participants had service addresses for homes at least 2,000 square feet but less than 3,000 square feet in size.

Corrective Action by Austin Energy

After finding 100 homes using this \$300,000 valuation as a sample, I contacted J.J. Gutierrez, Vice President of Customer Care Services at Austin Energy, on September 15, 2014, and told her about the situation. She asked me to send the sample of 100 homes, which I sent the same day.

She explained that the utility had the authority to contact these 100 participants and ask them if they needed to stay on CAP. But she was quick to state that if these participants did not voluntarily decline further CAP assistance, Austin Energy had no authority to remove them.

The agency is forced to follow the rules that City Council created with the new automatic enrollment program. Austin Energy has no discretionary authority in this matter.

I have since been informed by representatives of Austin Energy that the 100 potentially undeserving CAP participants in the sample were contacted, though it is not clear that any of them have asked to be removed.

I have also been told that a more thorough search by Austin Energy based on appraised values has found 300 to 500 total customers whose participation might be questionable. Letters asking

these customers if they want to continue to be part of CAP will be mailed to these customers in the near future. (This contrasts with my own search finding over 1,100 customers from only a partial list of CAP participants.)

However, despite Austin Energy's willingness to take remedial action, only a change in rules enacted by Council will permanently correct the problem.

Possible Reasons for Problems

Since there are at least 7 social programs used to select customers for automatic enrollment, some of these obviously overlap with customers in higher-priced homes.

I am personally acquainted with two customers that received CAP that have foster children. Neither of these people is poor, but the children are eligible for CHIP, which was the likely reason for these customers' enrollment. One of these two people had no idea they were enrolled until I informed them. The other had been trying to be removed from the program for several months. (This second person owns at least 3 other properties.)

In another case, a highly paid professional received the subsidy because his adult son is disabled and living at home. Despite this, it is highly unlikely that his household had problems paying their bill. When I asked him about it, he told me that he has requested that his CAP discount be discontinued.

In another case, a government official was enrolled. When I inquired about it, he said he was unaware of his CAP benefits until I called him, and had requested removal from the program. He also said he was on the City's automatic bill payment program and did not scrutinize his bill closely. It was his guess that automatic enrollment occurred because a relative on disability assistance had moved into his house for a period of time. (This official has total real property assets in Travis County of almost \$1 million.)

It should be pointed out that not every one of these customers in homes appraised above \$300,000 is wealthy. For instance, one of these homes was purchased in 1976 in what is now a central-city neighborhood and was only 500 square feet in size. The home has an Over-65 exemption from the appraisal district. The home value probably increased markedly with gentrification, and most of the taxable value is waived because of exemptions and tax-increase limits.

However, other homes in far northwest Austin with the same approximate market value were more recently purchased and over 3,000 square feet in size.

It should also be pointed out that not every customer living in a home appraised at *less than* \$300,000 is poor. This home cost was simply meant as a screen by my analysis to show the need to reform the program. *It is highly likely that a more comprehensive search would reveal that some number of CAP participants owning homes with market values under \$300,000 owned or co-owned more than one property.*

Perspective of Breakdown

The City cannot just throw money at a program and expect it to work well. Money to help the economically disadvantaged is relatively scarce and should be spent carefully.

No one involved in creating this situation wanted it to happen. It is possible that some, perhaps even many, of the CAP participants automatically enrolled in this program did not even know it. While the CAP discount might be on a customer's monthly statement, not every customer understands what some of the line items on utility bills mean. In other cases, bills are given to accountants to dispatch, or the payment is drafted automatically, with only cursory attention paid to the mailed copy.

Austin Energy accepted automatic enrollment as the will of City Council. It is my understanding that the agency had reservations about the program during the 2012 rate case.

As an example, in a letter from Larry Weis, the Manager of Austin Energy, dated January 10, 2012, he stated, "We are especially sensitive to the position of several of our social services community partners who have expressed concern that relying exclusively on automatic enrollment doesn't necessarily drive value to those with the greatest need."

And the utility has been quick to take corrective action on what it can do internally to mitigate the problem, even if it does not have the authority to stop it outright.

I am sure the Council did not mean for this to happen. I am sure the low-income advocates that asked for this program did not foresee the problems either.

Having said all this, I have to ask why a volunteer activist like myself was able to find problems that no one else thought to scout for. While the utility could have done its own troubleshooting, so could the low-income advocates that championed this new program. In particular, the non-profit Texas Legal Services, one of the main groups that proposed the expanded program, has paid staff that can field such a task. Both the utility and the advocates should have had a plan to sample CAP recipients for a means test. It would have not taken any great amount of time.

Recommendations for Corrective Action

Though it is obvious that CAP eligibility needs to be tightened, there are several strategies to consider. Perhaps Austin can look to low-income assistance programs in other parts of Texas that are more targeted than CAP.

The Lite-Up Texas program assists low-income people in the deregulated areas of the ERCOT market, including the Houston and Dallas/Ft.Worth areas. It employs automatic enrollment; a customer is automatically enrolled if they are on *either* SNAP (Food Stamps) or Medicaid. However, to be automatically enrolled, *the participant has to be the person listed on the electric bill*. Alternatively, low-income people that are not automatically enrolled can fill out applications that are reviewed for income eligibility.

At San Antonio's City Public Service, which has increased both the bill discount and participation of its Affordability Discount program for its low-income electric and natural gas customers, applicants are not automatically enrolled and must apply to prove eligibility.

I cannot speak to the administrative funding required by different approaches. However, if automatic enrollment is to continue, I strongly advise a double screen so that customers enrolled in CAP must *simultaneously* be on at least 2 of the 7 eligibility lists that CAP participants in Austin Energy's program are drawn from.

I would also advise that a person selected for automatic enrollment be sent a letter that they must sign and return *agreeing to be enrolled*. This would prevent situations where CAP recipients are unaware of their participation.

In addition, I recommend that a quick, effective asset screen be devised to ensure that bill assistance is not going to people with considerable property worth.

Finally, Council needs to allow City departments the ability to enact common-sense discretionary rules so that future problems of this nature can be remedied administratively, that is, without additional corrective action by Council.

Sincerely,

A handwritten signature in green ink that reads "Paul Robbins". The signature is written in a cursive, flowing style.

Paul Robbins

Summary of Analysis

Purpose: To show noticeable *numbers* of Austin utility customers to whom Customer Assistance Program (CAP) money is being given who may not need it.

For purposes of this analysis, a “customer” is defined as a single name listed for an electric service address. There may be multiple people living at this address. Also, for purposes of this study, a “home” is defined as a service address matched to a specific appraised property. In a minority of cases, two separate buildings can be on the same property, or the home may be a building with 2 to 4 units. In some cases, these additional units are probably leased to tenants, netting the owner additional income.

This was not a statistically random sample. Given the paucity of time and money, high-income zip codes and high-income neighborhoods were focused on. There are probably several hundred more high-cost homes that could be found if resources were available.

Screen: Customers participating in CAP whose homes were valued at \$300,000 or more in 2014 by the Travis County and Williamson County appraisal districts. The districts’ Web sites were accessed between September and November of 2014.

This cost is substantially higher than the median cost of a home appraised by the Travis County Appraisal District in 2014, \$236,139.

Universe of Study: There were 18,590 customers that received CAP subsidies from the Austin Water Utility and Watershed Protection Department’s drainage utility in July of 2014. This is 43% of the total number of CAP participants, 43,094, in the same month. The more-than-doubled participation comes from Austin Energy customers living outside the boundaries of the other two utilities.

Number of Customers Found Living in Homes Valued at \$300,000 or More: 1,131

This does not include other real property owned or co-owned by the CAP participant.

Number of Customers That Owned or Co-owned One or More Additional Properties: 163

Number of Possible Renters: 160

"Possible renters" can mean several things. It can mean a family member, living in the home instead of the owner, is renting a home at below cost or even living there at no cost. It can also mean a real tenant agreement. While most renters have incomes that are substantially below those of homeowners, it is also true that renting a more expensive home will generally carry more expensive rent.

Number of Disability Exemptions: 50

Disability exemptions from appraisal districts might hint at why a customer is on CAP. However, it is not an ironclad indicator of poverty. Of 50 Customers in this survey that have

disability exemptions, 7 were in homes 3,000 square feet or larger. Another had total real property values of over \$1.1 million, owning 6 properties including their home.

Number of Homes With Solar Energy Exemptions: 9

These homes probably received a substantial solar rebate from Austin Energy, and also receive value of solar payments that reward the customer for avoiding high-cost peak electric power. The addition of CAP subsidies might reduce these customers' bills to astonishingly low levels.

Number of Customers That Owned or Co-owned Total Real Property Worth More Than \$1 Million: 72

5 of these were double or triple recipients of CAP discounts.

1 sold the home in June of 2014.

Deducting for these, 66 distinct customers owned or co-owned total real property worth more than \$1 Million.

The highest customer in this category had a real property value of \$10.7 million and owned 44 properties including their home.

The most expensive home that a customer in this category was occupying was valued at \$3.9 million and was 8,100 feet in size. It was located on Lake Austin, and had its own indoor movie theatre and elevator.

None of them were possible renters.

One of them had a disability exemption, though the disability was obviously not a cause of poverty.

57 owned more than one property.

Number of Customers That Owned or Co-owned Total Real Property Worth More Than \$500,000: 304

Deducting for double CAP participants and home sale noted above, 298 distinct customers owned or co-owned total real property worth more than \$500,000 Million.

12 of them were possible renters.

3 of them had disability exemptions.

144 of them owned more than one property.

Number of Customers With Service Addresses for Homes More Than 3,000 Square Feet in Size: 357

20 of them were possible renters.

7 of them had disability exemptions.

84 of them owned or co-owned more than one property.

Number of Customers With Service Addresses for Homes 2,000 Square Feet in Size but Less Than 3,000 Square Feet in Size: 387

45 of them were possible renters.

17 of them had disability exemptions.

46 of them owned or co-owned more than one property.

Anomalies

Multiple-Account CAP Participants:

8 customers were found that received CAP subsidies at 2 or 3 service addresses.

6 of these customers owned or co-owned more than \$500,000 in total real property.

CAP Participant With Modest Home Value but High Real Property Value:

3 customers were found that had home values less than \$300,000 but due to ownership of other properties, had Total Property Values much higher than this threshold. One of these customers had Total Real Property values of over \$1 million.

2 of these 3 customers were Multiple-Account CAP Participants previously discussed.

It is highly likely that there are a considerable number of other CAP customers residing in homes with less than \$300,000 in appraised value that own more than 1 property. It is beyond the scope of this analysis to identify them. These 3 examples were discovered by happenstance and not an intentional effort.