

Government of the District of Columbia
Office of the Chief Financial Officer



Natwar M. Gandhi
Chief Financial Officer

MEMORANDUM

TO: The Honorable Phil Mendelson
Chairman, Council of the District of Columbia

FROM: Natwar M. Gandhi 
Chief Financial Officer

DATE: November 28, 2012

SUBJECT: Fiscal Impact Statement – “District of Columbia Flood Assistance Fund Amendment Act of 2012”

REFERENCE: Bill 19-938 – Draft Committee Print shared with the Office of Revenue Analysis on November 19, 2012

Conclusion

Funds are not sufficient in the FY 2013 through FY 2016 budget and financial plan to implement the bill. The bill will increase expenditures by a total of \$209,700 in FY 2013 and FY 2014.

Background

The bill requires the Mayor to establish a flood assistance program to provide financial assistance for District property owners and renters for damage to personal and residential property resulting from sewer-line backups.¹ The program will be run by a Program Manager (“Manager”) who will manage the new District of Columbia Flood Assistance Fund (“Fund”). The Fund will receive monies from a special assessment imposed on DC Water. Reimbursement funds will be available retroactively to claims submitted after June 1, 2012² and the overall program will expire on September 30, 2014.

The Manager is required to work with DC Water to establish the criteria for a property owner or renter to receive reimbursement for flood damage through the Fund and to publicize the Fund and its eligibility criteria to District residents. As a part of the eligibility criteria, the Manager must ensure that residents provide proof of ownership or rental of a property and that the damage was caused directly by a sewer-line backup. Additionally, the damage submitted in a claim must not be

¹ Sewer-line backup is defined in the bill as wastewater backup into a building caused by blockages, flow conditions, or malfunctions within the sewer system.

² June 1, 2012 only applies to those property owners or renters who previously submitted a claim to DC Water and that claim is unresolved. All other requests must be made after the bill’s effective date.

otherwise covered by a homeowners or renters insurance policy. Residents must submit a claim within 48 hours of becoming aware of the damage.³

The Manager may use a third party to perform property damage evaluations that will inform the assessment of reimbursement claims, but the Manager must establish the process for evaluating claims. The bill requires that through this process, the Manager makes an eligibility determination⁴ within 30 days, notifies the owner or renter of eligibility within 7 days of this determination, and remits payment within 45 days of determining eligibility.

The Fund will receive the special assessment from DC Water, which can be the equivalent of no more than \$0.30 per Equivalent Residential Unit (ERU)⁵ per month. Funds can be used to reimburse District property owners and renters for sewer-line backup damages, to cover costs of managing the program, and for DC Water to recover its costs of assessing the fee on the District's behalf. If, at any time, the funds in the Fund exceed the budgeted amounts by \$1 million, the Manager will suspend collection of the assessment.⁶ If funds are not expended by the termination of the program, those funds will be refunded back to DC Water. The bill allows DC Water to recover the special assessment from District rate payers through a monthly surcharge.

Financial Plan Impact

Funds are not sufficient in the FY 2013 through FY 2016 budget and financial plan to implement the bill. The bill will cost a total of \$209,700 in FY 2013 and FY 2014. These costs are the District's contribution to the assessment as a rate payer. The District's fixed-cost budget cannot absorb this amount.

The bill establishes a maximum assessment of \$0.30 per ERU per month. While the bill does not establish the specific assessment to be charged, the chart below provides the range of potential revenues charged at \$0.05 per ERU and \$0.30 per ERU. While not explicit in the bill, the Office of Revenue Analysis expects that the assessment imposed on DC Water will be passed to all District rate payers as a monthly surcharge.

Estimated Impact of a Special Assessment per ERU per Month	
	Estimated 20-month Revenues^a
Revenues at \$0.05 per ERU per month	\$397,283
Revenues at \$0.30 per ERU per month	\$2,383,698

Table Notes

^a The estimates are based on billing 397,283 Equivalent Residential Units (ERU) per month as provided by DC Water. Additionally, the fiscal impact assumes implementation will begin on February 1, 2013.

Given the assumption this assessment will be passed to all District ratepayers, there will be a cost borne by the District of Columbia Government for its share of the assessment. District owned

³ Individuals with the ability to submit claims retroactive to June 1, 2012 can submit claims within 6 months of the bill's effective date.

⁴ Property owners in noncompliance with section P3008 of the 2006 International Residential Code or section 715 of the 2006 International Plumbing Code are still considered eligible for the first claim submission.

⁵ An ERU is one thousand square feet of impervious surface area.

⁶ The assessment can be reestablished if the balance drops to \$500,000.

The Honorable Phil Mendelson

FIS: Bill 19-938, "District of Columbia Flood Assistance Fund Amendment Act of 2012," Draft Committee

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properties account for approximately 34,950 of the 397,283 ERU's per month. Thus the cost to the District at \$0.30 per ERU per month is \$209,700 over the 20 month period. These costs cannot be absorbed within the District's existing budget.

Additional costs of the program include DC Water's administrative costs, the cost of a contractor to do damage assessments, costs of administering reimbursements, and the actual reimbursements paid to residents. DC Water's costs are approximately 8 percent of revenues collected. An assessment of \$0.30 per ERU would generate \$190,696 in administrative costs.

The remaining \$2.19 million would be available to cover program costs and pay property owner or renter claims. At this time, no District agency has the capability to assess damage or manage the program, so new staff members or an outside contractor will need to be hired. The Office of Revenue Analysis estimates that an Executive agency could implement this program with 2 to 3 new staff members, based on the experience of a comparable program run by the Metropolitan Sewer District (MSD) of Cincinnati.⁷ Since the program is temporary and new to the District, the staff members would likely require specialized experience. The hiring of two attorneys and a paralegal would cost \$522,800 over a two-year period.⁸ This leaves approximately \$1.7 million in the Fund to cover property owner and renter claims.

It is expected that the District would impose an assessment on DC Water that will at a minimum cover the costs of the program.

⁷ The District's household coverage area is roughly 25 percent larger than the Metropolitan Sewer District of Cincinnati. MSD implements its program with 2 full-time staffers and other part-time assistance.

⁸ ORA assumes that the individuals will be needed for at least 4 months beyond the program's termination to payout final claims and close-out any remaining issues.