

APRIL 19, 2016

KC Water Cost of Service Task Force

Meeting #1



Agenda

- Introductions and Overview
- KC Water
- History of Previous Task Force (2008)
- Customer Profile/ Current and Historical Rate Structures
- Funding Challenges
- Schedule and Next Steps



Introductions and Overview

Task Force Purpose and Composition

- Integrate community values into forming a funding strategy for the City's water, wastewater, and stormwater utilities.
- Mayoral-appointed committee
- Committee designed to reflect a balance of interests.
- Members represent all six City Council districts as well as a variety of community organizations, businesses, and professional groups.

Task Force Commitment

- Meet 10-12 times for next 12 to 15 months
- At least one meeting in each council district
- Meetings are open to the public
- Provide recommendations to the Mayor, City Council, and City Manager.

Task Force Activities

- Gain an understanding of long-term challenges and revenue requirements;
- Examine current and potential new methods of funding water, wastewater, and stormwater utilities;
- Gain an understanding of the costs to provide services to utility customers; and
- Integrate community values into a funding strategy for the City's water, wastewater, and stormwater utilities.

Task Force Deliverables

- Develop guiding principles for the development of user charges and fees that are fair, equitable, and sufficient to meet revenue requirements;
- Review billing practices, account maintenance, and long-term affordability issues;
- Evaluate funding for system growth; and
- Recommend long-term overall strategy to fund water, wastewater, and stormwater utilities.



KC Water

Our Vision

- Working to serve today's customers while building a legacy for future generations.
- Taking pride in increasing customer satisfaction at every opportunity.
- Enhancing service reliability for our customers through water, wastewater, and stormwater improvements.
- Building a data-driven and fiscally-responsible utility that protects the environment and life's most precious resource – water.

Our Values

- We approach our work with professionalism and a commitment to public service, striving for excellence in all we do.
- We focus on our customers and their well-being, gathering data to guide our decisions and understanding the needs of our community.
- We deliver high-quality and great-tasting tap water, as well as wastewater and stormwater services, ensuring the health and safety of the public.
- Through effective leadership, we provide an excellent work environment that delivers training, education, safe work practices, and a clear path forward for all employees.
- We are good stewards in our community, protecting the environment and providing programs and services that support the public good, for current and future generations.

Our Mission

“KC Water is committed to providing excellent water, wastewater, and stormwater services that ensure the health and safety of our customers while safeguarding our regional water resources for future generations.”

Snapshot

- Combined water, wastewater, and stormwater municipal utility
- Have served Kansas City, MO since 1873
- \$361M Enterprise (FY17)
- 860+ Employees
- 470,000 residents served inside the city; 200,000 residents outside the city
- 170,000 residential & commercial customers
- 32 wholesale water agreements
- 27 interjurisdictional wastewater agreements
- Other programs include:
 - Curbside Leaf & Brush Collection
 - Household Hazardous Waste
 - Street Sweeping

Snapshot

- Operates and maintains almost 2,800 miles of water mains in Kansas City.
 - Lined up end-to-end, these pipes would stretch from New York, NY to Los Angeles, CA.
- Produces an average of 96 million gallons of drinking water per day
 - enough water to fill approximately 145 Olympic-sized swimming pools each day.
- Tests more than 500 water samples monthly that are collected from throughout Kansas City.
- Drinking water is regularly tested for over 290 constituents, which is above and beyond the number required by the US EPA

Three Utilities



Water



Wastewater



Stormwater

Assets



1 Water Treatment Plant
18 Pump Stations
2,800 Miles of Water Main
35,000 Valves
23,000 Fire Hydrants

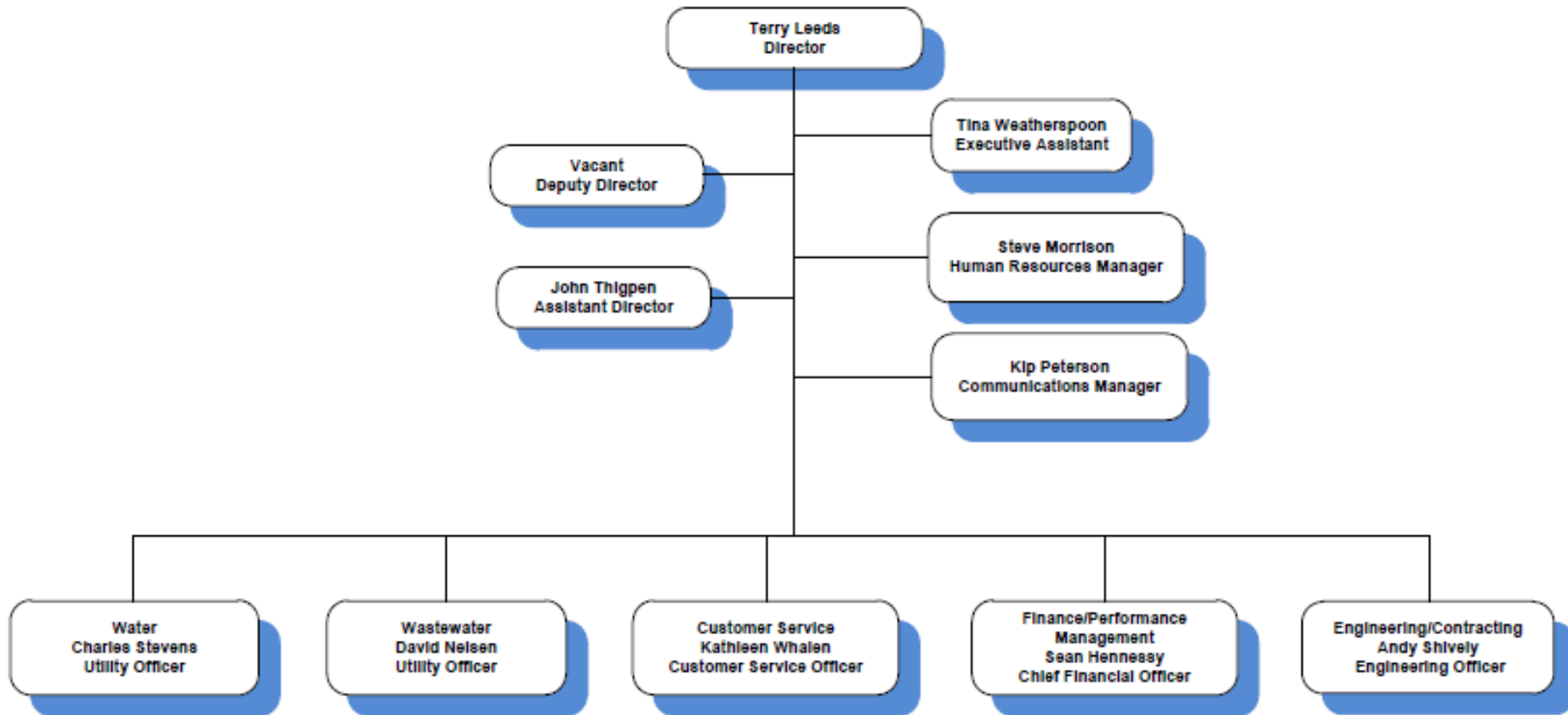


6 Wastewater Treatment Plants
39 Pump Stations
2,800 Miles of Sewer Main
67,000 Manholes



630 Miles of Storm Sewer
53,000 Storm Inlets
15 Stormwater Pump Stations
13.5 Miles of Levee

Leadership



Average Residential Bill – FY2017*

❑ WATER**

Service Charge:	\$13.90
Usage Charge:	\$32.69
Water Total:	\$46.59

❑ WASTEWATER***

Service Charge:	\$18.05
Volume Charge:	\$43.08
Wastewater Total:	\$61.13

❑ STORMWATER****

Impervious Surface Area	
Stormwater Total:	\$2.50

TOTAL Monthly Bill: \$110.22

KC WATER SERVICES
4800 E. 63rd Street • Kansas City, MO 64130
Phone: 816-513-1313
www.kcwaterservices.org

Meter Number	Previous Read	Current Read	Usage
86600141	258	263	5

Customer Name: JANE DOE | Bill Date: 09/20/13
Service Address: 123 MAIN ST
Account Number: 000212345 0201234 4 | Due Date: 10/11/13

Monthly Water Use (shown in CCF)
1 CCF (100 Cubic Feet) = 748 gallons

ACCOUNT DETAILS
Service Period: 08/17/13 - 09/17/13 | Days Billed: 31

Category	Amount
Water	
Water Service Charges	\$12.30
Water Usage Charges	\$20.10
Wastewater	
Wastewater Service Charges	\$12.61
Wastewater Volume Charges	\$22.70
Stormwater	
Stormwater Charges	\$2.58
Total Current Charges	\$70.29
Previous Balance	\$75.07
Payments Received	-\$75.07
Total Amount Due	\$70.29

Important Information
ANNUAL SUMMER SEWER RATE FOR RESIDENTIAL CUSTOMERS BEGAN MAY 1, 2013
Mark your calendar! The City of Kansas City, Mo., will be conducting curbside leaf and brush collections throughout Kansas City this fall. To learn more about the specific collection dates for your neighborhood, what items you can place at your curb for collection, and the locations and hours for leaf and brush drop-off sites, please visit www.kcwaterservices.org/leaf-brush. You can also call the 311 Call Center at 816-513-1313 or 3-1-1 for additional information.

DETACH AND RETURN THIS PORTION WITH YOUR PAYMENT.

Account Number	Due Date	Amount Due	Amount Enclosed
000212345 0201234 4	10/11/13	\$70.29	

Late Payment Charge
Total Amount Due After 10/11/13: \$73.81
Please make checks payable to: KC Water Services

JANE DOE
123 MAIN ST
KANSAS CITY MO 64101

KC Water Services
PO Box 607045
Kansas City MO 64180-7045

000201234502012344 000000007029 0000000073814

Customer Assistance Program

- Partnership with the Mid America Assistance Coalition
- Helps customers who are unable to pay their water bills
- Committed \$2 million in funds since 2009
 - \$325,000 estimated for FY17
- More than 5,700 customers assisted
- Funded by existing customer late fees



*Customer Assistance
Program Information Line:
2-1-1 or 816-474-5112*



History of Previous Task Force

Utility Funding Task Force (2008)

Evaluated funding strategies to reduce the impact on ratepayers:

- Revenue enhancements
- Taxes
- Special assessments
- System development charges
- Federal/state funding
- Local resources (PIAC)

Cost of Service Study

- Cost of Service methodology as set forth by AWWA (American Waterworks Association) and WEF (Water Environment Federation)
- Determines Revenue Requirements of the utilities
- Allocates Costs back to customer classes (users) of the utilities
- Creates Rate Design Structure that captures the revenue requirements of the utilities

Cost of Service Study Analysis will...

- Ensure that fees collected from customers are sufficient to cover the long-term funding of the three utilities;
- Meet the US EPA mandated requirements of the Overflow Control Program;
- Service future debt requirements for water and wastewater capital improvements; and
- Allocate costs and charge customers in a fair and equitable manner across classes for each utility.

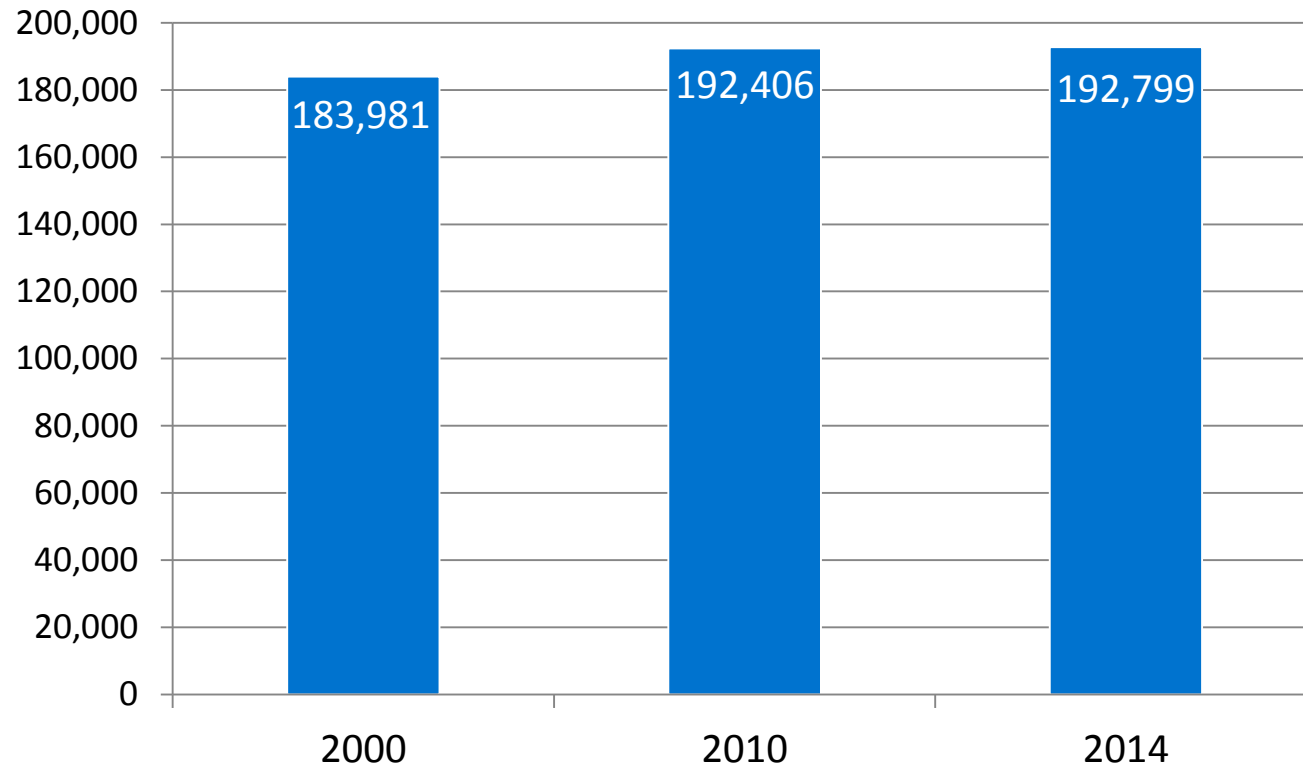


Customer Profile

Current and Historical Rate Structures

Profile of Kansas City, Missouri

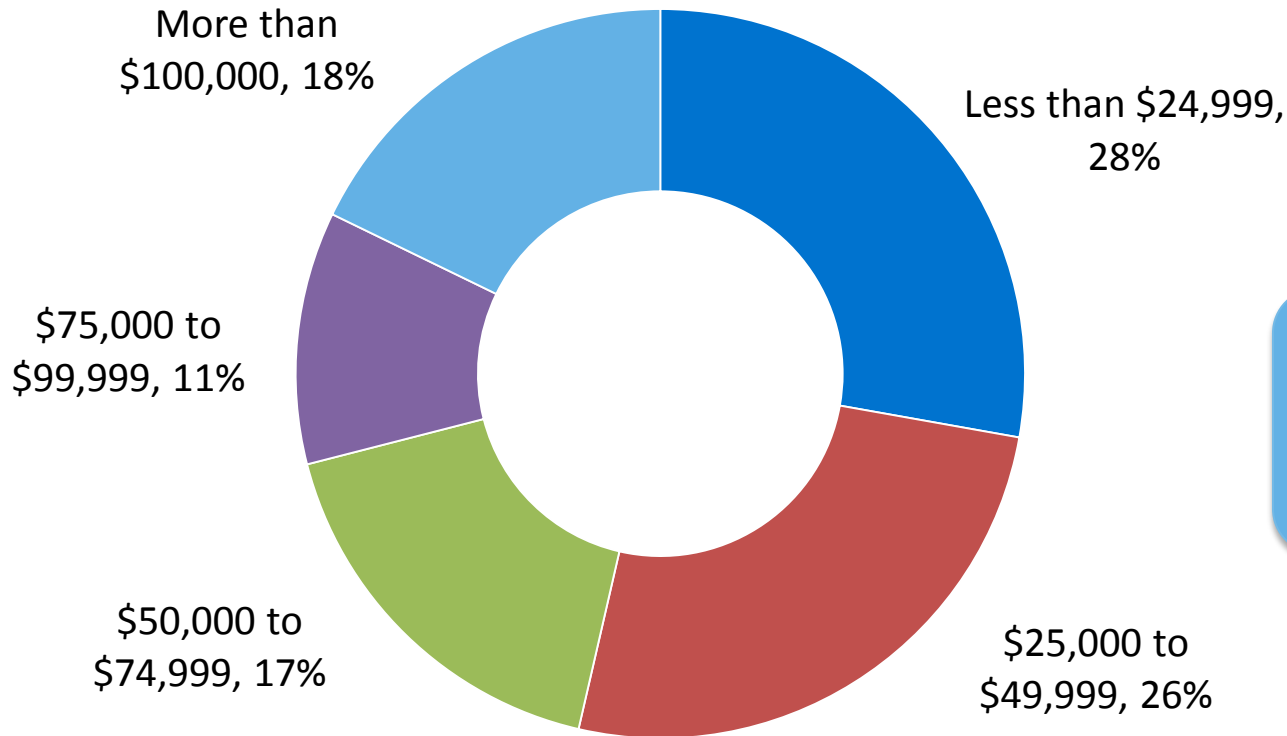
Number of Households



Source: American Community Survey, US Census Bureau

Profile of Kansas City, Missouri

Household Income (2014)

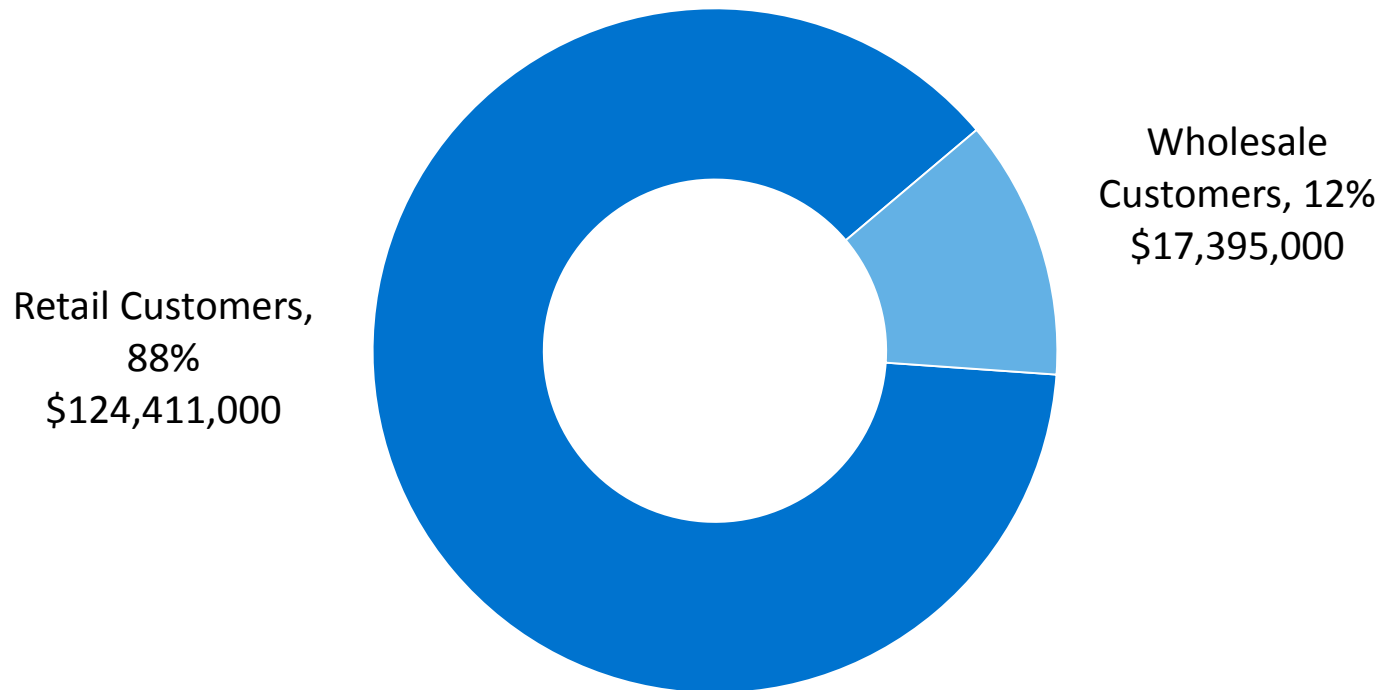


Median household
income = \$45,376

Source: American Community Survey, US Census Bureau

Water Customers

FY2015 Water Revenue by Retail and Wholesale Customers

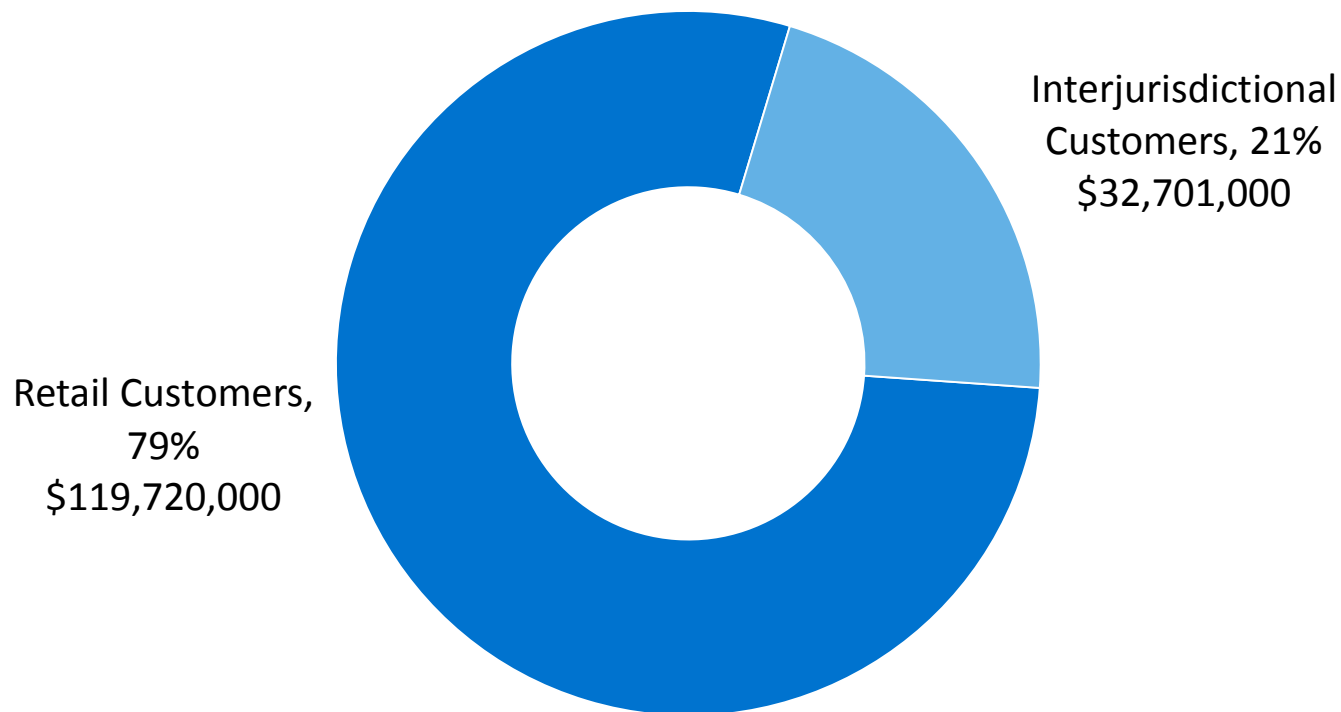


Top Water Customers, Including Wholesale (FY15)

Customer	Type of Business	Percent of Total Consumption
City of Lee's Summit	Wholesale water	3.6%
Jackson County PWSD #1 (Grandview)	Wholesale water	3.4%
City of Belton	Wholesale water	2.4%
City of Raymore	Wholesale water	2.2%
Raytown Water Company	Wholesale water	1.8%
City of Blue Springs	Wholesale water	1.7%
Veolia – Kansas City	Utility	1.5%
KCP&L	Utility	1.4%
Dogwood Power Management	Utility	1.2%
Ford Motor Company	Commercial	1.2%

Wastewater Customers

FY2015 Wastewater Revenue



Top Wastewater Customers, Including Interjurisdictional Agreements (FY15)

Customer	Percent of Total Wastewater Charges
Johnson County, Kansas	10.0%
Liberty, Missouri	3.0%
Gladstone, Missouri	2.7%
Veolia	2.1%
North Kansas City, Missouri	1.9%
Ford Motor Company	1.2%
Honeywell	0.9%
Raytown, Missouri	0.7%
Independence, Missouri	0.6%
Roberts Dairy	0.6%

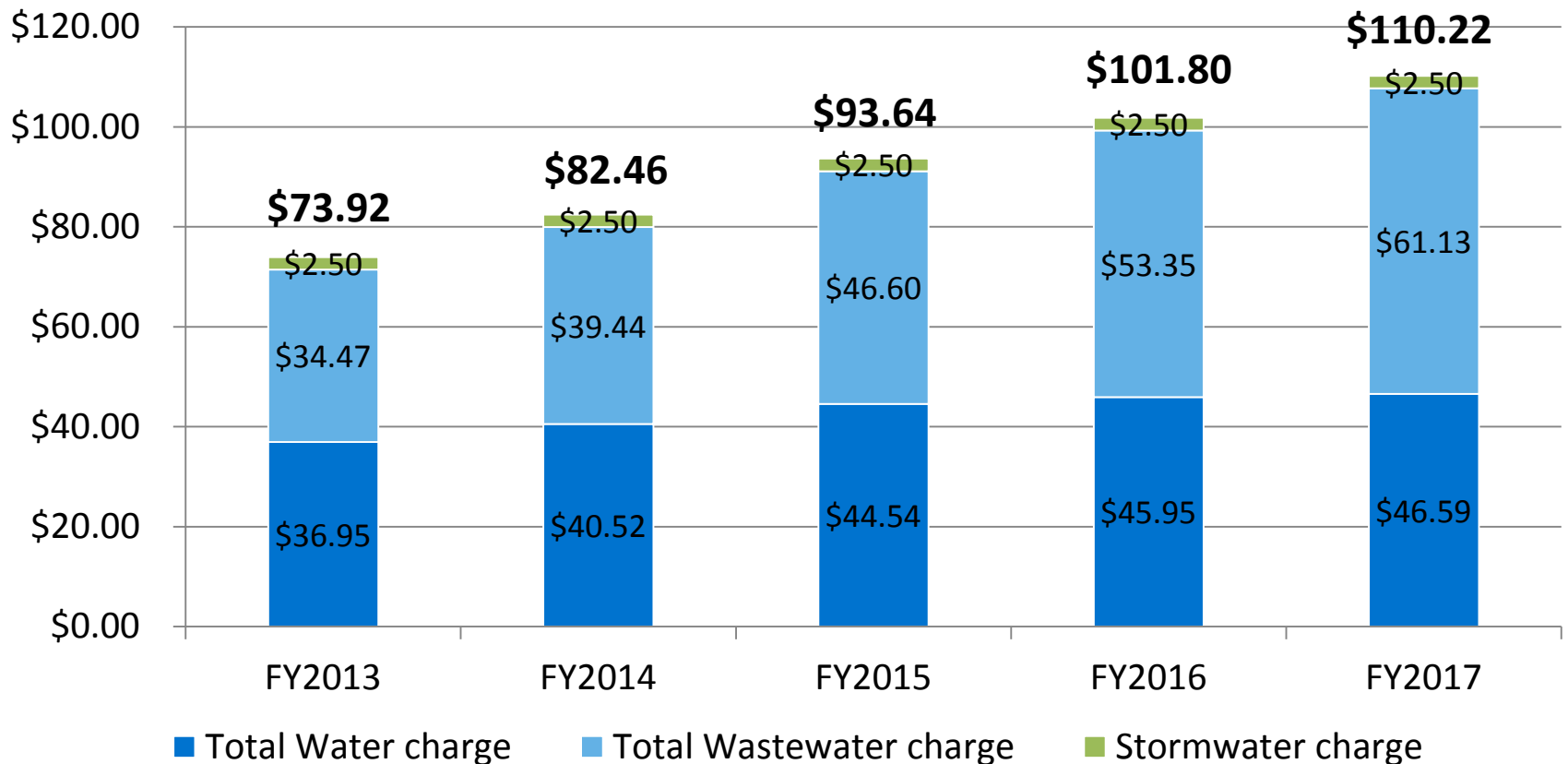
Top Stormwater Customers (FY2015), excludes City properties

Rank	Customer	Runoff Units	Estimated Annual Revenue
1	Jackson County Sports Authority	12,850	\$77,100
2	US Dept of Energy (Bannister Complex)	12,150	\$72,900
3	Cedar Fair (Worlds of Fun)	8,017	\$48,102
4	Norfolk Southern Railroad (South)	6,780	\$40,680
5	Fedex Ground Package System	6,529	\$39,174
6	Honeywell	5,278	\$31,668
7	Leeds Industrial Park	5,140	\$30,840
8	Norfolk Southern Railroad (North)	4,993	\$29,958
9	Kansas City Southern Railroad	4,756	\$28,536
10	AK Asset Corporation	3,741	\$22,446

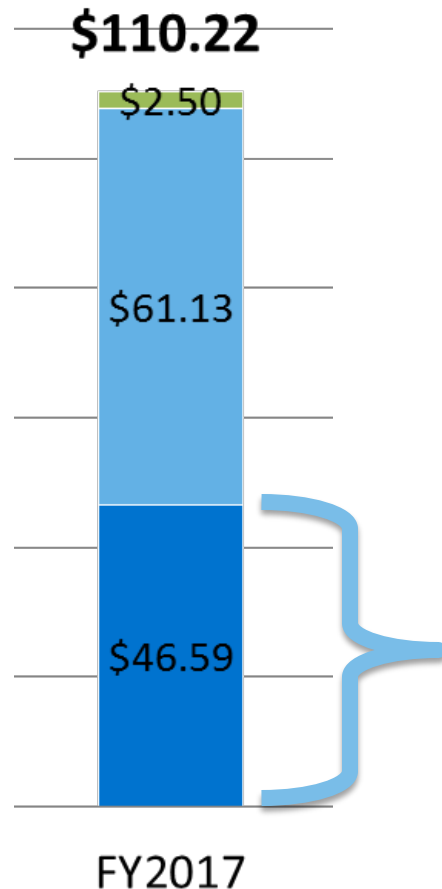
Note: 1 Runoff Unit = 500 Square Feet

Average Residential Bill

Average Residential Bill (FY2013 – FY2017)



Water Charges



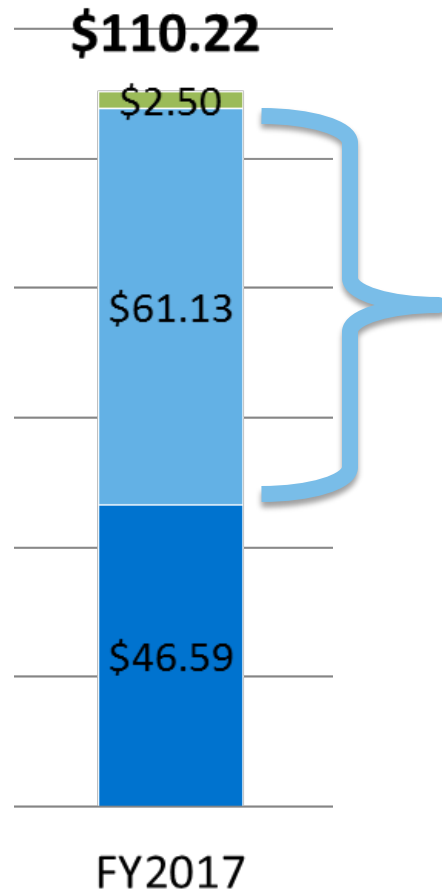
Service Charge:

- Charge per meter
- Pro-rated per day during the billing period
- Fixed charge applied to all connections in the system
- Based on the size of meter

Commodity Charge:

- Total volume of water purchased by the customer
- Rates vary depending on whether the customer is inside the city, outside the city or wholesale

Wastewater Charges



Service Charge:

- Pro-rated per day during the billing period
- Fixed charge applied to all connections in the system.

Volume Charge:

- Applies to all accounts.
- When the BOD (biochemical oxygen demand), SS (suspended solids), and/or O&G (oil and grease) concentrations are in excess of the average concentration, an excess charge is applied.



Funding Challenges

Industry Funding Challenges

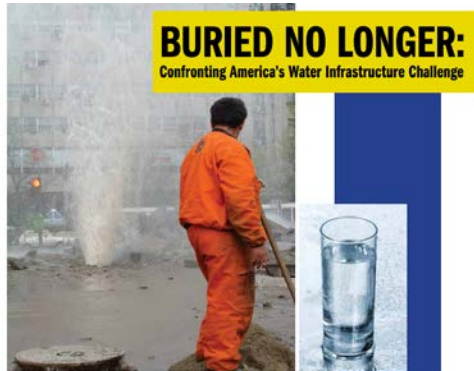
- Affordability
- Collections
- Conservation impacts
- Fairness and equity
- Wholesale customers
- Long-term customer demand/growth

Affordability

National Infrastructure Crisis



*"Water is essential to life
in this country."*



BURIED NO LONGER:
Confronting America's Water Infrastructure Challenge



OPINION | COMMENTARY

Finding the Money for America the Fixer-Upper

Roads and water systems need repair. Funding can't come without government reforms.

America's water crisis is so much bigger than California

The American West is in grave peril, thanks in small part to gross mismanagement of the Colorado River basin

Flint's Water Crisis Should Raise Alarms for America's Aging Cities

65° Thursday, April 7, 2016

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Donald Trump is treating Mexico like he's the

AMERICA'S
G.P.A.

D+

ESTIMATED INVESTMENT
NEEDED BY 2020:

\$3.6 TRILLION

Affordability

- Increasing Costs

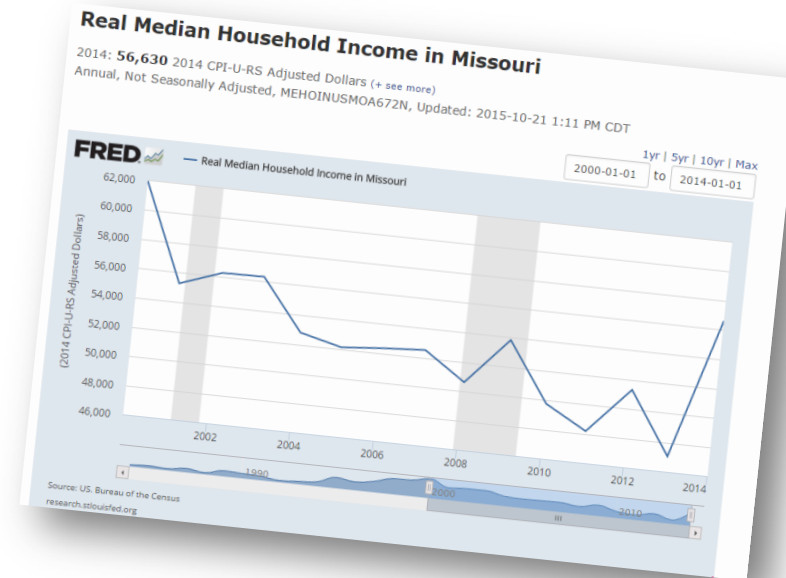
- Capital Costs

- Deferred Renewal and Replacement
 - Aging Infrastructure (Oldest parts of system date back to Civil War era)
 - Water Main Replacement Program
 - Sewer Main Rehabilitation Program
 - Flood Protection Program
 - Catch Basin Replacement Program

- Regulatory Requirements

- Overflow Control Program (OCP)

- Stagnant Household Income



Not All Bad News...

- Stronger financial position
 - Lower borrowing costs
 - KC Water has been able to take advantage of historically low interest rates
 - “very strong” credit rating - AA
- Capital projects help local economy
 - \$1.2 billion investment in next 5 years
 - 18,000 direct and indirect jobs created

GOVERNMENT & POLITICS

NOVEMBER 9, 2015

Kansas City water department turns tide toward improving service

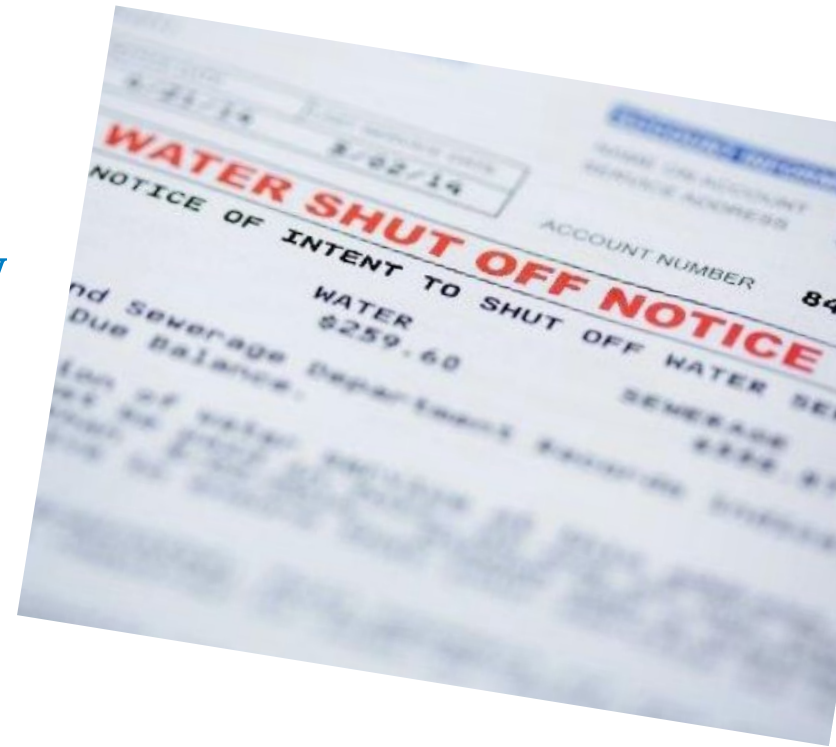
Collections

Bad Debt

- Costs for bad debt are borne by all retail customers of utility

Financial Stabilization

- Sound, predictable rate levels provide utility with stable financial position
- Allows for effective planning



Conservation Impacts

While conserving our resources is a social good, it impacts rate revenues:

- Budgets based on usage assumptions to recover costs
- When water sales are lower, revenues are lower (conservation)
- Since wastewater rates are based on winter water usage, wastewater revenues are lower
- Future rates may need to be adjusted to make up for shortfall



Low-Flow Faucets



Fairness and Equity

Missouri's Hancock Amendment states that the cost/rate charged must be tied directly to the cost of service

Fairness Concept

- Rates should reflect the cost of providing the service and align to the service requirements the customer class places on the utility

Cost of Service Rates

- Cost causative relationship between customer class behavior and cost allocation

Wholesale Customers

- Departing Wastewater Wholesale Customers
 - Johnson County, Kansas
 - Liberty, Missouri
- Impact on Infrastructure and Operations and Maintenance (O&M) Expenses
 - Initial increase in revenue (Johnson County)
 - Long-term decrease in infrastructure costs and O&M expenses

Long-Term Customer Demand/Growth

- With departure of wholesale customers, decreases in demand will impact revenues but also decrease certain longer term capital needs
- Potential growth to the north along with new wholesale customers will increase revenues but also could contribute need for additional new infrastructure
 - System Demand Charges will be evaluated for growth related infrastructure.



Schedule and Next Steps

Anticipated Schedule

Date	Topics
April 19, 2016	<ul style="list-style-type: none">• Roles/Member Orientation• Water Services Overview• Customer Profile• Current Rate Structures• History of Previous Task Force• Funding Challenges• Topics and Schedule
May 2016	<ul style="list-style-type: none">• Guiding Principles questionnaire• Water utility overview• Water utility – cost recovery options
June 2016	<ul style="list-style-type: none">• Stormwater utility overview• Discussion of stormwater funding sources and levels needed• Guiding Principles discussion
July 2016	<ul style="list-style-type: none">• Wastewater utility overview• Wastewater utility – cost recovery options• Draft Guiding Principles

Anticipated Schedule, continued

Date	Topics
August 2016	<ul style="list-style-type: none"> • Overview of Customer Assistance Program • Overview of System Development Charge options
September 2016	<ul style="list-style-type: none"> • Water rate structures
October 2016	<ul style="list-style-type: none"> • Wastewater utility rate structures • Water utility and wastewater utility fixed charges • All utilities – infrastructure replacement funding
November 2016	<ul style="list-style-type: none"> • Water utility draft recommendations presentation • Public hearing
December 2016	<ul style="list-style-type: none"> • Stormwater utility draft recommendations and presentation • First Southwest Securities presentation (tentative) • Public hearing
January 2017	<ul style="list-style-type: none"> • Wastewater utility draft recommendations presentation • Public hearing
February 2017	<ul style="list-style-type: none"> • Consider public input and finalize recommendations
March 2017	<ul style="list-style-type: none"> • Finalize recommendations



Questions?