

SEPTEMBER 13, 2016

KC Water Cost of Service Task Force

Meeting #5



Agenda

- Guiding Principles Discussion
- Task Force Discussion Topics
- Case Studies
- Public Comment
- Task Force Comment
- Follow-up Items



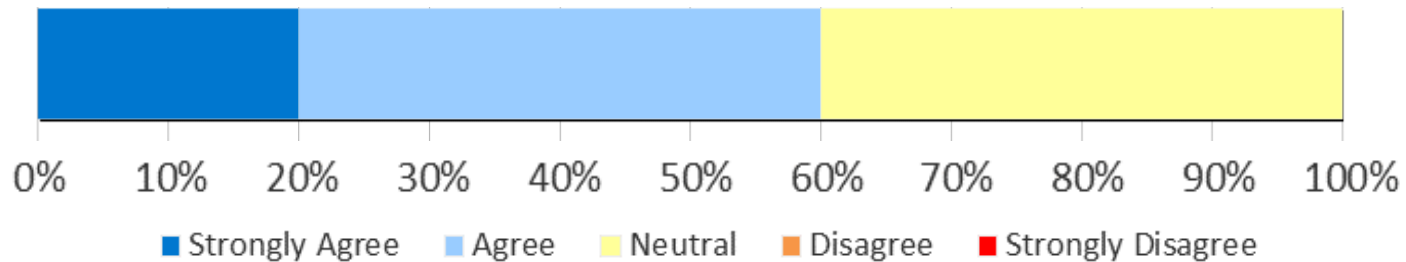
Task Force – Guiding Principles

Questionnaire Overview

- Questionnaire designed to ask questions to help guide decision-making for this process
- Purpose was to identify common community values
- Results will help to draft guiding principles
- Asked to rate level of agreement with value and outcome statements

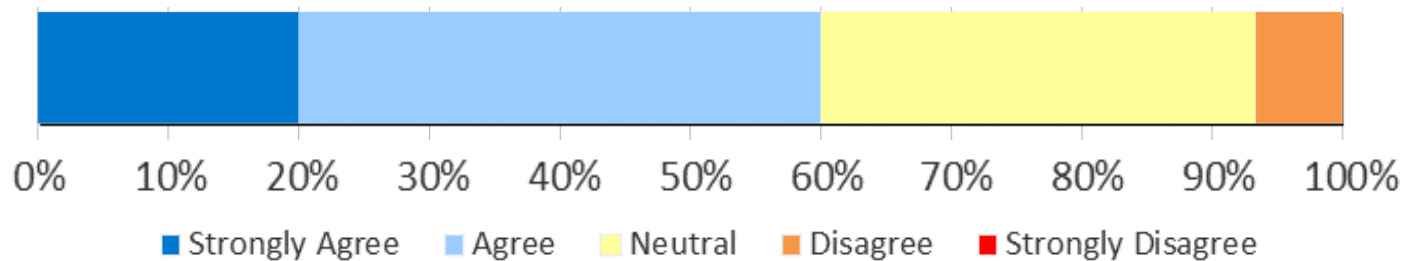
Cost Recovery

It is important that utility rates cover the full cost of providing service to the end customers.



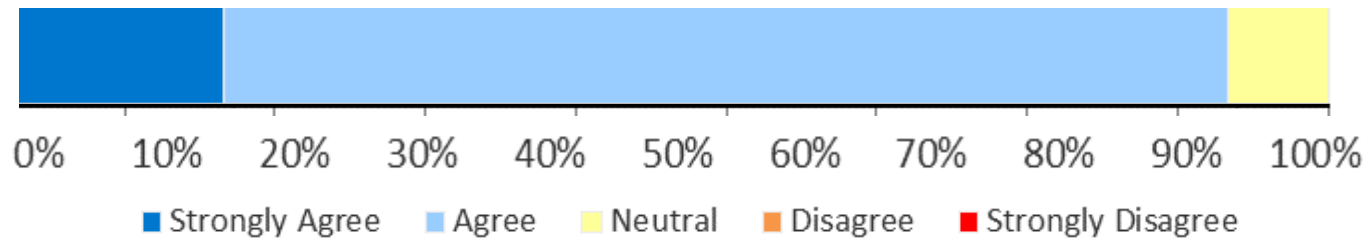
Direct Benefit

Customers should see a direct benefit from the infrastructure investments made.



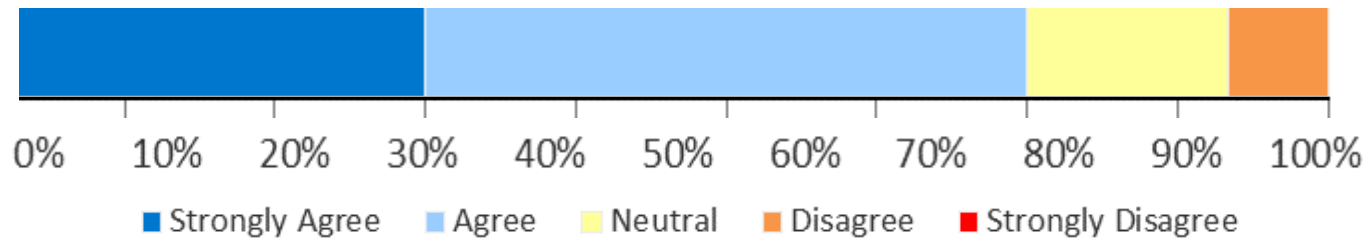
Administrative Cost

The cost of administration related to rates should be efficient and should be a simple process used to collect revenue.



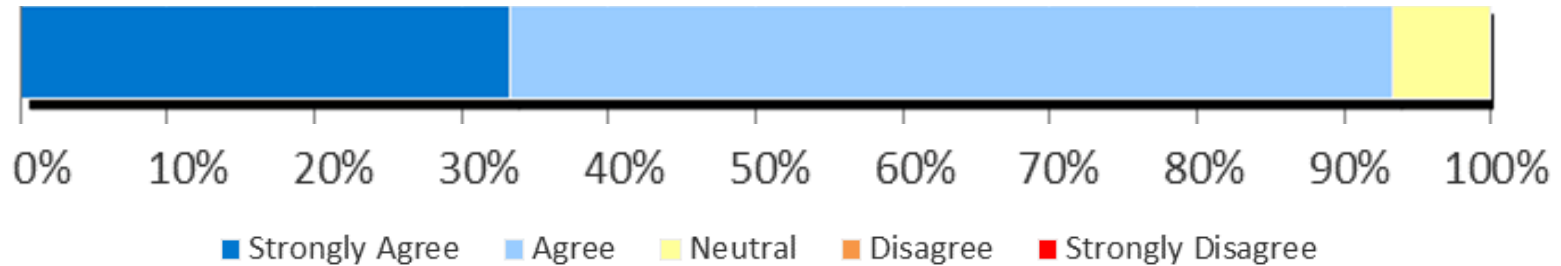
Simple

Rates and charges should be straight-forward, simple to administer and minimize bad debt to not burden customers who pay on time.



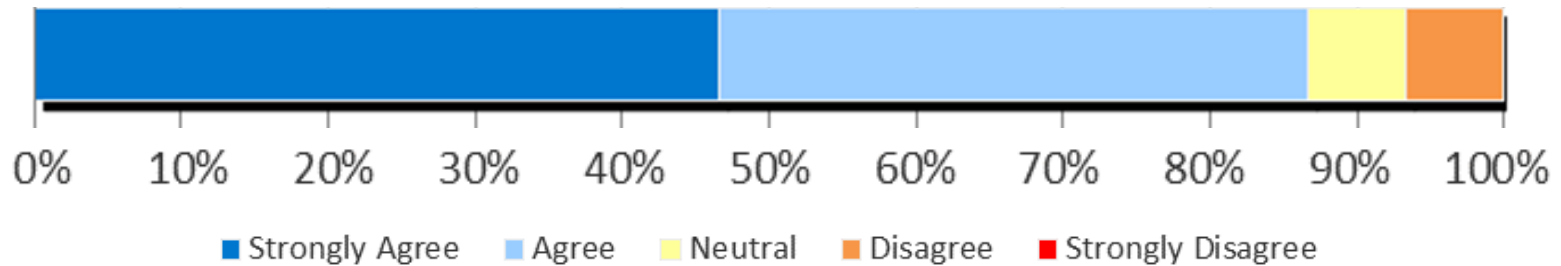
Understanding

Ratepayers should understand how services and infrastructure improvements are funded.



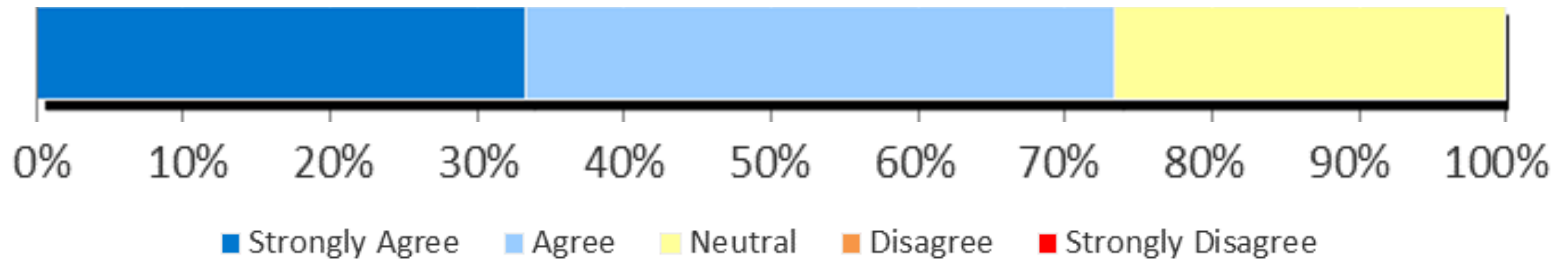
Replacement Costs

It is important to plan for the eventual replacement of infrastructure in the rate structure.



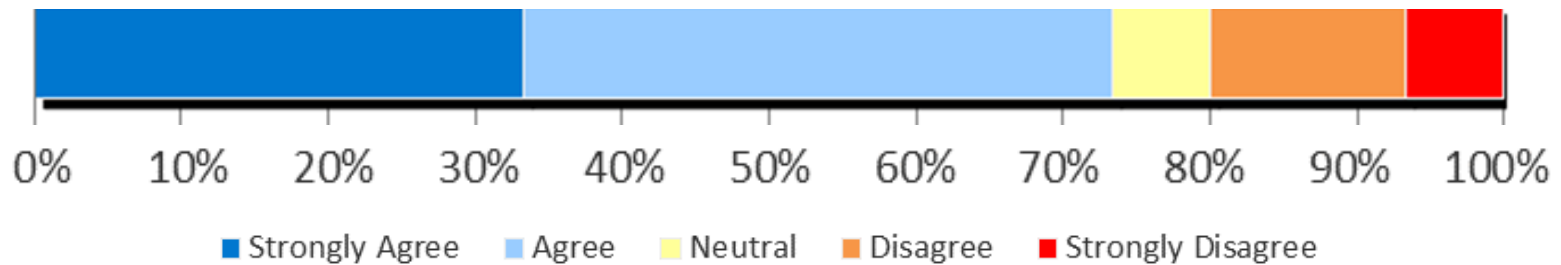
Intergenerational

Infrastructure investment should be paid for over time to distribute costs over multiple generations who will use the system.



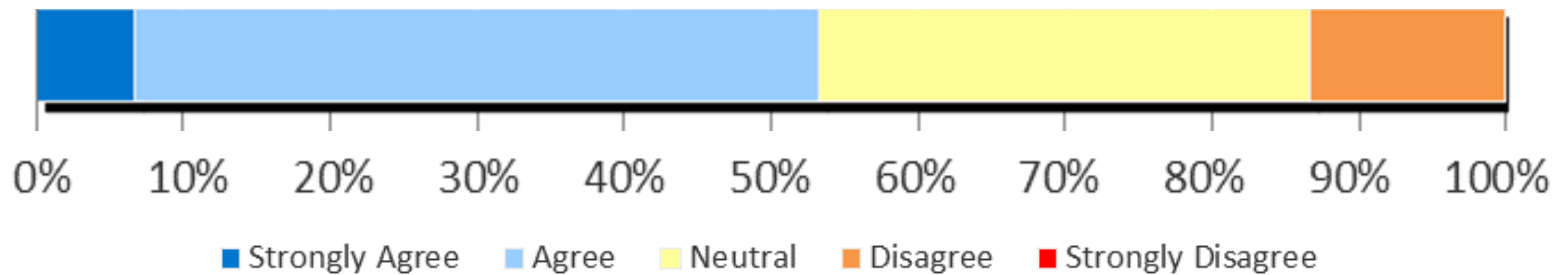
Water Conservation

Rates should be structured to encourage water conservation.



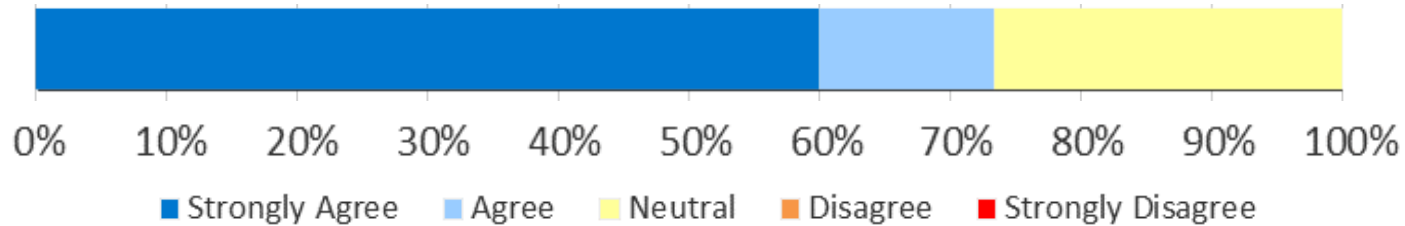
State & Federal Funds

KC Water should reduce utility rates with revenue from state and federal taxpayers.

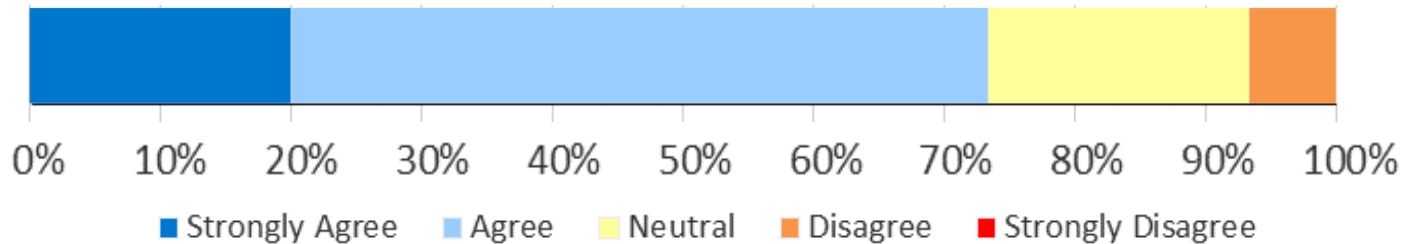


Affordability

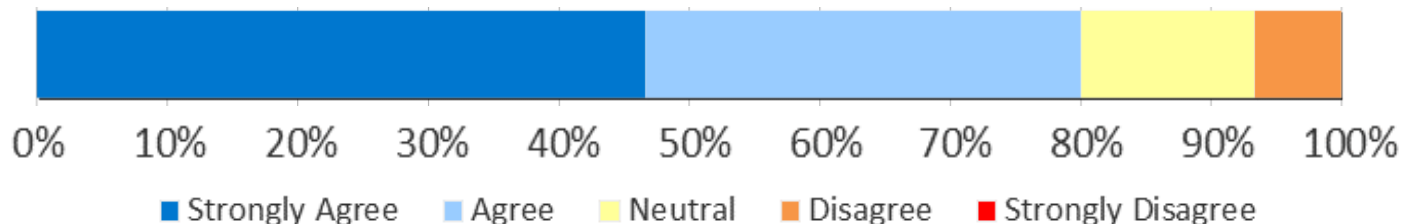
It is important to reduce the impact of future rate increases on low and/or fixed income households.



KC Water should reduce the high burden of increased costs for low and/or fixed income households through a program that helps conserve usage and therefore lowers the bills.

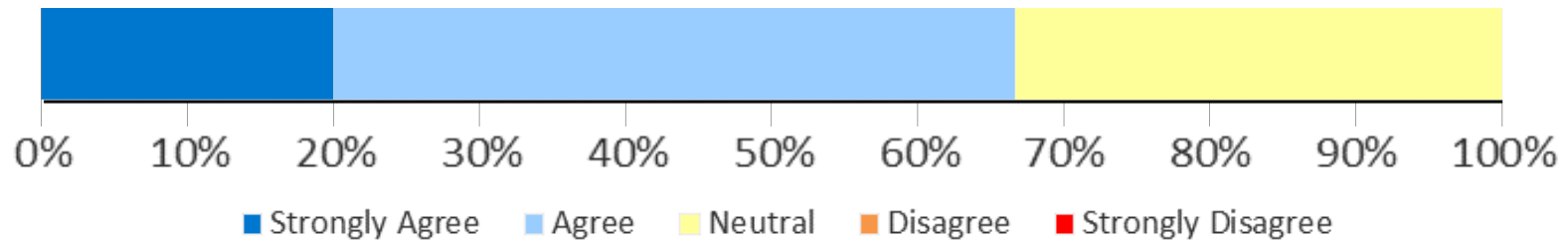


Fairness is important in structuring utility rates, but as rates rise, KC Water needs to consider the ability to pay by low and/or fixed income households in structuring a funding plan.



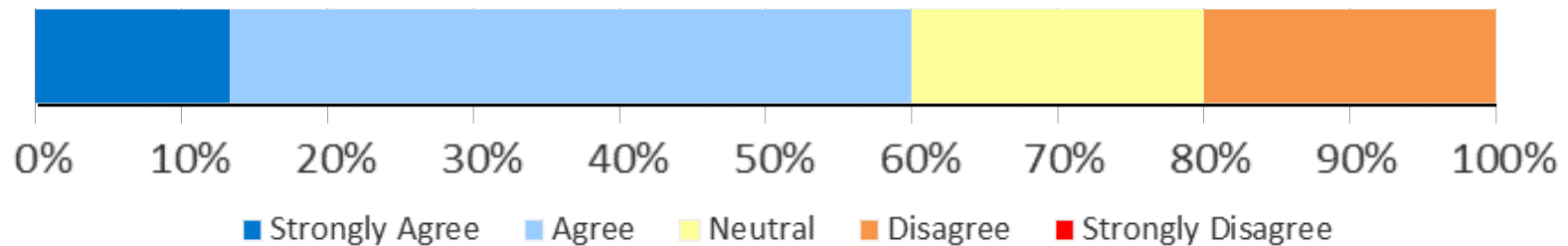
Competitive

Rates should be competitive with other jurisdictions to help attract and retain businesses, citizens, and customers.



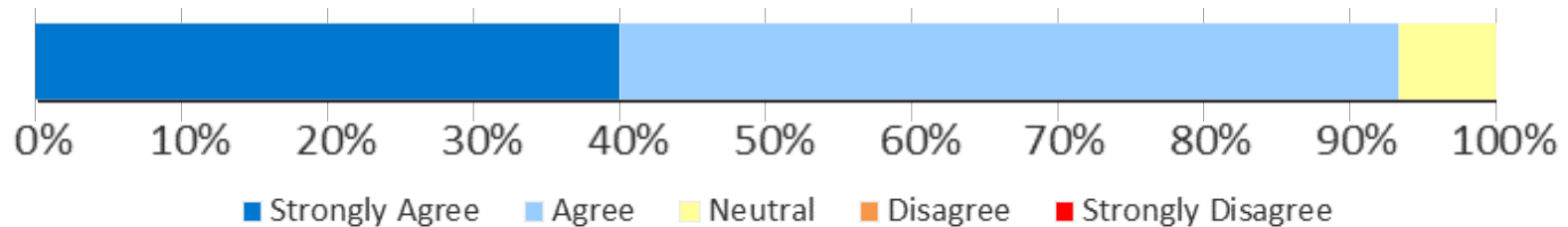
Redevelopment

Existing ratepayers should fund upgrades to existing infrastructure needed to stimulate redevelopment.

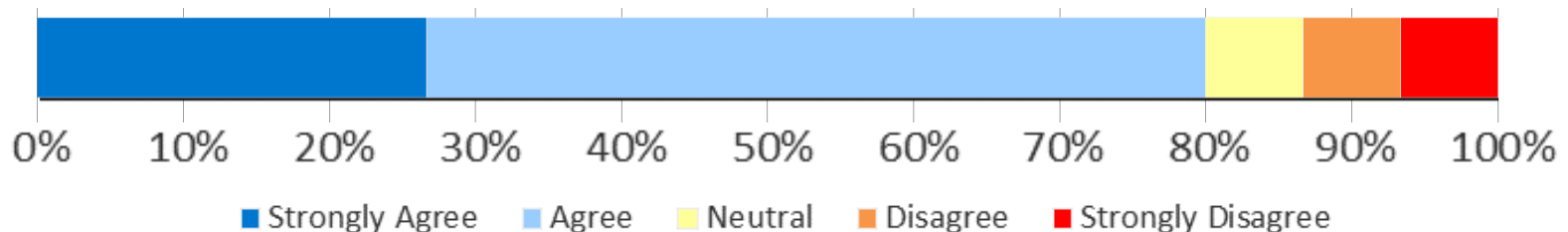


Growth

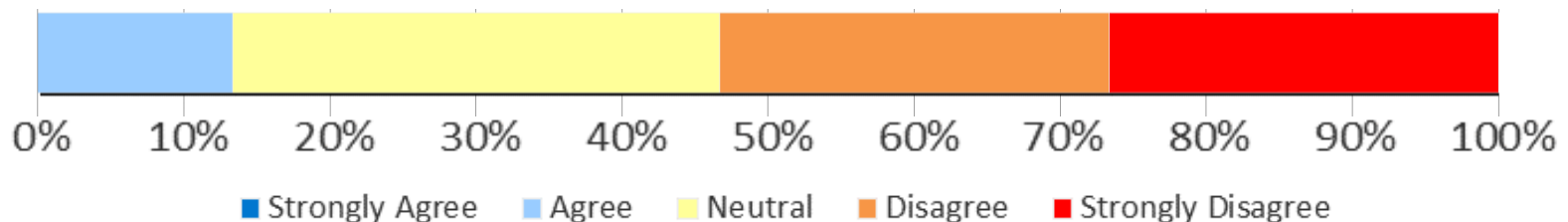
Service to new development and the associated infrastructure extensions should pay for itself and not be funded by existing ratepayers.



Rates and charges should recover the full cost to service new growth rather than recover those costs from existing ratepayers.

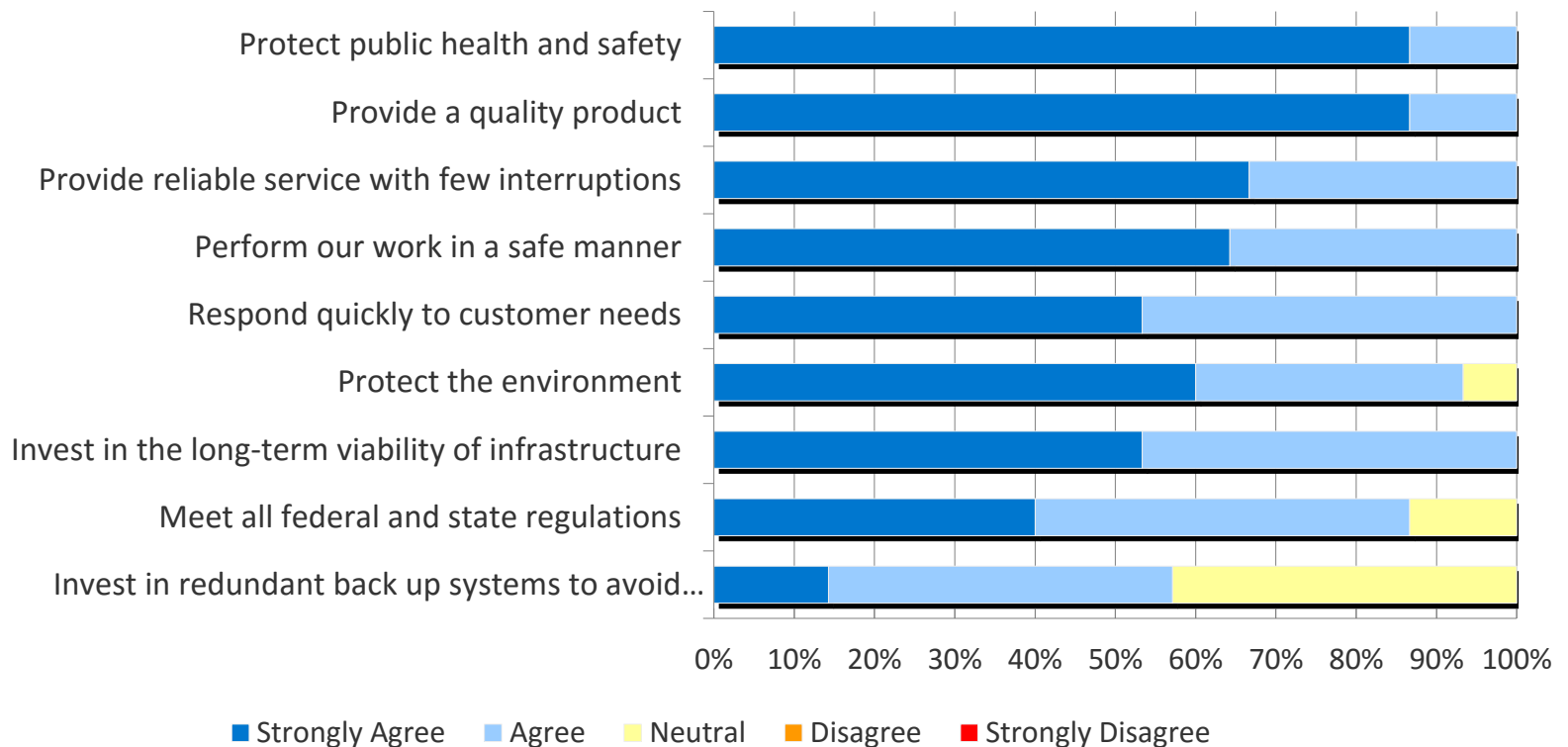


Existing ratepayers should fund the extension of service to new developments as a way to encourage new development and growth.



Questionnaire Responses - Outcomes

It is important to ...





Discussion Topics

Task Force Charge: Central Questions

- What should be done to ensure that services provided by KC Water are funded in a way that is fair/equitable and provides for long-term financial stability?
- What should be done to address the burden to customers of rising rates?

Goal: Financial Stability for All Three Utilities

- Increasing sales
- Adjusting rates
- Using other sources of revenue
- Reducing expenses
- Financing considerations

Increasing Sales

- Add retail customers
- Add wholesale customers

Adjusting Rates

- Changing the rate structure
 - Uniform Rates
 - Declining Block Rates *
 - Inclining Block Rates
 - Seasonal Rates
 - Water-Budget Rates
- Change rates to more directly cover the costs to serve customers
 - In compliance with Missouri Law

*** *KC Water current structure***

Use Other Sources of Revenue

- Link costs to other sources of revenue
- General fund transfer
- System development charges
- Stormwater fee for Overflow Control Program
- Special assessments and taxing districts
- Sales tax
- State and Federal grants and loans

Reducing Expenses

- Reduce bad debt
 - Full collection
 - Aggressive turn offs
- Reduce service-related items
 - Call Center, Meter Field Services, Meter Reading
- Reduce other expenses
 - Non-revenue water

Financing Considerations

- Pay-as-you-go (cash)
- Pay-as-you-use (debt)
- Combination (cash/debt)

Affordability

- Customer Assistance Program
- Rate discounts
- Percentage of income payment plans
- Geographically-based programs
- Rebates
- Water efficiency program for low-income individuals



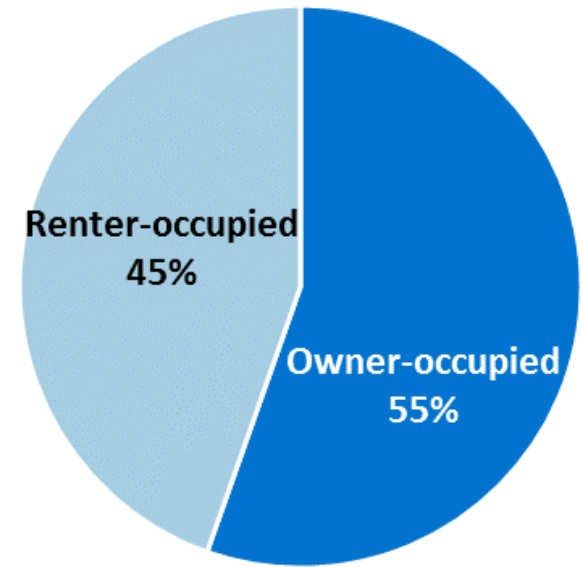
Expense Reduction Example – Bad Debt

Reduce Expense Example – Bad Debt

- Bad debt is revenue that is uncollectible
 - KC Water never receives the revenue from the customer
 - Can't locate the customer
 - Customer can only pay partial amount of bill
 - Customer refuses to pay (extreme)
 - Other reasons
- Guiding Principles: Fairness, Equity, and Revenue Stability

Customer Demographics

- Transient customer base in Kansas City, MO
- Stagnant median household income for several years
~\$45,000/year (2014)
- Majority of delinquencies are renters
 - Hard to track down and collect



***2014 American Community Survey
Estimates for Occupied Units –
Kansas City, MO***

Water Revenue and Bad Debt FY2007 – FY2016

Water Fund Bad Debt has averaged 3.5% for the last couple years.

Fiscal Year	Bad Debt	Gross Revenue (Sale of Water)	Bad Debt Percent
2007	\$2,618,352	\$77,007,656	3.4%
2008	\$991,385	\$79,242,529	1.3%
2009	\$2,062,858	\$81,434,174	2.5%
2010	\$5,458,397	\$84,861,261	6.4%
2011	\$714,311	\$105,523,560	0.7%
2012	\$7,338,085	\$121,133,906	6.1%
2013	\$4,423,734	\$143,468,007	3.1%
2014	\$6,217,499	\$142,862,569	4.4%
2015	\$5,031,866	\$146,837,802	3.4%
2016	\$5,212,081	\$150,599,800	3.5%

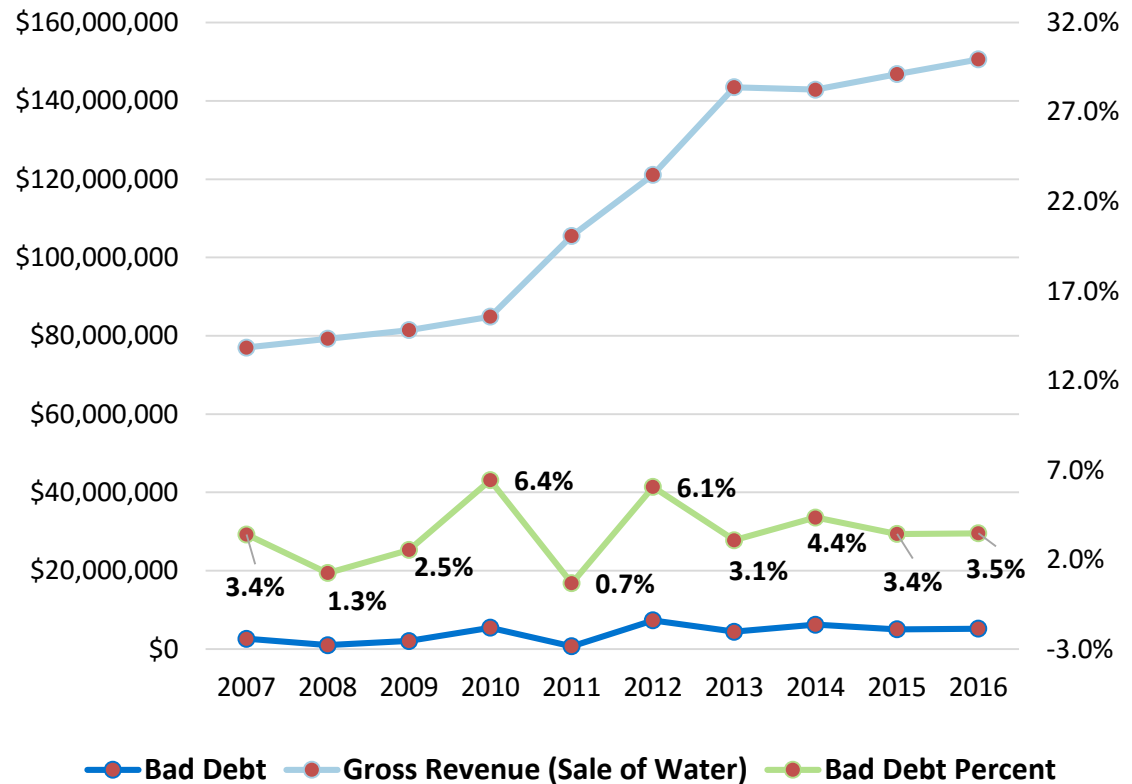
Notes: Excludes other water revenue and miscellaneous revenue

Source: End of fiscal year water fund operating statement

Bad Debt as Percent of Revenue (Water) FY2007 – FY2016

In FY2016:

- Gross Water Revenue = \$150.6M
- Bad Debt = \$5.2M (3.5%).



** Excludes Other and Miscellaneous Revenue*

Wastewater Revenue and Bad Debt FY2007 – FY2016

Wastewater fund bad debt has trended down the past two fiscal years.

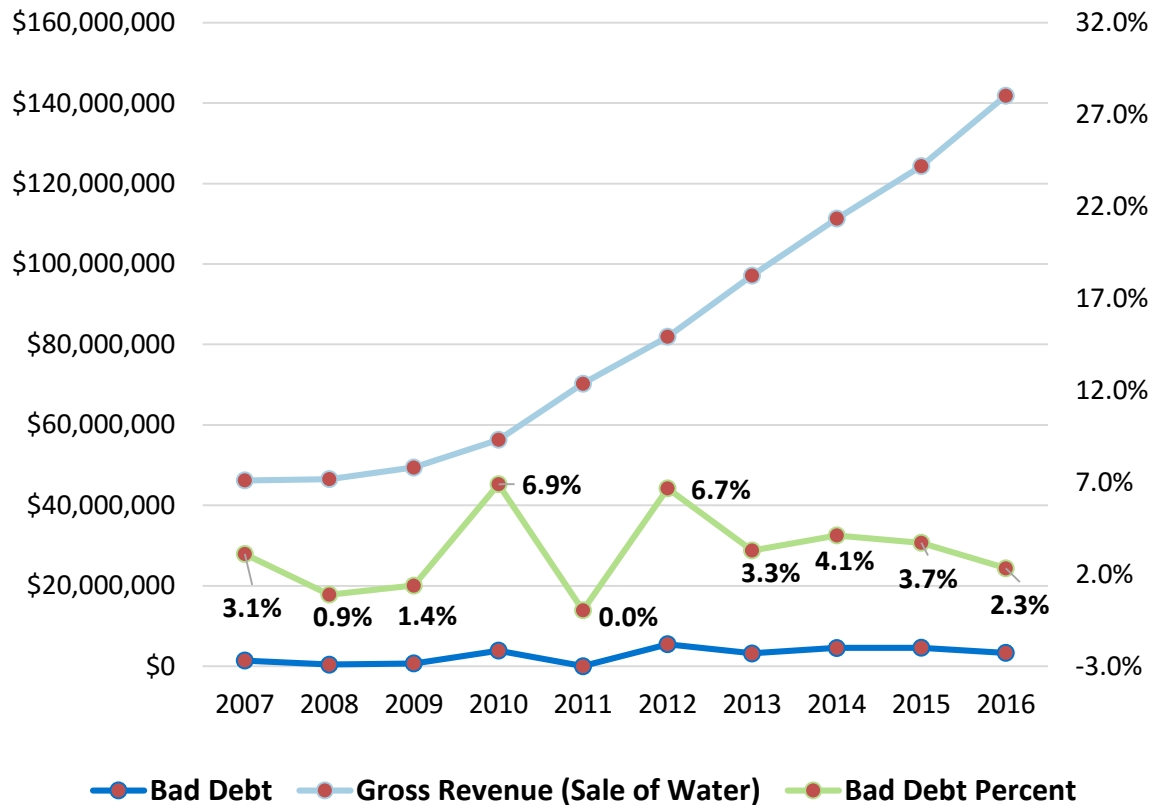
Fiscal Year	Bad Debt	Gross Revenue (Sale of Water)	Bad Debt Percent
2007	\$1,436,091	\$46,217,263	3.1%
2008	\$417,111	\$46,543,031	0.9%
2009	\$686,080	\$49,438,086	1.4%
2010	\$3,885,780	\$56,297,386	6.9%
2011	\$30,316	\$70,256,733	0.0%
2012	\$5,467,069	\$81,915,957	6.7%
2013	\$3,201,489	\$97,152,820	3.3%
2014	\$4,573,119	\$111,262,811	4.1%
2015	\$4,618,151	\$124,337,761	3.7%
2016	\$3,305,902	\$141,863,600	2.3%

Notes: Excludes IJA and Other Wastewater Revenue

Bad Debt as Percent of Revenue (Wastewater) FY2007 – FY2016

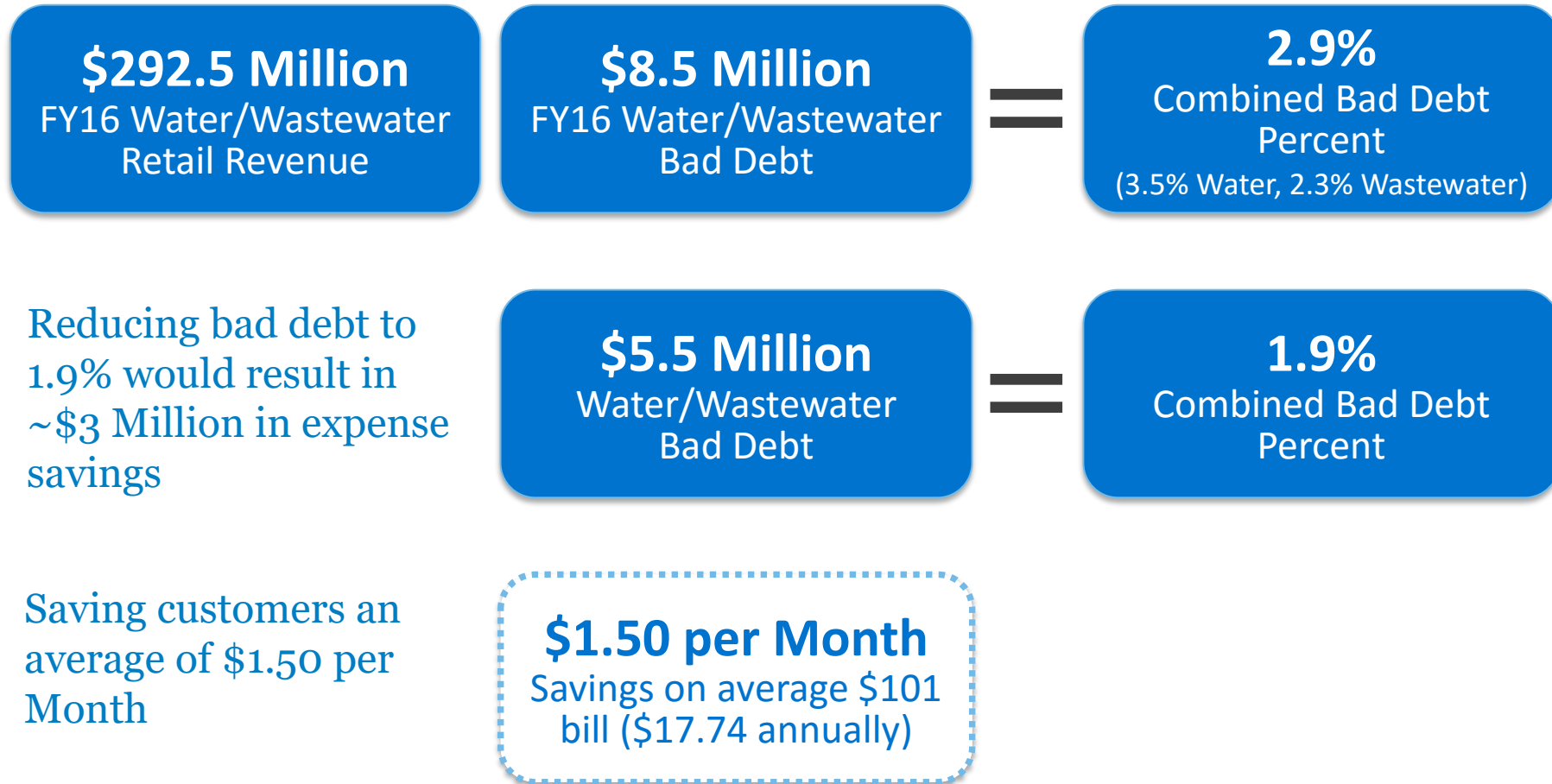
In FY2016:

- Retail Wastewater Revenue = \$141.8M
- Bad Debt = \$3.3M (2.3%)



** Excludes IJA and Other Wastewater Revenue*

Example: Water/Wastewater Bad Debt Reduction



Proactive Solutions for Enhancing Collections

- ✓ Link account to the Social Security number of the account holder
- ✓ Collect in advance of service on account (one-month's estimated bill)
- ✓ Implement frequent on/off service charge
- ✓ Put all accounts in property owner's name (premise based billing)
- ✓ Move fixed charge of bill to property tax bill as an assessed charge
 - \$13.90/month for Water
 - \$18.05/month for Wastewater
- ✓ Designated agent

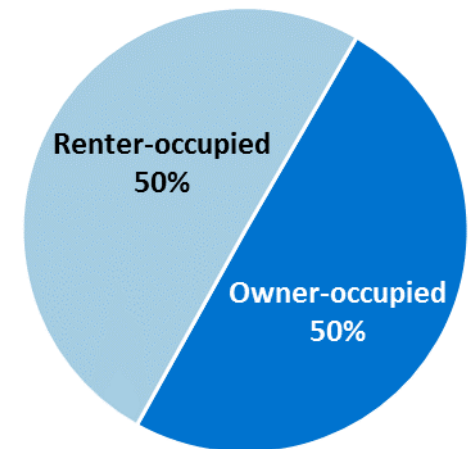


Case Studies

Premise Based Billing

Denver Water

- Provides water service for 1.21 million located in the Denver metropolitan area.
- Utility requires that accounts be placed in the name of the owner, however the owner can add tenant.
- Payment portal allows both landlord and tenant to manage account.
 - Keeps personal financial information confidential
- Landlord is ultimately responsible for bill.

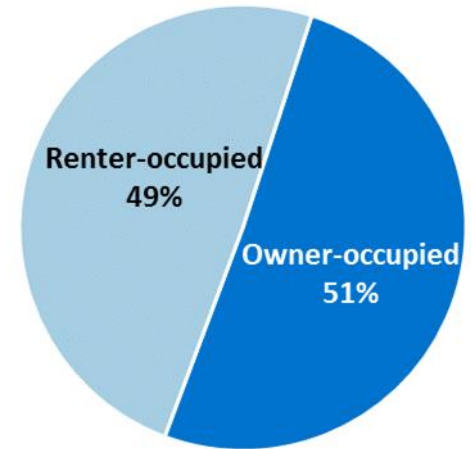


*2014 American Community
Survey Estimates for
Occupied Units – Denver, CO*

Modified Premise Based Billing

Detroit Water and Sewerage

- Utility serves population of 700,000 (after Great Lakes Water Authority (GLWA) reorganization)
- Landlord has default responsibility, but can transfer to tenant



*2014 American Community
Survey Estimates for
Occupied Units – Detroit, MI*

Modified Premise Based Billing

American Bottoms (East St. Louis, IL)

- Sewer utility serves population of 15,000
- Landlord can receive billing monthly summary of account in tenant name.
- Landlord receives notice when tenant bill delinquent.
- Unpaid utility bills transferred as lien on property when uncollected for period of time.

Credit Check, Deposit Requirement

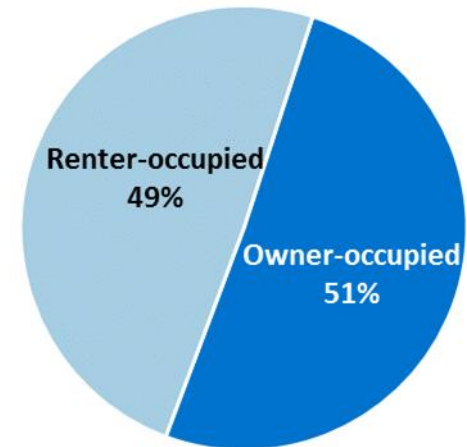
Indianapolis (Citizens Energy Group)

- Water, Wastewater, Natural Gas and Steam utility providing service to population of 850,000
- Requires credit check and deposit based on percentage of typical bill
- Last year bad debt decreased by \$1.5 million

Credit Check, Deposit Requirement

Tacoma Public Utilities

- Water, Wastewater, Electric Public Utility serving population of 300,000
- Property Manager portal – can manage move-in of tenants
- Requires landlord continuation of service agreement
- Landlord responsible between tenants and for non-report of move out.



2014 American Community Survey Estimates for Occupied Units – Tacoma, WA

Property owner		Manage accounts						
Manage accounts/Financial overview		Select the 'Move In' option for a new tenant or to transfer service from one tenant to another.						
Send us a message		Select the 'Move Out' option to return service to the owner.						
Unit	Address	Occupant	Start date	Pending move-out date	Pending customer	Pending move-in date	Service options	
1	1234 MAIN STREET	OWNER	10/03/03				Move In	Move Out
3	1234 MAIN STREET	DONALD DUCK	08/19/13	02/27	MICKEY MOUSE	02/28	Move In	Move Out
4	1234 MAIN STREET	MINNIE MOUSE	10/03/03				Move In	Move Out
5	1234 MAIN STREET	OWNER	02/12/14				Move In	Move Out

Proactive Collections – Pros/Cons

Pros	Cons
Premise based billing provides stability and increases probability of collections.	Landlords may push back. Some additional administrative support.
Social Security requirements facilitates eventual collection of outstanding balance.	May not decrease costs to customer service.
Combined deposit based on credit worthiness helps to mitigate uncollectable risk.	Additional responsibilities and some costs associated with credit checks.
Pre-payment insures at least a percentage of outstanding bill is collected	Can be prohibitive to low income customers.

Proactive Collections – Pros/Cons

Pros	Cons

Anticipated Schedule

Date	Topics
September 2016	<ul style="list-style-type: none">• Guiding Principles & Task Force Charge• Reduce Expenses – Introduction
October 2016	<ul style="list-style-type: none">• Reduce Expenses Discussion• Rate Structures – Introduction
November 2016	<ul style="list-style-type: none">• Rate Structures Discussion• Other Sources of Revenue – Introduction
December 2016	<ul style="list-style-type: none">• Other Sources of Revenue Discussion• Growing Sales – Introduction
January 2017	<ul style="list-style-type: none">• Growing Sales Discussion• Model Options – Hilltop Securities (formerly First Southwest)• 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



Follow-up Items from last Task Force Meeting



Public Comment



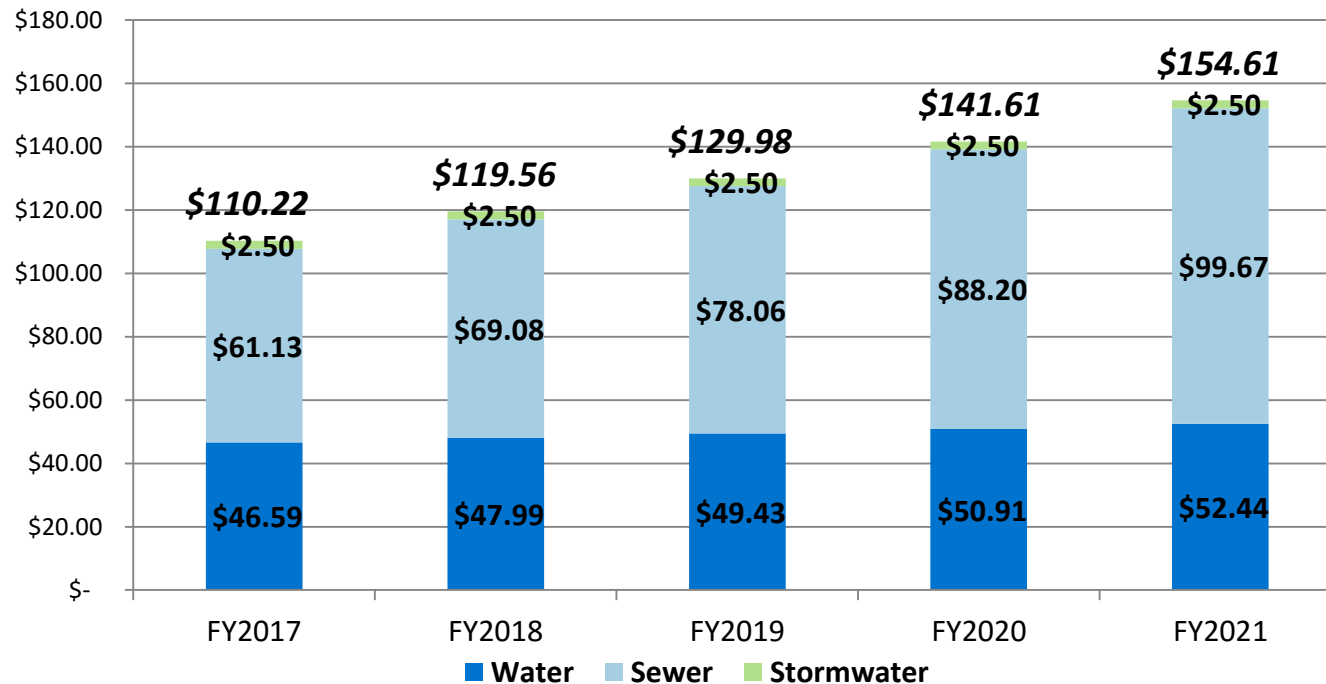
Task Force Discussion

Items from last Task Force Meeting

- Display Boards
- Customer satisfaction survey information
- Projected Rate increases – 2010/2011 at City Council meetings, every bond offering document
- Break out bill revenue to expenses for both water and sewer
- Moody's Water/Sewer Utility Debt Metrics comparison

Projected Residential Bill (FY2017-FY2021)

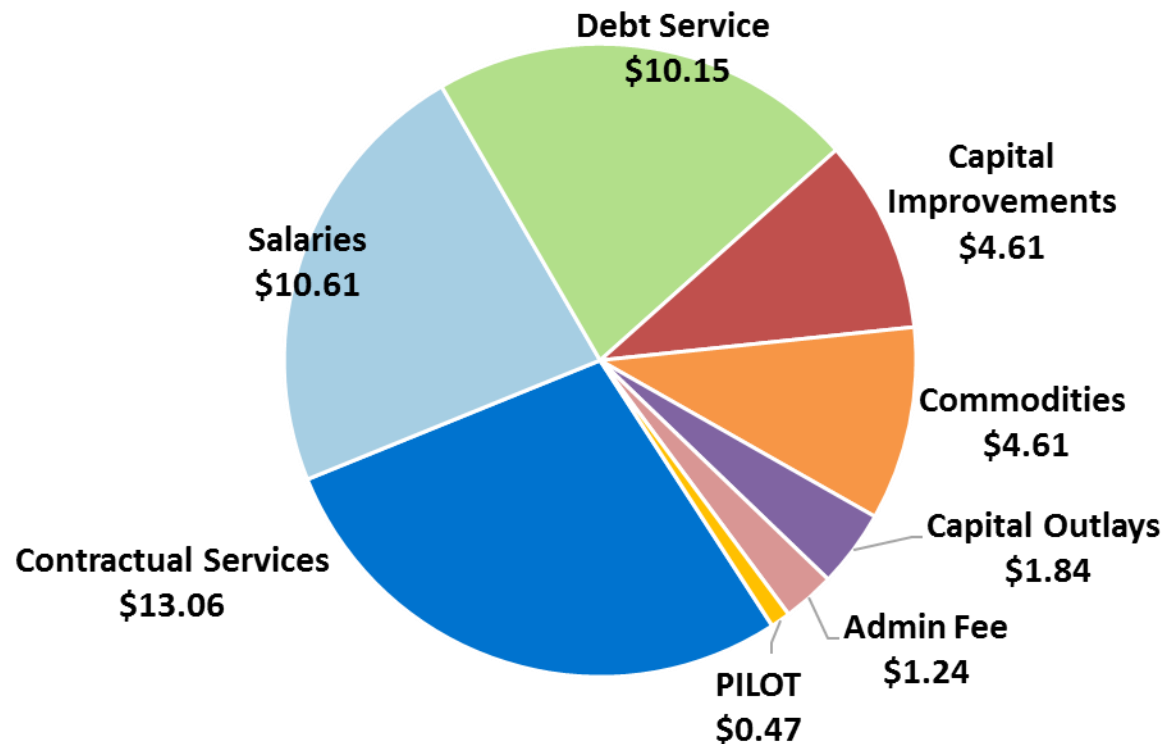
Assumes 3% annual increase for Water, 13% annual increase for Wastewater and 0% annual increase for Stormwater.



Note: Projected rates in future years are based on plan of record as of April 2016. Future rates are subject to change as financial and operating conditions change.

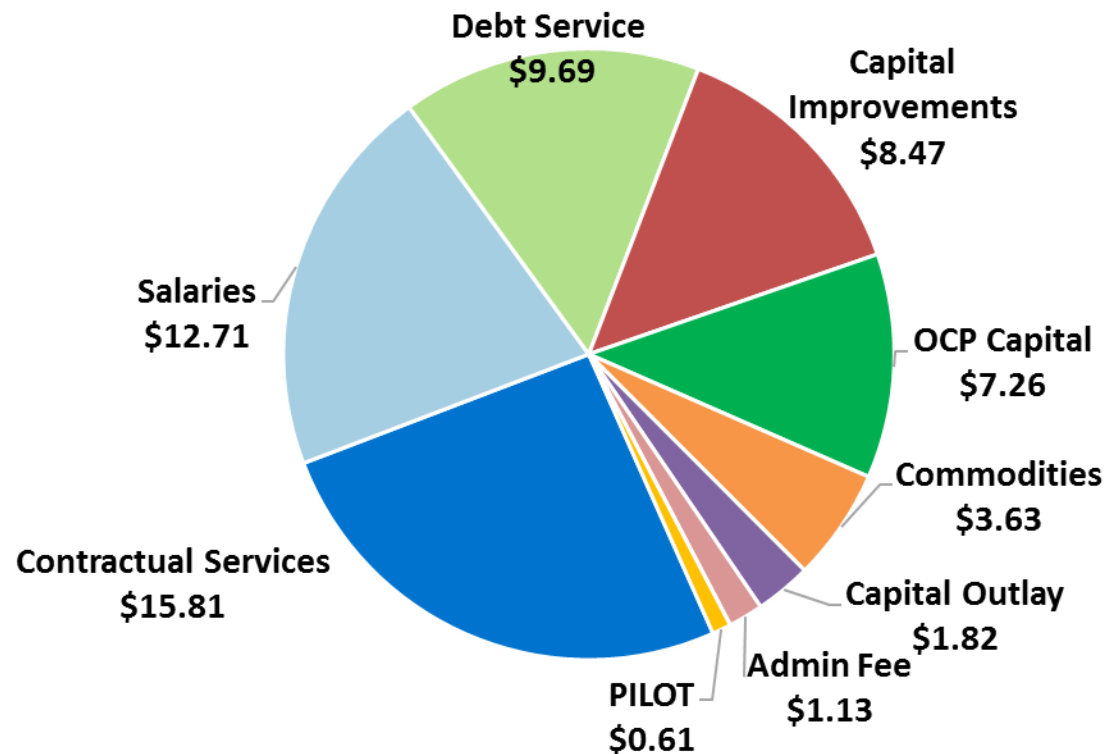
Average Residential Water Bill Breakdown

Residential Water Bill of \$46.59 per Month Pays for:



Average Residential Wastewater Bill Breakdown

Residential Wastewater Bill of \$61.13 per Month Pays for:



Debt Service Coverage Ratios (U.S. Median vs KC Water)

- KC Water's water and wastewater utilities currently have higher debt service ratios than the median across U.S.
- Utilities are projected to continue to be above the median.
- Demonstrates strong balance sheet and strong operating management.

	2011	2012	2013	2014	4-Year Average
Medians for U.S. Water Utilities	1.8	2.0	2.0	2.0	2.0
Medians for AA-Rated U.S. Water and Wastewater Utilities	1.9	2.0	2.0	2.1	2.0

	2011	2012	2013	2014	4-Year Average
KC Water's Water Debt Service Coverage Ratio	1.8	1.9	2.4	2.0	2.0
KC Water's Wastewater Debt Service Coverage Ratio	2.2	2.2	2.3	2.4	2.3

Sources:

- 1) *Moody's Investors Service, "Municipal Water and Sewer Utilities - US, March 17, 2016.*
- 2) *KC Water and Sewer Fund Audited Financials.*



Meeting Adjourned