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 ...

- Protect public health and safety
- Provide a quality product
- Provide reliable service with few interruptions
- Perform our work in a safe manner
- Respond quickly to customer needs
- Protect the environment
- Invest in the long-term viability of infrastructure
- Meet all federal and state regulations
- Invest in redundant back up systems to avoid...

- Strongly Agree
- Agree
- Neutral
- Disagree
- Strongly Disagree
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

- Renter-occupied 45%
- Owner-occupied 55%
Water Revenue and Bad Debt FY2007 – FY2016

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

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

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.

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

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

$292.5 Million
FY16 Water/Wastewater Retail Revenue

$8.5 Million
FY16 Water/Wastewater Bad Debt

Combined Bad Debt Percent
(3.5% Water, 2.3% Wastewater)

=$5.5 Million
Water/Wastewater Bad Debt

1.9%
Combined Bad Debt Percent

Reducing bad debt to 1.9% would result in ~$3 Million in expense savings

Saving customers an average of $1.50 per Month

$1.50 per Month
Savings on average $101 bill ($17.74 annually)
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.
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.
# Proactive Collections – Pros/Cons

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

<table>
<thead>
<tr>
<th>Pros</th>
<th>Cons</th>
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## Anticipated Schedule

<table>
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<tr>
<th>Date</th>
<th>Topics</th>
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<tbody>
<tr>
<td>September 2016</td>
<td>• Guiding Principles &amp; Task Force Charge&lt;br&gt;• Reduce Expenses – Introduction</td>
</tr>
<tr>
<td>October 2016</td>
<td>• Reduce Expenses Discussion&lt;br&gt;• Rate Structures – Introduction</td>
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<tr>
<td>November 2016</td>
<td>• Rate Structures Discussion&lt;br&gt;• Other Sources of Revenue – Introduction</td>
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<tr>
<td>December 2016</td>
<td>• Other Sources of Revenue Discussion&lt;br&gt;• Growing Sales – Introduction</td>
</tr>
<tr>
<td>January 2017</td>
<td>• Growing Sales Discussion&lt;br&gt;• Model Options – Hilltop Securities (formerly First Southwest)&lt;br&gt;• Public hearing</td>
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<tr>
<td>February 2017</td>
<td>• Consider public input and finalize recommendations</td>
</tr>
<tr>
<td>March 2017</td>
<td>• Finalize recommendations</td>
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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:

- Contractual Services: $13.06
- Salaries: $10.61
- Debt Service: $10.15
- Capital Improvements: $4.61
- Commodities: $4.61
- Capital Outlays: $1.84
- Admin Fee: $1.24
- PILOT: $0.47

9/13/2016
Average Residential Wastewater Bill Breakdown

Residential Wastewater Bill of $61.13 per Month Pays for:

- Debt Service: $9.69
- Capital Improvements: $8.47
- OCP Capital: $7.26
- Commodities: $3.63
- Capital Outlay: $1.82
- Admin Fee: $1.13
- PILOT: $0.61
- Salaries: $12.71
- Contractual Services: $15.81
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.

<table>
<thead>
<tr>
<th></th>
<th>2011</th>
<th>2012</th>
<th>2013</th>
<th>2014</th>
<th>4-Year Average</th>
</tr>
</thead>
<tbody>
<tr>
<td>Medians for U.S. Water Utilities</td>
<td>1.8</td>
<td>2.0</td>
<td>2.0</td>
<td>2.0</td>
<td>2.0</td>
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<tr>
<td>Medians for AA-Rated U.S. Water and Wastewater Utilities</td>
<td>1.9</td>
<td>2.0</td>
<td>2.0</td>
<td>2.1</td>
<td>2.0</td>
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<td>KC Water's Water Debt Service Coverage Ratio</td>
<td>1.8</td>
<td>1.9</td>
<td>2.4</td>
<td>2.0</td>
<td>2.0</td>
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<tr>
<td>KC Water's Wastewater Debt Service Coverage Ratio</td>
<td>2.2</td>
<td>2.2</td>
<td>2.3</td>
<td>2.4</td>
<td>2.3</td>
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Sources:
2) KC Water and Sewer Fund Audited Financials.
Meeting Adjourned