Agenda

• Review of Agreed Upon Guiding Principles
• Discussion Topics for now and future meetings
• Case Studies
  • Expense Reduction
  • Premised Based Billing
• Rate Structures
• Public Comment
• Task Force Discussion
• Anticipated Schedule
Final Wording of Guiding Principles
Draft Guiding Principles

• **Cost Recovery:** It is important that utility rates cover the full cost of providing service to/from the end customers.

• **Direct Benefit:** Customers should see a benefit from the infrastructure investments made.

• **Administrative Cost:** The cost of administration related to rates should be efficient.

• **Understanding:** Ratepayers should understand how services and infrastructure improvements are funded.
Draft Guiding Principles

- **Simple:** Rates and charges should be straight-forward and minimize bad debt to not burden customers who pay on time.

- **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.
Draft Guiding Principles

• *Water Conservation*: Conservation should be encouraged while maintaining revenue stability.

• *State and Federal Funds*: KC Water should reduce future utility rate increases with revenue (when available) from state and federal taxpayers due to federal and state mandates.
Draft Guiding Principles

• **Affordability**: It is important to reduce the impact of rate increases on customer’s ability to pay bills.

• **Affordability**: KC Water should have programs that assist customers.

• **Affordability and Fairness**: 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.
Draft Guiding Principles

• Competitive: Rates and charges should be competitive with older jurisdictions to help attract and retain businesses, residents, and customers.

• Redevelopment: Existing ratepayers should fund upgrades to existing infrastructure needed to stimulate redevelopment.
Draft Guiding Principles

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

• **Growth**: Rates and charges should recover the full cost to service new growth rather than recover those costs from existing ratepayers.
Discussion Topics
Goal: Financial Stability for All Three Utilities

- Reduce expenses
- Adjust rate structures
- Use other sources of revenue
- Increase revenue
- Finance considerations
Reduce Expenses

• Reduce bad debt
  • Full collection
  • Accelerate turn offs

• Reduce service-related items
  • Call Center, Meter Field Services, Meter Reading

• Reduce other expenses
  • Non-revenue water
Adjust Rate Structures

• Changing the rate structure
  • Declining Block Rates *
  • Uniform Rates
  • Inclining Block Rates
  • Seasonal Rates
  • Water-Budget Rates

• Ensure rates directly cover the costs to serve customers
  • In compliance with Missouri Constitution (Hancock Amendment) and other applicable laws

* KC Water current structure
Use Other Sources of Revenue (Examples)

- General fund – Other general obligation (G.O.) bond offering
- System development charges
- Stormwater fee for Overflow Control Program
- Special assessments and taxing districts
- Sales tax
- State and Federal grants and loans
Increase Revenue

• Sell more water
  • Add retail customers
  • Add wholesale customers (marginal growth)
• Raise rates
Finance Considerations

• Pay-as-you-go (cash)
  • Fees from customers

• Pay-as-you-use (debt)
  • State Revolving Fund (SRF)
  • Special Revenue Bonds
  • Grants / Matching funds

• Combination (cash/debt)
  • Utilize high credit rating when interest rate environment is attractive
Affordability

• Customer Assistance Program
• Rate discounts
  • Lifeline block in rate structure
• Payment plans
• Geographically-based programs
  • Re-pump charges
• Water efficiency program for low-income individuals
  • Bridging the Gap program
• Federal Low Income Water Assistance Program
Case Study - Expense Reduction, Bad Debt
Reduce Expenses Example – Bad Debt

• Bad debt is revenue that is uncollectible
  • KC Water does not receive 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: Affordability and Fairness, Cost Recovery, and Administrative Cost
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.

<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>
</tr>
<tr>
<td>2009</td>
<td>$2,062,858</td>
<td>$81,434,174</td>
<td>2.5%</td>
</tr>
<tr>
<td>2010</td>
<td>$5,458,397</td>
<td>$84,861,261</td>
<td>6.4%</td>
</tr>
<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>
</tr>
<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 averaged 3.0% 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>$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>
</tr>
<tr>
<td>2009</td>
<td>$686,080</td>
<td>$49,438,086</td>
<td>1.4%</td>
</tr>
<tr>
<td>2010</td>
<td>$3,885,780</td>
<td>$56,297,386</td>
<td>6.9%</td>
</tr>
<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>
</tr>
<tr>
<td>2014</td>
<td>$4,573,119</td>
<td>$111,262,811</td>
<td>4.1%</td>
</tr>
<tr>
<td>2015</td>
<td>$4,618,151</td>
<td>$124,337,761</td>
<td>3.7%</td>
</tr>
<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

2.9% 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)
Examples for Enhancing Collections Used by Other Municipal Utilities

✓ 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 accounts in property owner’s name (premise based billing)
✓ Designated agent
Case Studies – Premised Based Billing
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.

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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 monthly billing 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

• Require 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
# Enhanced Collections – Pros/Cons

<table>
<thead>
<tr>
<th>Pros</th>
<th>Cons</th>
</tr>
</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 ensures at least a percentage of outstanding bill is collected</td>
<td>Can be prohibitive to low income customers.</td>
</tr>
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</table>
Enhanced Collections – Pros/Cons

<table>
<thead>
<tr>
<th>Pros</th>
<th>Cons</th>
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</thead>
<tbody>
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Reduce Expense Task Force Recommendation

- Guiding Principles: Affordability and Fairness, Cost Recovery, and Administrative Cost
Rate Structures - Introduction
Main Components of Rate Setting

• **Revenue Requirements**
  • How much do you need to run the utility to achieve your goals?

• **Allocation of Costs**
  • Determining the cost to deliver service
  • Allocate costs between different customer classes

• **Creating the Rate Structure**
  • To meet your revenue requirements
  • To capture the necessary revenue from the appropriate customers
Rate Structure – Declining Block Rate

- The unit price of each succeeding block of usage is charged at a lower unit rate than the previous block.
- The key here is the number and size of blocks.

<table>
<thead>
<tr>
<th>Pros</th>
<th>Cons</th>
</tr>
</thead>
<tbody>
<tr>
<td>Easy to understand and administer.</td>
<td>May be perceived as not equitable for low volume users.</td>
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</tbody>
</table>
Rate Structure – Inclining Block Rate

- The unit price of each succeeding block of usage is charged at a higher unit rate than the previous block.

<table>
<thead>
<tr>
<th>Pros</th>
<th>Cons</th>
</tr>
</thead>
<tbody>
<tr>
<td>Provides flexibility when designed by customer classes.</td>
<td>Use of customer class rates creates additional billing and customer service issues.</td>
</tr>
</tbody>
</table>
Rate Structure – Uniform Rate

- Constant unit price for all metered units of water consumed on a year-round basis.

<table>
<thead>
<tr>
<th>Pros</th>
<th>Cons</th>
</tr>
</thead>
<tbody>
<tr>
<td>Simplicity, Conservation</td>
<td>Might not be equitable across customer classes.</td>
</tr>
</tbody>
</table>


**Rate Structure – Seasonal Rates**

- The unit price varies by time period. Implemented to incent reduction in peak use.

<table>
<thead>
<tr>
<th>Pros</th>
<th>Cons</th>
</tr>
</thead>
<tbody>
<tr>
<td>Works well in geographic areas experiencing water shortages.</td>
<td>Can place revenue stability at risk depending on the differential in the peak rate and customer response to a higher “seasonal” rate.</td>
</tr>
</tbody>
</table>
Rate Structure – Water Budget Rates

- Increasing block rates where the amount of consumption within the first block or blocks is based on the estimated, efficient water needs of the individual user.

<table>
<thead>
<tr>
<th>Pros</th>
<th>Cons</th>
</tr>
</thead>
<tbody>
<tr>
<td>Discourages wasteful consumption.</td>
<td>More complex to plan, implement and maintain than other types of rate structures and also result in inequity.</td>
</tr>
</tbody>
</table>
Public Comment
Task Force Discussion
# Anticipated Schedule

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