

OCTOBER 25, 2016

KC Water Cost of Service Task Force Meeting #6



KANSAS CITY
MISSOURI



KCWATER
SERVICES

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



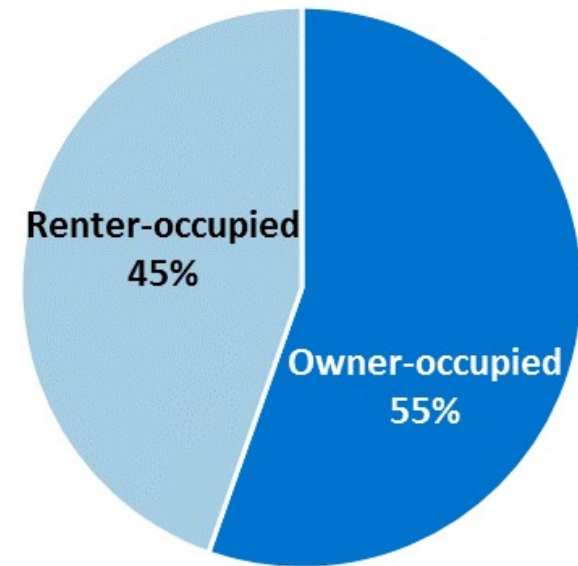
Case Study - Expense Reduction, Bad Debt

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.

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%

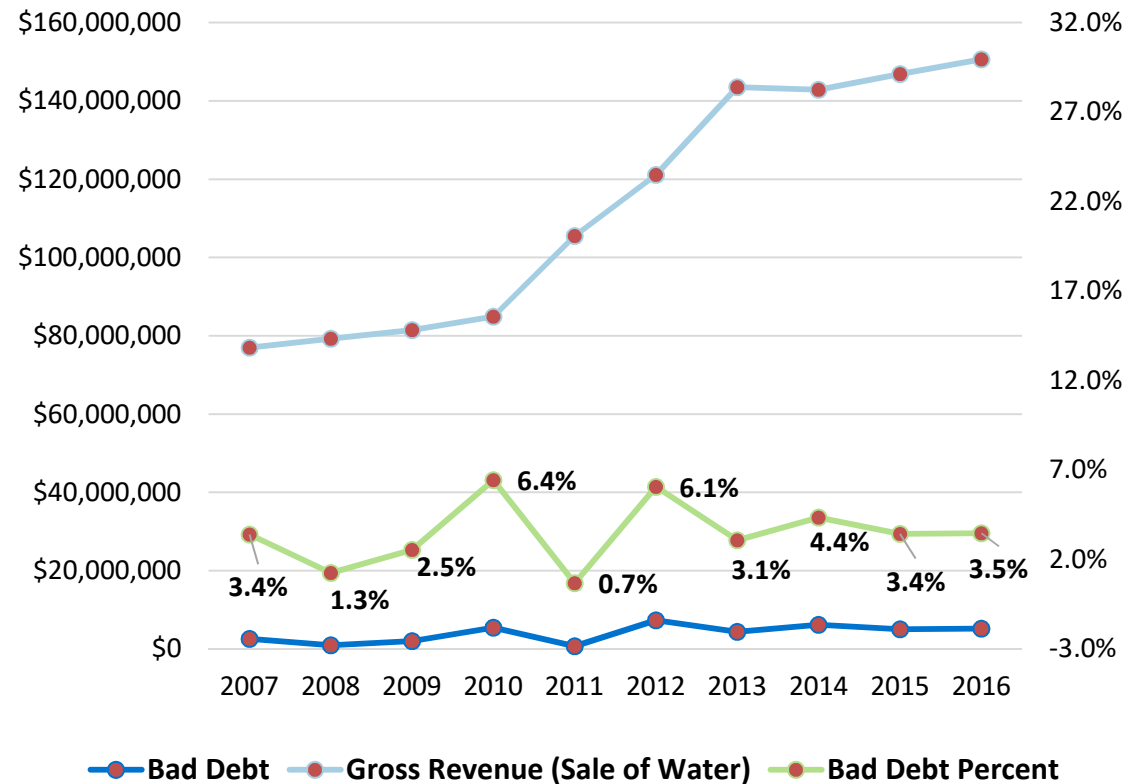
Notes: Excludes other water revenue and miscellaneous revenue

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 averaged 3.0% for the last couple years.

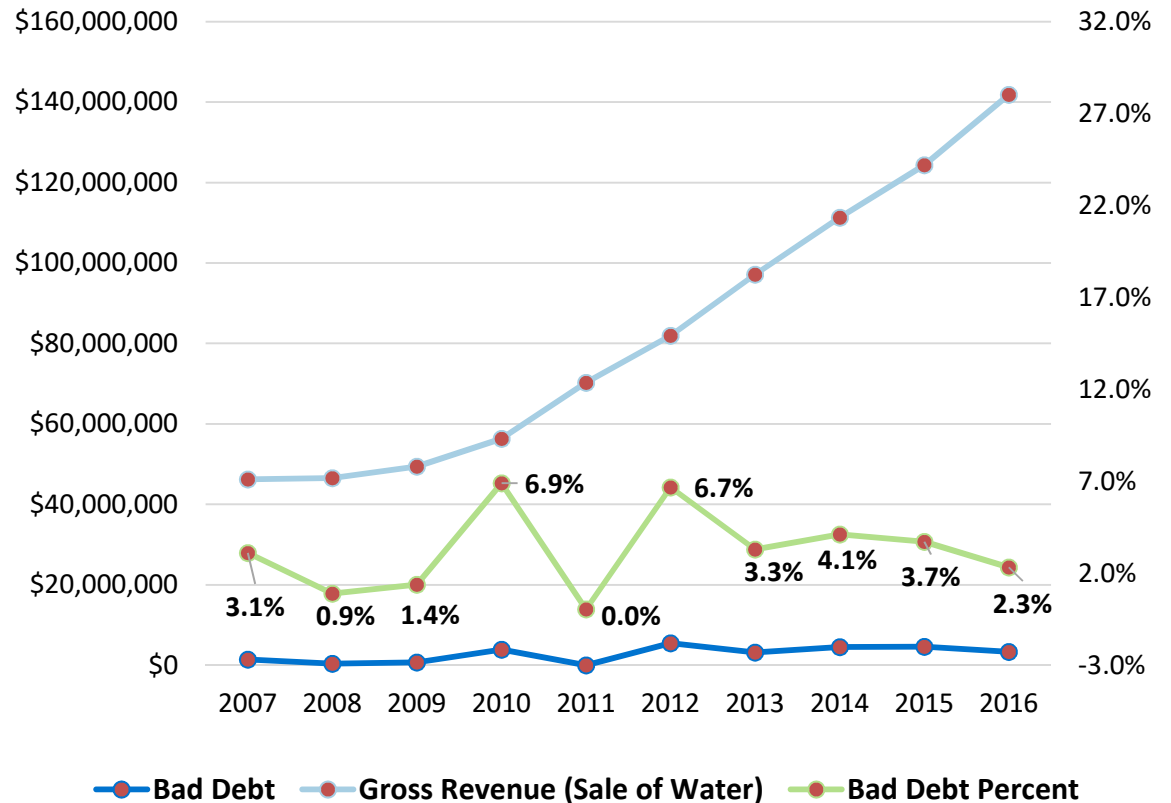
Fiscal Year	Bad Debt	Gross Revenue (Sale of Water)	Bad Debt Percent
2007	\$1,436,091	\$46,217,263	3.1%
2008	\$417,111	\$46,543,031	0.9%
2009	\$686,080	\$49,438,086	1.4%
2010	\$3,885,780	\$56,297,386	6.9%
2011	\$30,316	\$70,256,733	0.0%
2012	\$5,467,069	\$81,915,957	6.7%
2013	\$3,201,489	\$97,152,820	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%)

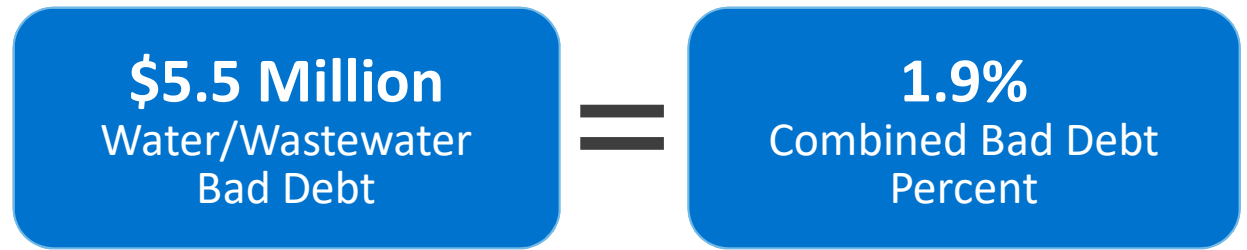


* Excludes IJA and Other Wastewater Revenue

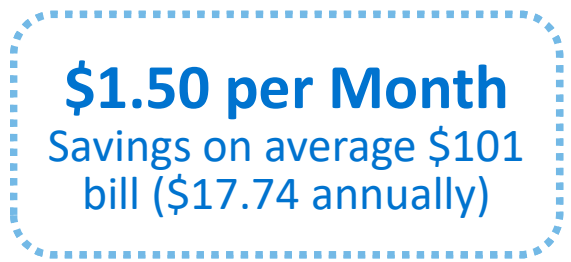
Example: Water/Wastewater Bad Debt Reduction



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



Saving customers an average of \$1.50 per Month



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

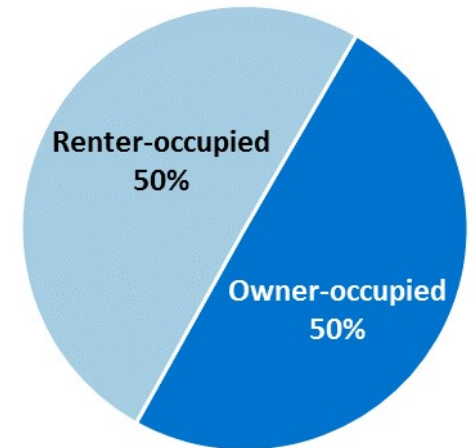


Case Studies – Premised Based Billing

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.

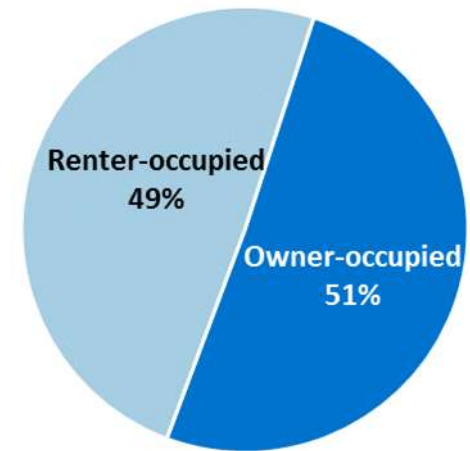


2014 American Community Survey Estimates for Occupied Units – Denver, CO

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

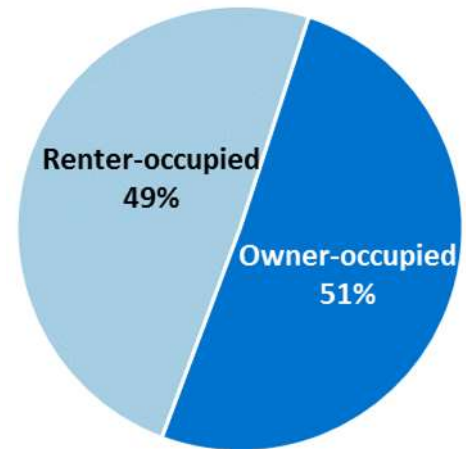
Indianapolis (Citizens Energy Group)

- 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

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	

Enhanced 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 ensures at least a percentage of outstanding bill is collected	Can be prohibitive to low income customers.

Enhanced Collections – Pros/Cons

Pros	Cons

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.

Pros	Cons
Easy to understand and administer.	May be perceived as not equitable for low volume users.

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.

Pros	Cons
Provides flexibility when designed by customer classes.	Use of customer class rates creates additional billing and customer service issues.

Rate Structure – Uniform Rate

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

Pros	Cons
Simplicity, Conservation	Might not be equitable across customer classes.

Rate Structure – Seasonal Rates

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

Pros	Cons
Works well in geographic areas experiencing water shortages.	Can place revenue stability at risk depending on the differential in the peak rate and customer response to a higher “seasonal” rate.

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.

Pros	Cons
Discourages wasteful consumption.	More complex to plan, implement and maintain than other types of rate structures and also result in inequity.



Public Comment



Task Force Discussion

Anticipated Schedule

Date	Topics
September 2016	<ul style="list-style-type: none"> • Guiding Principles & Task Force Charge
October 2016	<ul style="list-style-type: none"> • Reduce Expenses Introduction & 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 • Increasing Revenue – Introduction
January 2017	<ul style="list-style-type: none"> • Increasing Revenue 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



Meeting Adjourned