

NOVEMBER 29, 2016

# KC Water Cost of Service Task Force

## Meeting #7



# Meeting Agenda

- Other Sources of Revenue
- Rate Structure Differences
- Opening of Customer Account
- Cost of Service – How does it work
- Follow up from October meeting
- Public Comment
- Recommendations & Discussion
  - Expense Reduction
  - Adjusting Rate Structures



## Other Sources of Revenue Discussion

# 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

# Other Sources – General Fund

- Allow KC Water to transfer some services back to the General Fund (such as HHW, leaf and brush, levee maintenance)
- KC Water could attempt to source funds from proceeds from future general obligation bond offerings.
  - Allocate large overflow control projects into the general obligation bond offering.
  - Debt service would be paid from the General Fund as opposed to Sewer Enterprise Fund
- Public Fire Protection – Move to General Fund.

# Other Sources – System Development Charges (SDCs)

- Currently new capacity is funded from current customers
- Growth would pay for itself using a one-time charge
- Recover a fair share of prior public infrastructure investments when a developer makes use of the infrastructure.
- Mechanism for developers to pay for capacity built into the public system in anticipation of their needs.

# Other Sources – Stormwater fees

- Stormwater fee for Overflow Control Program
  - For example, increase Stormwater fee, maybe \$1 year for 10 years
- Improvements to stormwater system reduce need for some OCP program improvements. Goal is to keep stormwater out of the sanitary sewer system.
  - Combined sewer area impacts
  - Separated sewer area impacts
- Fees are used for preventative programs (e.g. leaf and brush, household hazardous waste, etc.)

# Other Sources - Special Assessments

- Used in circumstances where regulations are not driving investments and differing levels of service are desired.
- Could be used to fund:
  - Repair
  - Reinvestment
  - Rehabilitation and capital investments
- Example: Westport property owners may want to pay more for stormwater services if flood control could be provided.



# Other Sources – Sales Tax

- Sales tax
  - 1% sales tax would translate to about \$70 Million in revenue
  - Annual Capital Improvement Program budget is \$200 Million
- Requires voter approval
- Wouldn't be used for operations and maintenance expense

# Other Sources – Grants and Loans

- State and Federal grants and loans
  - State Revolving Fund (SRF) used for specific projects
- SRF are subsidized loans
  - For example, on a 3% loan you would get 1.5% interest rate subsidy
- SRF - Administrative costs
- Water Resources Development Act (WRDA)
- Low Income Home Energy Assistance Program (LIHEAP)
  - Electric Utilities
  - Natural Gas Utilities



# Rate Structure Differences

# Rate Structures

- Rates must directly recover the costs to serve customers
  - In compliance with Missouri Constitution (Hancock Amendment) and other applicable laws
- Based on the unit costs from cost allocation process
- Rebundle unit costs to reflect each customer class' unique service requirements
- Develop recommended rates (practical, easily understood, cost of service based, socially and politically acceptable, and reflecting community values)

# Rate Structures To Discuss Further

## DECLINING BLOCK RATES\*

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

## UNIFORM RATES

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

## INCLINING BLOCK RATES

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

## SEASONAL RATES

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

# Rate Structures To Discuss Further

## DECLINING BLOCK RATES

Easy to understand  
Delivers relatively stable revenue

Conflicts with goals of conservation

## UNIFORM RATES

Simple, stable revenue

Could be inequitable among customer groups

## INCLINING BLOCK RATES

Promotes conservation goals

Possible revenue instability  
Costs more per gallon for commercial

## SEASONAL RATES

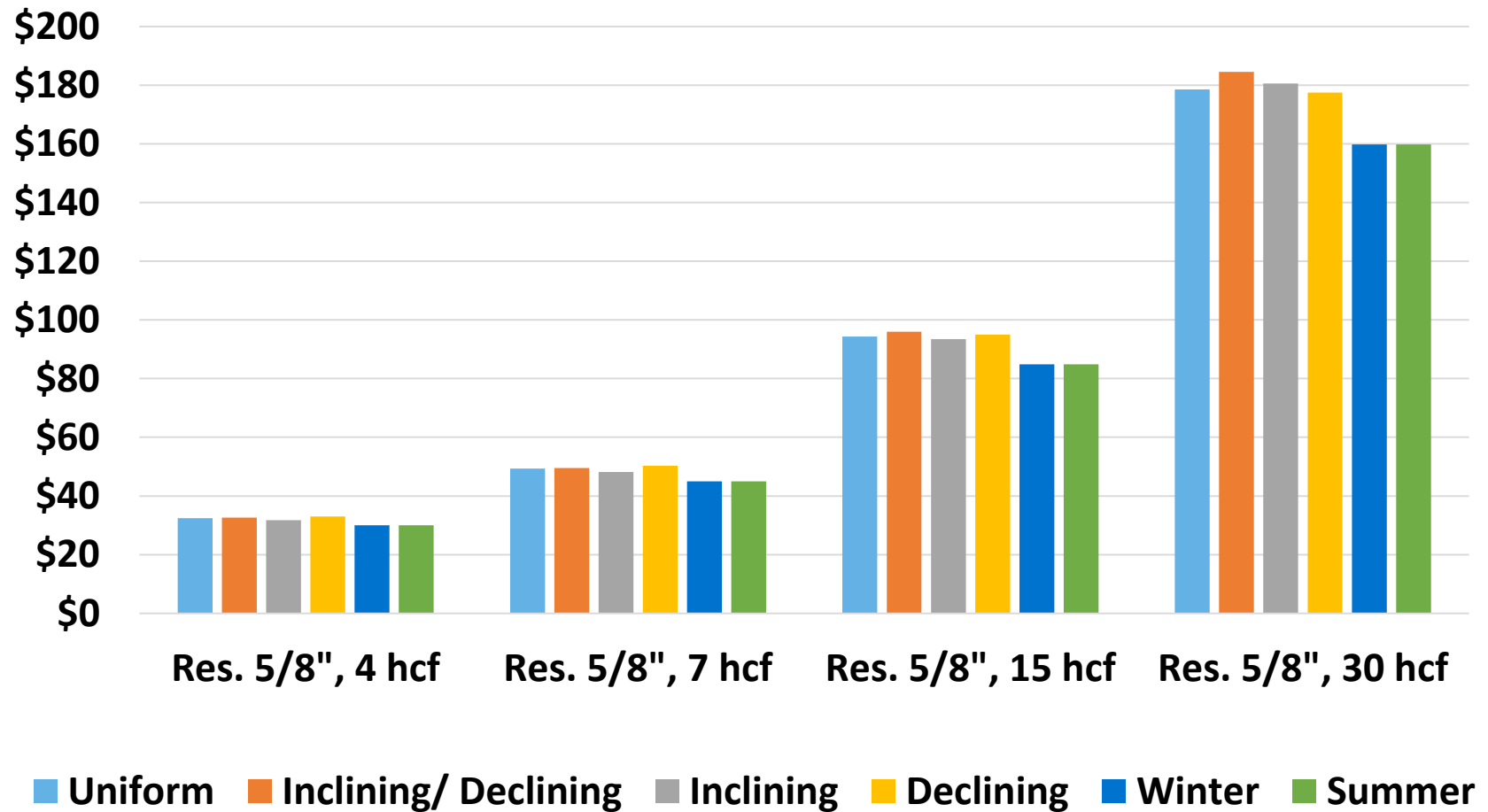
Equitable  
Good for managing peak behavior

More complex to administer  
Revenue at risk

# Rate Structure Follow-up

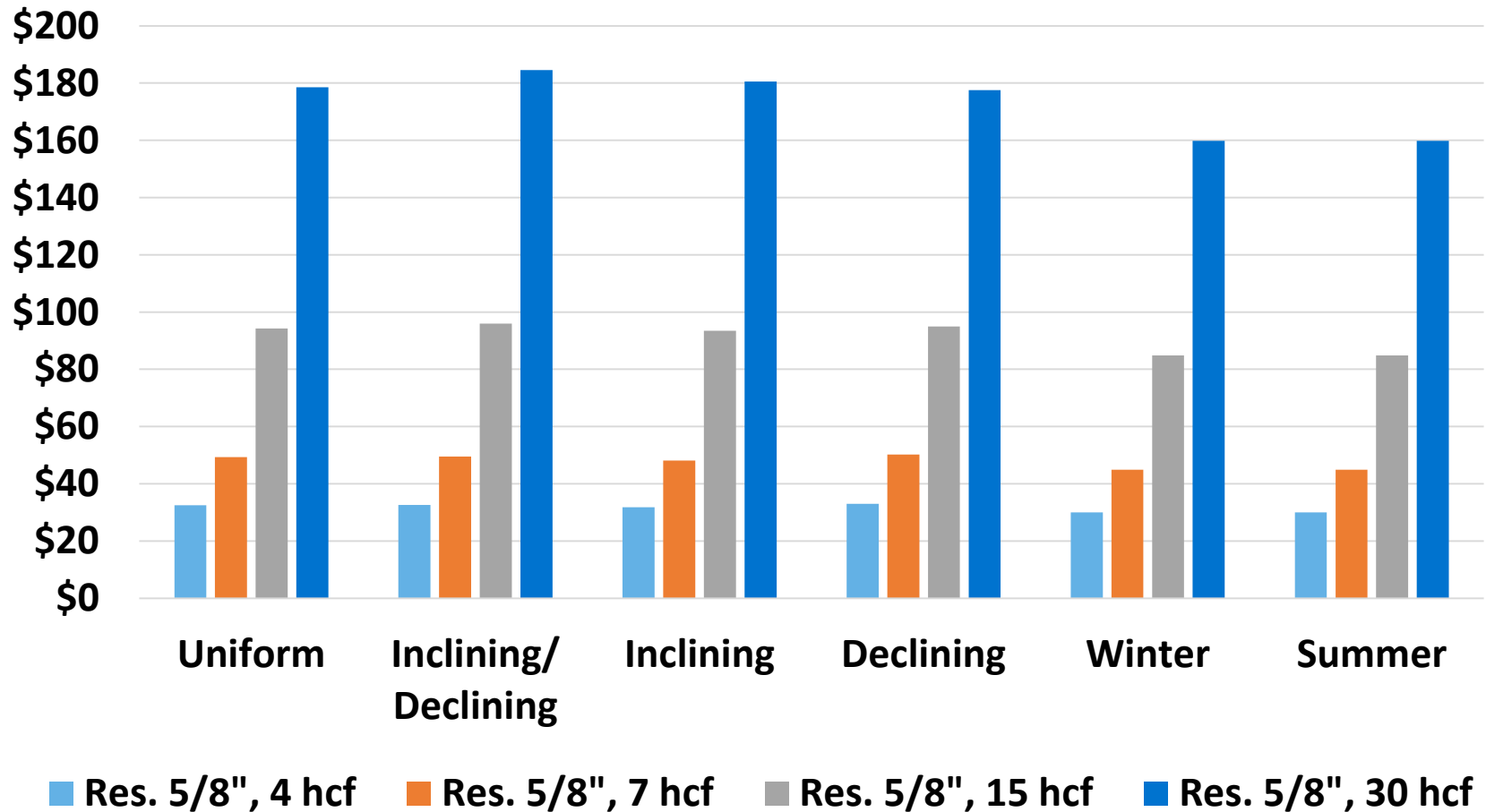
- Rate structure comparisons
  - Uniform, inclining, declining, seasonal (winter and summer), combination – including/declining
- “Yourtown, USA” used as an example – not KC Water rates
  - Residential, Small Commercial, and Large Commercial examples
  - Block comparison and rate comparison

# Example: Block Comparison - Residential

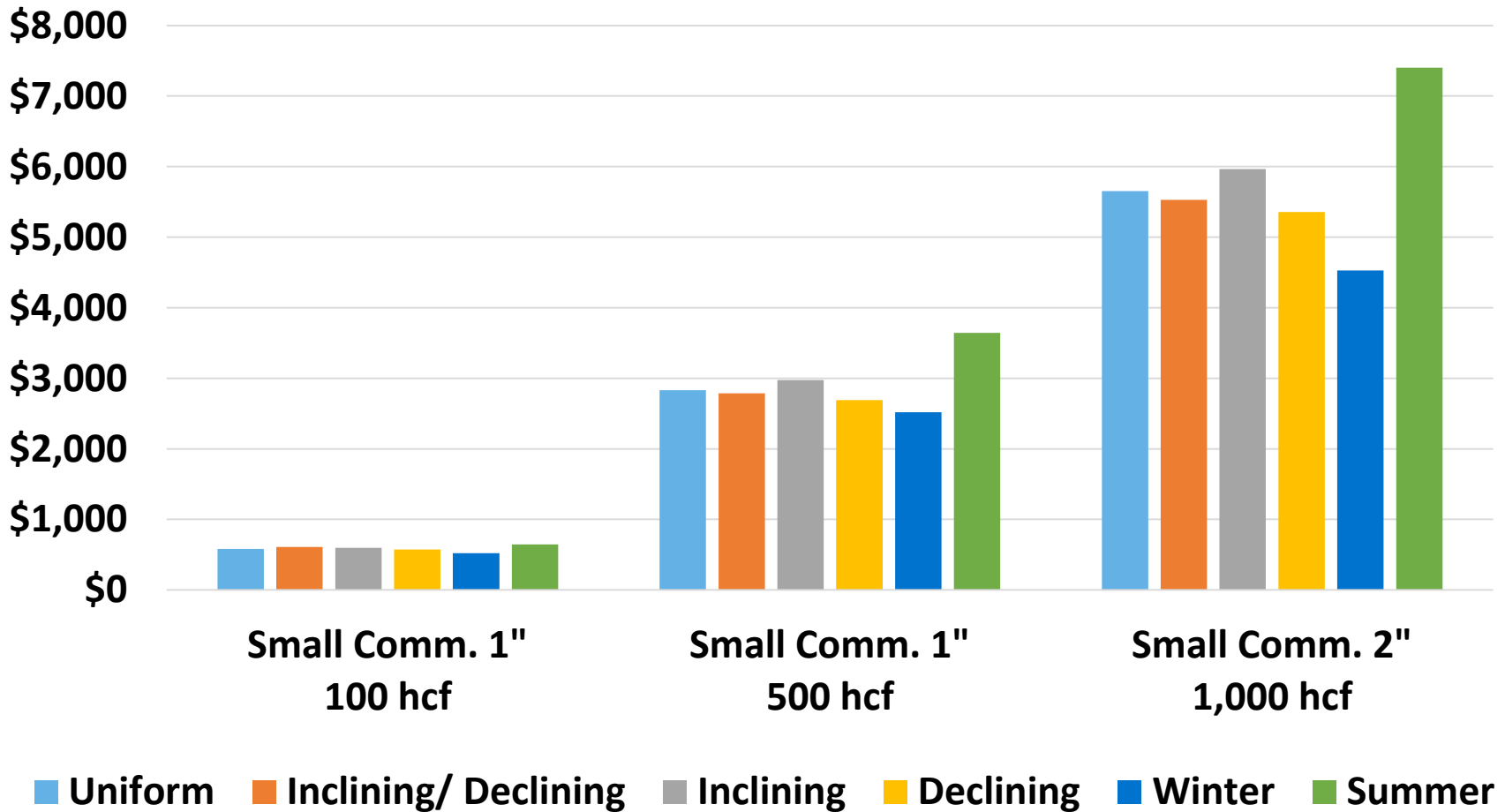




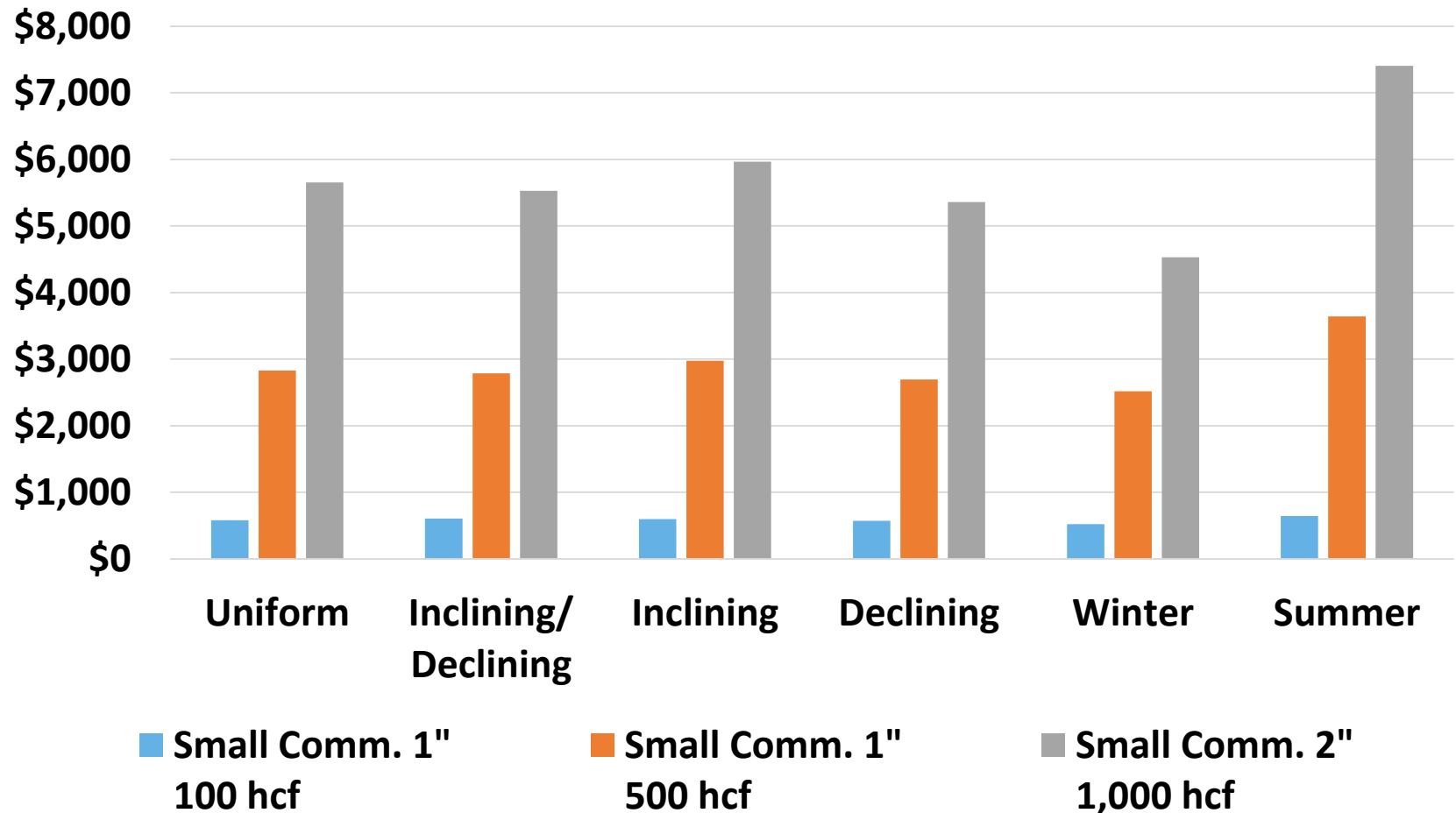
# Example: Rate Structure Comparison - Residential



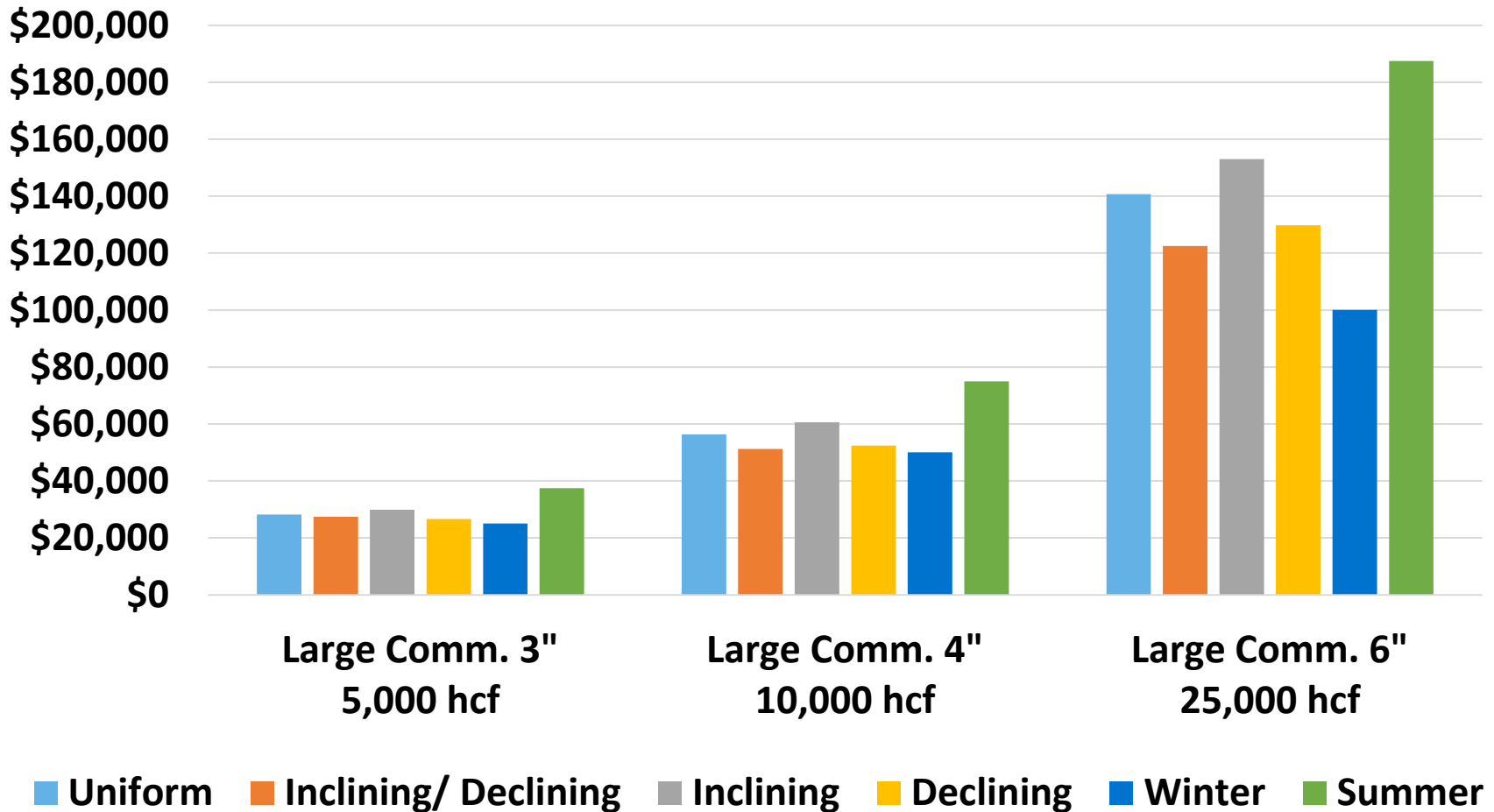
# Example: Block Comparison – Small Commercial



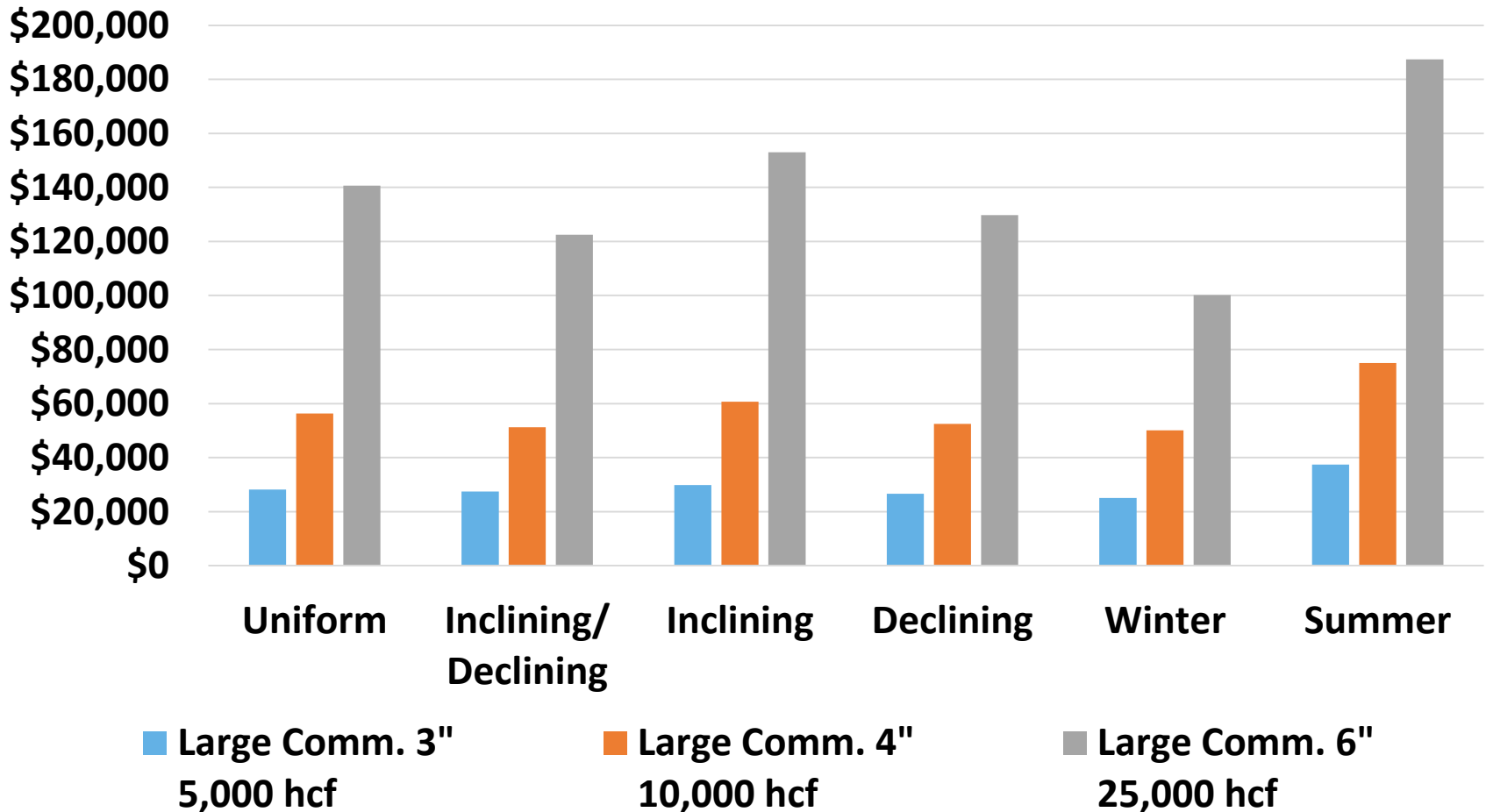
# Example: Rate Structure Comparison – Small Commercial



# Example: Block Comparison – Large Commercial



# Example: Rate Structure Comparison – Large Commercial



# Rate Structures - Summary

- No significant difference between rate structures for residential users
- Inclining versus declining for residential saves \$2.00 or 4% for first two block users
- Seasonal rates impact commercial customers

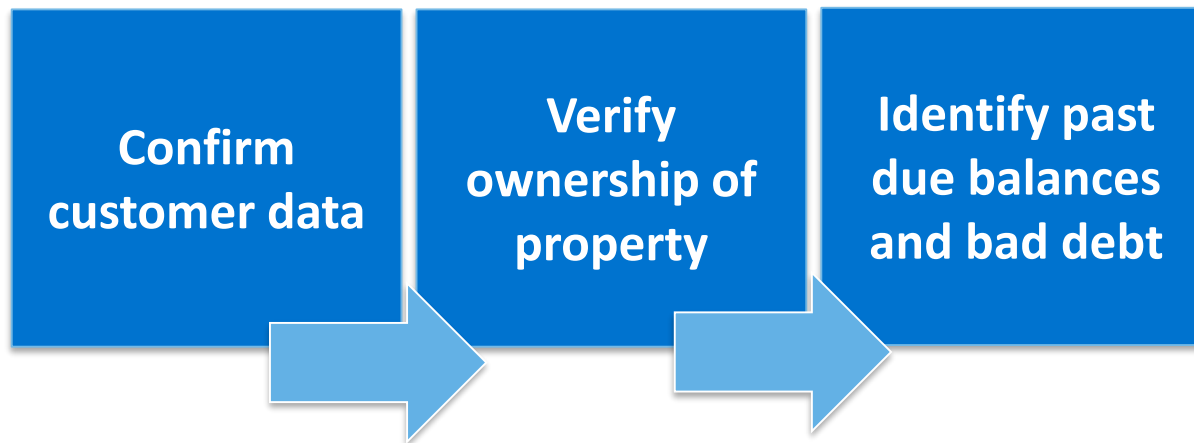


# Opening a Customer Account

# Establishing an Account

## Requesting a Move-in:

- Customers may request to establish / move in to an account by phone, online, email, fax or in-person.





# Establishing an Account

## New Customers & Existing Customers:

- To establish service at a new address, customer data is verified and bad debt balances must be resolved.
- Must provide customer name that can be verified and one of the following
  - Social security number
  - Driver's license
  - State issued ID

# Establishing an Account

## Customers must appear in-person when:

- No social security number
- Information from ID doesn't match name provided by the customer
- Multiple aliases are associated to the SSN provided
- Customer previously associated with an address attempting to re-establish service
- Not verified in the third party verification portal
- Applicant has the same last name as current accountholder, with past-due balance or bad debt on the account (i.e. suspected family member)

# Establishing an Account

## Applying for service in-person:

- Photo identification in the form of one of the following:
  - U.S. passport or U.S. passport card
  - Permanent resident card or alien registration receipt card
  - Driver's license or ID card issued by a state
  - ID card issued by federal, state, or local government agency
  - U.S. military card or a military dependent's ID card
- Current lease (if tenant), listing move in date

# Establishing an Account – Bad Debt

- 100% of any existing bad debt must be paid before new service can be established.
- Payment arrangements cannot be created for inactive accounts, including inactive accounts with bad debt and/or past due balances.
- Outstanding balance cannot be transferred to a new address, but a credit balance can be transferred to a new address.

# Establishing an Account - Tenant

- Tenants must fulfill all criteria used for existing customers (e.g., no past due balance or bad debt, customer verification)
  - If not, KC Water doesn't move the customer into the property
- Tenants are not required to pay any existing balances or bad debt tied to their new rental property
- When unable to establish an account at renter-occupied property, the account will revert to the owner's name
  - Property owner is sent a courtesy letter notifying them that the applicant was unable to open an account

# Discontinuing Service – Tenant

- When a tenant requests to discontinue service, customer information is updated to reflect the account closure date and to verify the address for final billing.
- KC Water does not turn water off.
- If the customer insists that the water be turned off, then the account will be charged a termination fee.

# Discontinuing Service – Tenant

- If the account being closed is renter-occupied property, property owner is notified by letter that:
  - KC Water received a request to terminate the account and the date of request.
  - Account will revert to the property owner's name
  - Any service charges and usage will be billed to the property owner until such time there is a new accountholder at the service address.

# Change of Ownership

- KC Water does not process move-outs of owner-occupied properties until a new customer establishes service.
- Account closure dates reflect county records (recording date, per state statute).
- Accounts will be adjusted in the event of usage on their account post-close date.



# Reverting to Owner

- By default, an account will always revert to the owner if there is no tenant (including gaps between tenants).
- All real estate has a property owner who will be billed for service charges and stormwater fees until such time there is a new accountholder.
- New owner becomes accountholder on the day they assume ownership (per the property deed).

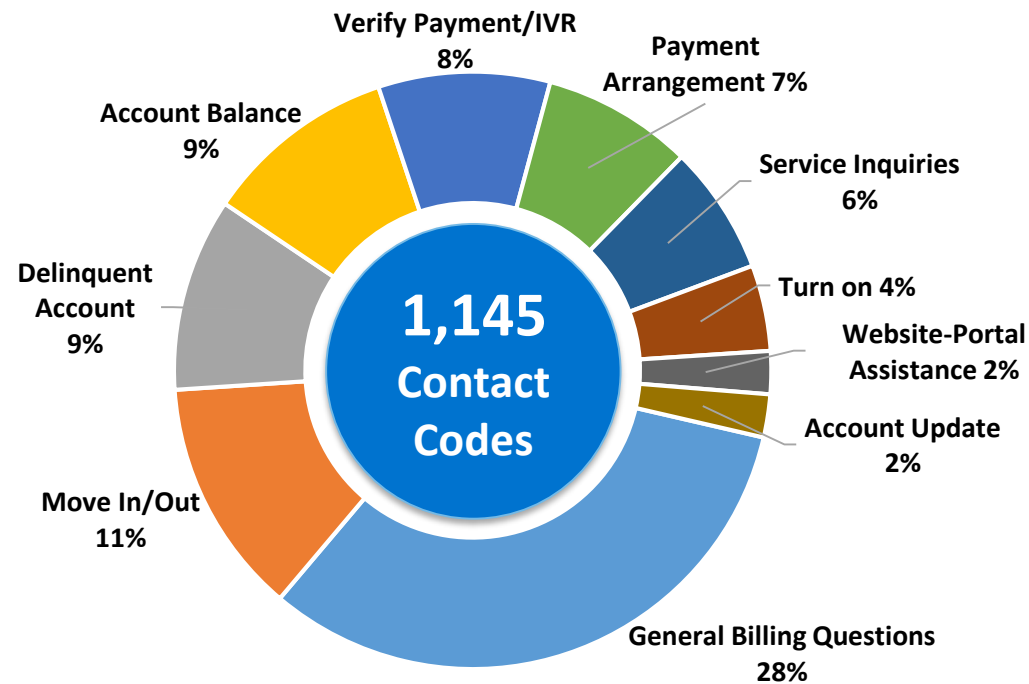
# Reverting to Owner (cont.)

- When a property is sold, KC Water must be notified of the new owner and the sale date so that the correct customer is billed for service charges and stormwater, plus any consumption of water or sewage generated.
  - Includes the transfer of owner-occupied real estate that is sold, or if the mortgage is foreclosed by the bank/mortgage company.
  - If there is not a transfer of ownership (property deed) associated with the foreclosure, the current owner will continue to be billed for consumption and/or service charges.
  - If an owner is evicted or forced to vacate their residence, KC Water may adjust service charges if appropriate documentation is provided.

# Contact Center Calls

- Measure daily call drivers to the Contact Center
- Sample from 11/4/16 shows 50% of calls are made up of:
  - General Billing
  - Move In/Out
  - Delinquent Account

**Top 10 Contact Codes for 11/4/2016**  
(% of total calls recorded)



# Contact Center Calls (cont.)

- Also measure other Customer Service metrics:
  - Number of calls
  - Call abandonment rate
  - Average handle time
  - Maximum time in queue
  - Service level
  - Quality assurance

# Water Utility Meter to Cash Cycle

- Manage customer account data
- Read meters
- Calculate consumption & manage rates
- Prepare & deliver bills
- Process & record payments
- Manage credit & collections
- Conduct general ledger & revenue analysis



## Cost of Service – How Does it Work?

# 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 functional cost categories
    - Base load or even rate of delivery throughout the year
    - Extra capacity to meet peaking needs (max day / max hour)
- Distribute Costs to the Customer Classes
- Design Rates
  - To meet your revenue requirements
  - To capture the necessary revenue from the appropriate customers

# Cost of Service Allocation is....

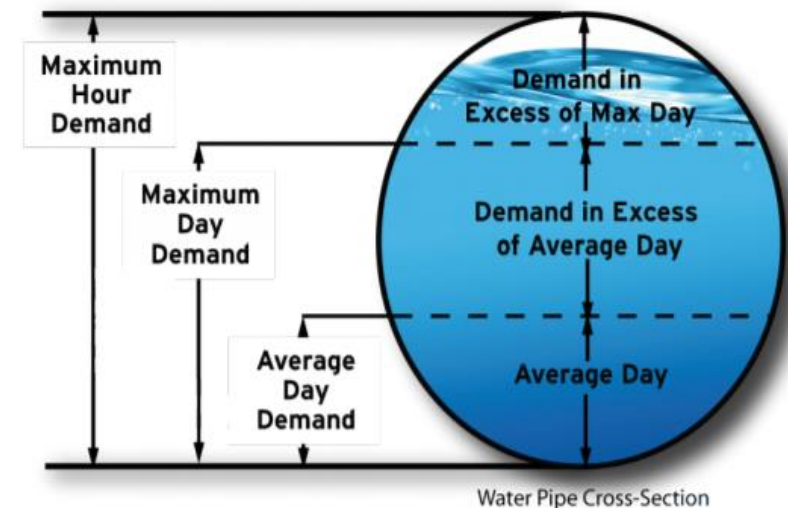
The detailed process of :

- Unbundling and grouping costs according to the utility function(s) which have the most significant impact on the magnitude of each cost item (cost-causative relationships)
- Estimating the service requirement of each type (class) of customer for each utility function
- Spreading unbundled costs among the customers based on use of each type of service



# Typical Cost-Causative Functions

- Annual volume of water used - base
- Peak daily rate of water use - maximum day extra capacity
- Peak hourly rate of water use - maximum hour extra capacity
- Number, size, and type of customer
- Direct to a class(es) of customers (i.e. fire protection)
- Wholesale Service vs. Retail Service



# Cost Allocation from FY2017 KC Water Cost of Service Study

## Comparison of Adjusted Cost of Service With Revenue Under Existing Rates Test Year 2017

Line No.		(1) Allocated Cost of Service \$	(2) Adjustments \$	(3) Adjusted Cost of Service \$	(4) Revenue Under Existing Rates \$	(5) Indicated Combined Revenue Increase (a) %
<b>Inside City</b>						
1	Residential	57,092,900	13,516,800	70,609,700	70,346,200	0.4
2	Small Commercial	48,685,300	11,526,200	60,211,500	57,444,700	4.8
3	City Services	13,603,400	(13,603,400)	0	0	
4	Seasonal Off Peak	1,125,700	266,500	1,392,200	1,274,000	9.3
5	Public Fire Protection	11,706,100	(11,706,100)	0	0	
6	Private Fire Protection	1,312,900	0	1,312,900	1,273,200	3.1
7	Total	133,526,300	0	133,526,300	130,338,100	2.4
<b>Outside City</b>						
8	Residential	577,800		577,800	714,000	(19.1)
9	Commercial	3,061,000		3,061,000	3,436,800	(10.9)
Wholesale - Unrestricted Usage						
10	No Repump	940,200		940,200	856,500	9.8
11	1st Repump	7,321,400		7,321,400	6,599,400	10.9
12	2nd Repump	1,043,800		1,043,800	911,700	14.5
Wholesale - Restricted Usage						
13	No Repump	432,200		432,200	395,400	9.3
14	1st Repump	8,724,100		8,724,100	7,917,600	10.2
15	2nd Repump	866,900		866,900	766,200	13.1
16	Total	22,967,400	0	22,967,400	21,597,600	6.3
17	Total	156,493,700	0	156,493,700	151,935,700	3.0

# Customer Class Functional Unit Cost of Service

***Functional Unit Cost of Service = Total Functional Cost ÷ Total Units of Service***

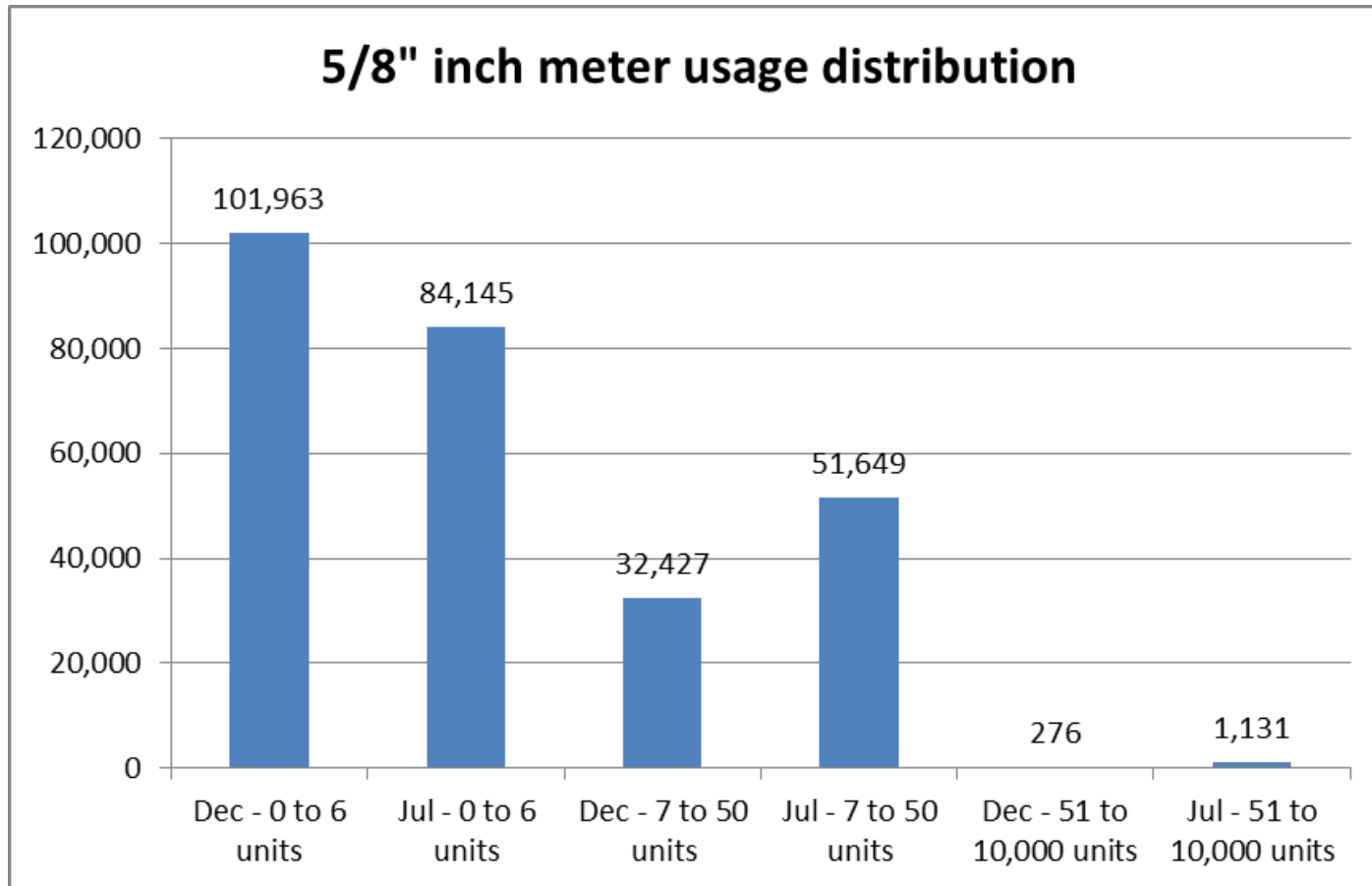
FUNCTIONAL COST	UNITS OF SERVICE
Base Costs	Annual Water Purchased Volume
Maximum Day, Extra Capacity Costs	Maximum Day Demand
Maximum Hour, Extra Capacity Costs	Maximum Hour Demand
Meter Costs	Equivalent Meters
Meter Reading, Billing, Collection, Customer Accounting, Administration Costs	Equivalent Bills



# October Meeting Follow-up

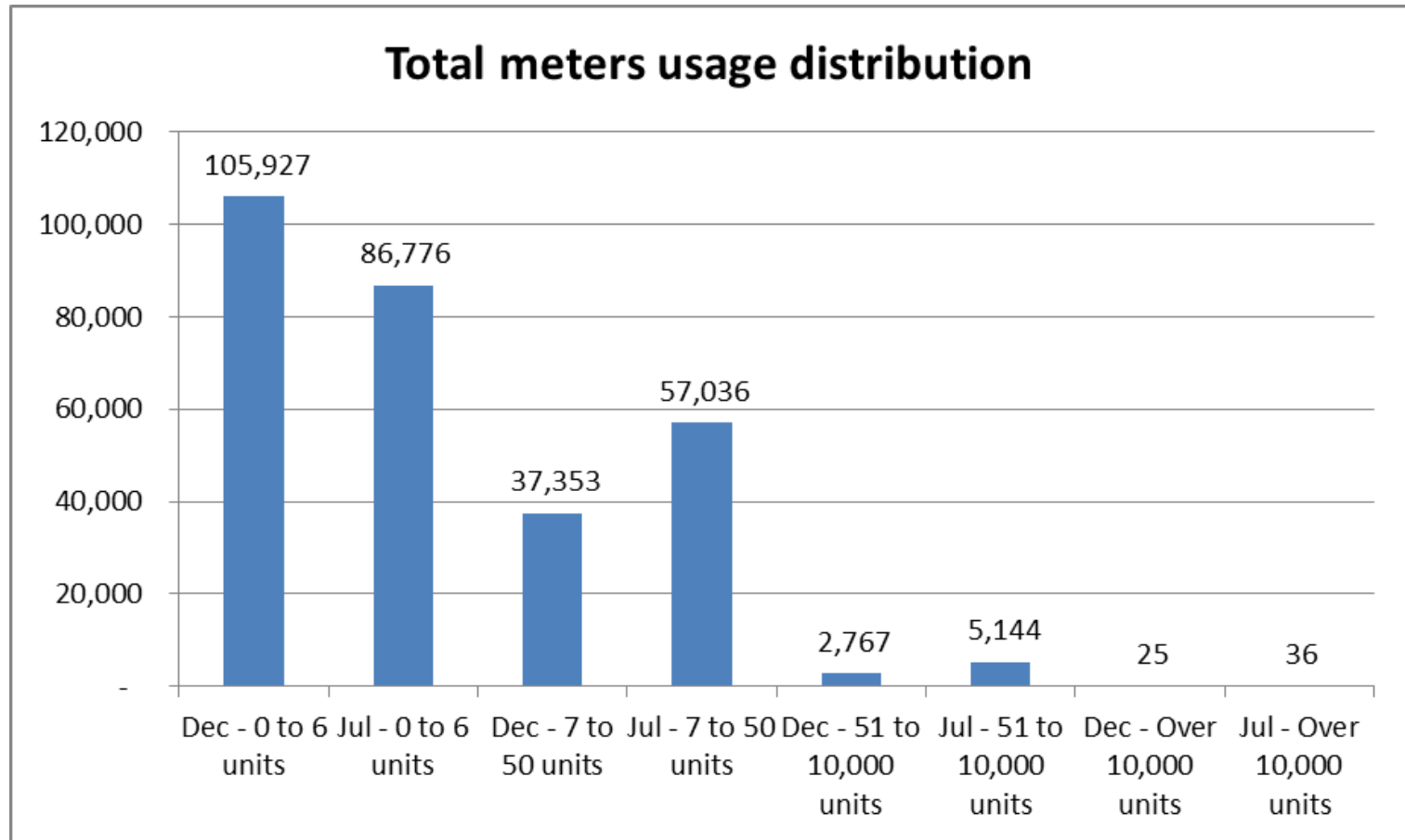
# 5/8" Meter Distribution

## December 2015 vs July 2016



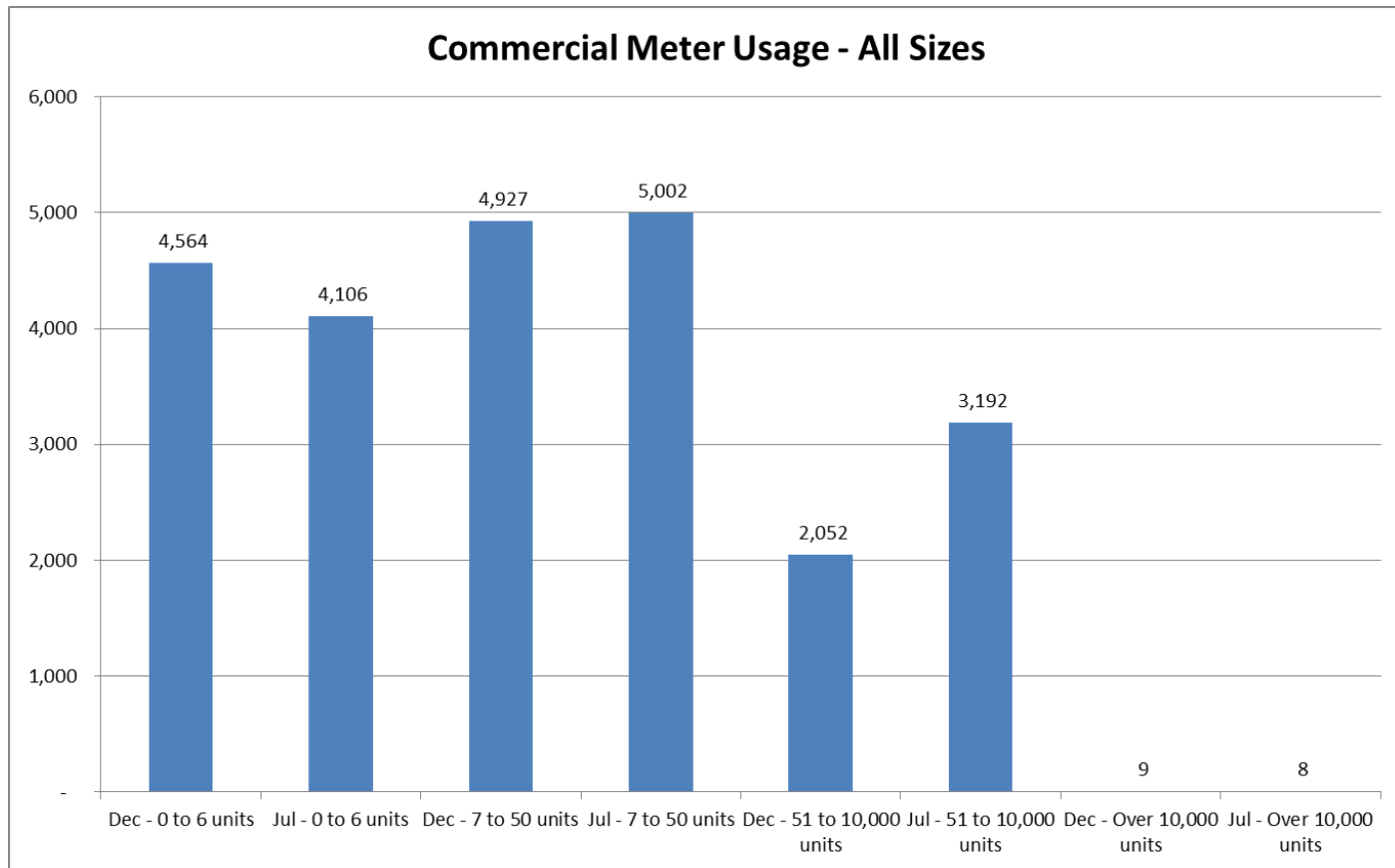
# Total Meter Distribution

## December 2015 vs July 2016



# Commercial Meters

## December 2015 vs July 2016



# Premise Based Billing

## Lessons Learned – Denver Water

- Provide bills to both the landlord and tenant
- Be clear with landlord/tenant communities that jurisdiction is solely to the water billed and paid (can't shut off water because tenant hasn't paid rent)
- Promptly shutoff unpaid water
- Notify the owner anytime there is a name change to an account (can prevent squatters)
- Consider offering free water audits (check for leaks)



# Bad Debt - How does KC Water compare to other water utilities?

- Water utility bad debt
- Opportunity for KC Water

	KC Water	Denver Water	Nashville Metro Water Services	City of Atlanta Watershed Management	Louisville Water
<b>BAD DEBT</b>	3.5%	0.5%	1.2%	2.0%	0.4%
<b>REVENUE</b>	\$150.6 Million	\$252 Million	\$208 Million	\$190 Million	\$166 Million

# Deposit vs. Advanced Payment

- KC Water deposit process
  - Don't turn water off between accounts
  - First bill has amount plus deposit
  - Customer doesn't pay deposit
- KC Water's billing system does not handle deposits well



# Public Comment



# Recommendations

# Premised Based Billing – 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.

# Premised Based Billing – Pros/Cons

Pros	Cons
<p>Premise based billing – reduce cost for shut off; revenue stability; utility costs are incorporated in rent; fixed charge could be the landlord responsibility and commodity charge could be tenant responsibility based upon usage; may encourage landlords to make upgrades to the efficiency; landlords wouldn't need to worry about on/off of service;</p>	<p>Landlords will not be supportive – the portal could let them see what is being spent.</p> <p>Tenant should be responsible for water &amp; wastewater – not stormwater.</p> <p>Is it difficult to get absentee landlords to be responsible?</p> <p>Consumer always pays – trying to reduce bad debt – who is on the hook is the policy decision – it is an allocation of risk – landlord has to participate in risk.</p>
<p>Enhanced collections eliminate the incentive to skip out of bill.</p>	

# Premised Based Billing – Pros/Cons

Pros	Cons
Advance Payment – deposits & credit checks.	Credit checks can be time consuming and costly in terms of staffing. Have to have social security number to streamline this.
Low income utility assistance program could be used for advance payment – keep stability for family	Deposit– have to be able to track in a separate account and refund – wouldn't do that on advance payment.
Bond for absentee landlords and if non-payment on that address, charge against the bond.	May be difficult to require social security number for immigrants. You could require DL number. Don't have to require it and refuse service.
Lien on property	Doesn't collect until property is sold unless you have the authority to collect on the property tax bill.

# Premised Based Billing – Pros/Cons

Pros	Cons
Landlord responsible for payment	Why should landlords be responsible for tenants – don't do this for electricity or gas. Water service is providing fire protection and there is cost to serve even if there is no usage.
Continuation of service agreement – goes with premise based billing	
Fixed cost – responsibility of landlord can build into rent. Usage should be born by the tenant.	



# Recommendations – Reduce Bad Debt

**Do we want to tie the account to the property owner or designated agent?**

## **IF YES**

**Should we have a portal for tenants and/or landlords?**

## **IF NO**

**Do we want to require advanced payment?**

**Do we want to implement an on/off service charge?**

# Recommendations - Rate Structures

- Rate structures
  - Uniform
  - Inclining
  - Declining
  - Seasonal
  - Combination Inclining/Declining



# Task Force Discussion

# Anticipated Schedule

Date	Topics
<b>September 2016</b>	<ul style="list-style-type: none"> <li>Guiding Principles &amp; Task Force Charge</li> </ul>
<b>October 2016</b>	<ul style="list-style-type: none"> <li>Reduce Expenses Introduction &amp; Discussion</li> <li>Rate Structures – Introduction</li> </ul>
<b>November 2016</b>	<ul style="list-style-type: none"> <li>Reducing Expense Recommendations</li> <li>Rate Structure Recommendations</li> <li>Other Sources of Revenue – Introduction</li> </ul>
<b>December 2016</b>	<ul style="list-style-type: none"> <li>Other Sources of Revenue Recommendation</li> <li>Wastewater Utility Funding</li> <li>OCP Discussion</li> </ul>
<b>January 2017</b>	<ul style="list-style-type: none"> <li>Model Options – Hilltop Securities (formerly First Southwest)</li> <li>Public hearing</li> </ul>
<b>February 2017</b>	<ul style="list-style-type: none"> <li>Consider public input and finalize recommendations</li> </ul>
<b>March 2017</b>	<ul style="list-style-type: none"> <li>Finalize recommendations</li> </ul>



Meeting Adjourned