

MARCH 7, 2017

KC Water Cost of Service Task Force

Meeting #10



Agenda

- Findings and Recommendations Recap
- Customer Assistance
- System Development Charges
- Adjusting Rates to Cover Costs
 - Irrigation Charge
- Public Comment & Task Force Discussion



Findings & Recommendations Recap

Recommendations

Guiding Principles

Change the Rate Structure

- The Task Force recommends no modifications to the existing rate structure, currently a declining block with lifeline rate. The lowest block in the tiered rate structure is the “lifeline” rate which is applied to all customers.

Advance Payment

- KC Water should institute an Advance Payment policy for new customers before turn-on in order to build greater financial stability.

Task Force Findings

Our community wants to meet our environmental obligations to protect clean water using an adaptive approach.

We are concerned that the OCP is unaffordable for our community now and as currently planned, is not sustainable for future generations regardless of the timeframe.

Task Force Findings

The impact of rates as a percent of median household income is only one of a number of factors that makes the current plan unaffordable.

- Real life ratepayer burden begins well before we reach the MHI burdens highlighted in EPA guidance.
- Our rates project to exceed 2% of median household income for sewer and 4% of median household income for sewer + water.
 - Median household income growth has been flat (0.5% per year) from 2009 to 2015.
 - Increasing rates have resulted in reduced consumption, further driving rate increases to make up the difference.

Task Force Findings

The current forecast of rate increases represents a heavy burden for our community.

- Increasing rates will dramatically add to economic hardship experienced by low-income households and “communities of concern”.
 - There is an increase in the poverty rate and declining population in the communities of concern.
 - For households with incomes below \$25,000, the FY2016 sewer rate burden was on average 4.7% of MHI.

Task Force Findings

Continued...

- Missouri's Hancock Amendment restricts the use of revenues from rates for low-income assistance.
- Since 2008, household costs have increased 4 times more than the growth of the median household income
- High rates deter economic expansion and new business attraction.

Task Force Findings

The OCP program is designed to be adaptive and six years into program implementation, we know more about what is effective and we can use this knowledge to:

- Better maximize the use of the existing infrastructure
- Tighten our existing system
- Reduce large-scale capital projects

Task Force Findings

In the long-term, OCP includes projects that may not be necessary to meet water quality performance criteria.

- The amount of storage needed in the Middle Blue basin will be substantially less due to the loss of Johnson County Wastewater as a customer.
- Kansas City is a national leader promoting green solutions in an effort to sustainably control sewer overflows and reduce environmental impacts from urban stormwater. More time is needed to determine the socio-economic benefits of green infrastructure and to determine how it can reduce the scale of gray infrastructure.

Recommendations

Consent Decree Modification:

- *KC Water should:*
 - *Seek modification to the Consent Decree because the current plan is not affordable for our community now and as currently planned, is not sustainable for future generations regardless of the timeframe.*
 - *Focus on rehabilitating or replacing existing infrastructure.*

Recommendations

Consent Decree Modification (cont'd):

- *KC Water should:*
 - *Develop a revised plan that balances environmental and community needs.*
 - *Develop a revised plan which examines and addresses multiple infrastructure needs.*
 - *Evaluate the use of smart technologies as part of a Consent Decree modification to reduce costs and find efficiencies.*

Recommendations

Consent Decree Modification (cont'd):

- *KC Water should periodically evaluate and adjust the OCP plan to:*
 - *Address growing City and community needs*
 - *Incorporate new data and technologies*
 - *Ensure that the plan delivers the greatest benefit with each public dollar spent*

Upcoming Topics

April

Paying for Stormwater Programs with General Fund

Use Some Stormwater Fees to Partially Fund OCP Capital

Levee Maintenance Districts

Sales Tax or Property Tax for Capital

Stormwater Fee Increase

Special Assessment & Taxing Districts

May

Draft Recommendations Presentation

Public Hearing

June

Finalize Recommendations



Customer Assistance

Customer Assistance Program

- Partnership with the Mid America Assistance Coalition
- Helps customers who are unable to pay their water bills
- Committed \$2 million in funds since 2009
 - \$400,000 for FY18
- More than 6,100 customers assisted
- Funded by existing customer late fees



*Customer Assistance
Program Information Line:
2-1-1 or 816-474-5112*

Customer Assistance Criteria

- Income at or below 185% of the 2017 U.S. Poverty Guidelines for the 48 contiguous states published by the Department of Health & Human Services.
 - Currently \$37,777 for family of 3.¹
- Must be an active Kansas City, Missouri Water Services Department (KC Water) customer.
- Customer account number must be captured and recorded for the client.
- Resident of Kansas City, Missouri.

¹ Source: Department of Health & Human Services <https://aspe.hhs.gov/poverty-guidelines>

Customer Assistance Criteria, cont.

- Program assistance is for KC Water water, wastewater and stormwater bills.
- Eligible applicant can receive a maximum of \$500.00 in program assistance within a rolling 12 month period.
- Program assistance may be used for a current KC Water bill or a payment under a KC Water settlement.
- Applicant must have made a payment from personal funds on the KC Water bill for which applicant is seeking help within 90 days of the date of application.

Customer Assistance, cont.

- 28% of all water utilities in the U.S. offer customer assistance support to their ratepayers. ¹
- In 2016, KC Water turned away 318 customers who requested customer assistance.

¹ Source: U.S. Environmental Protection Agency's "Drinking Water and Wastewater Utility Customer Assistance Programs" report, April 2016: https://www.epa.gov/sites/production/files/2016-04/documents/dw-ww_utilities_cap_combined_508-front2.pdf

Recommendations –Customer Assistance

- Should KC Water continue the amount of non-rate revenue dollars to the existing customer assistance program going forward?
 - Program options limited by the Hancock Amendment
 - Cannot use rates from customers
 - Could use tax dollars

Recommendations –Customer Assistance

- Should KC Water support the development of state or federally-funded programs aimed to assist customers with their bills?
 - Federally funded programs under consideration:
 - Water Resources Development Act (WRDA)
 - Water Rate Payers Assistance Program (WRAP)
 - To be introduced in current Congress
 - Should this program be on the City's list of federal priorities?

Federal Funding

Programs currently under consideration:

- WRAP – Water Ratepayer Assistance Program
 - Similar to the federal Low Income Home Energy Assistance Program (LIHEAP) which assists low income households in affording residential energy bills and energy-related repairs.
- Federal support is appropriate since many of the clean water investments are necessary to meet federal Clean Water Act mandates

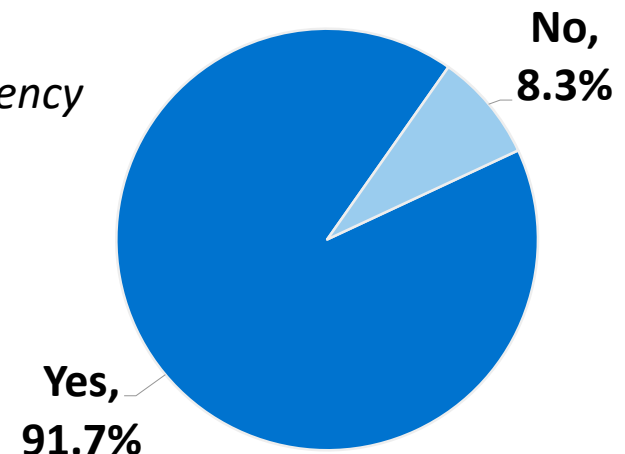
Customer Assistance

- Should KC Water explore a program for water efficiency to keep costs down for customers?
- 45% of ratepayers are renters
- Who benefits? Owners/landlords or renters?

February 2017 Pre Task Force Questionnaire:

Should KC Water explore a program for water efficiency to keep costs down for low-income households?

Answer Options	Response Percent	Response Count
Yes	91.7%	11
No	8.3%	1





System Development Charges

Introduction and Background

- One-time charge for incremental capacity being added to the utility system
- Current Policy: New capacity is funded from current customers (no system development charges)
- Proposed System Development Charge: Growth would pay for itself using a one-time charge to builders and developers
- 2008 Task Force provided recommendations not implemented due to economic downturn.

Local City Examples

	Water SDC	Sewer SDC	Total SDC Charges
Lee's Summit	\$3,715	\$30	\$3,745
Johnson County, KS	\$5,560	\$4,400	\$9,960
Olathe	\$4,300	\$4,800	\$9,100
Liberty	\$2,225	\$925	\$3,150

**Smallest Residential Connection*

Large Midwestern City Examples

	Water SDC	Sewer SDC	Total SDC Charges
Indianapolis	\$1,200	\$2,500	\$3,700
Cincinnati	\$3,210	\$3,363	\$6,573
Louisville	\$30,500	\$4,600	\$35,100

**Smallest Residential Connection*

Other City Examples

	2015 Population ¹	Water SDC	Sewer SDC	Total SDC Charges
Boulder, CO	103,919	\$11,467	\$4,473	\$15,940
Lexington, KY ²	314,488	\$1,280	\$625	\$1,905
Columbia, MO	115,391	\$576	\$2,000	\$2,576
Lincoln, NE	269,726	\$829	\$210	\$1,039
Norman, OK	117,353	\$3,275	\$934	\$4,209
Austin, TX	887,061	\$5,400	\$2,200	\$7,600
College Station, TX	101,141	\$2,500	\$1,700	\$4,200

**Smallest Residential Connection*

Impact on Rates

- There will be some reduction of rates the year SDCs are implemented, but it depends on growth.
- All rate projections to date have assumed 0.5% system growth.

Example

- If an average residential SDC was \$1,000 and 1,000 housing units were built in Kansas City, the SDC would generate \$1 million.
- With 170,000 water customers, the additional \$1 million in revenue would reduce the bill by \$6/year per account.

Recommendations Discussion

Should KC Water charge a System Development Charge to fund system expansion or for upsizing of the system for new development?

2008 Task Force Recommendations

Recommendations not implemented due to economic downturn.

“The Task Force supports using system development charges for new development because:

- ☐ *SDCs support growth paying for growth.*
- ☐ *SDCs may encourage infill development and discourage sprawl.*
- ☐ *SDCs are used by a number of cities in the metropolitan area, so losing competitiveness is not an issue.”*

2008 Task Force Recommendations, cont.

“System development charges cannot be used to correct existing system deficiencies or fund maintenance and operations.

System development charges should be reduced or eliminated for infill development.

The Task Force recommends phasing in System Development Charges over three years and that charges be reviewed at least every two years.”

2008 Recommended Water System Development Charges

Proposed in 2008.
Not implemented

Meter Capacity			
Meter Size	GPM	Equivalent Meter Ratio	SDC
5/8 and 3/4 inch	30	1.0	\$2,855
1-inch	50	1.7	\$4,759
1 1/2-inch	100	3.3	\$9,518
2-inch	160	5.3	\$15,229
3-inch	300	10.0	\$28,555
4-inch	500	16.7	\$47,591
6-inch	1,000	33.3	\$95,182
8-inch	1,600	53.3	\$152,291
10-inch	2,300	76.7	\$218,918
12-inch	3,300	110.0	\$314,100

2008 Recommended Sewer System Development Charges

Proposed in 2008.
Not implemented

Description	Equivalent Residential Unit (ERU)	SDC
Residential (per dwelling unit)		
Single-family	1.0	\$2,270
Multi-family	0.7	\$1,543
<u>Non-Residential (by water meter size)</u>		
5/8 and 3/4 inch	1.0	\$2,270
1-inch	3.0	\$6,809
1 1/2-inch	8.0	\$18,157
2-inch	16.0	\$36,314
<u>High-Volume Dischargers (by estimated metered water use)</u>		
Fee per gallons per day Metered Water Use (\$ per gallon)		\$14.57

2008 Recommended Stormwater System Development Charges

Proposed in 2008.
Not implemented

Land Use Description	Rate (\$/Parcel Acre)
Open Space	\$368
Community Facilities	\$4,902
Elementary, Junior & Senior High Schools	\$4,902
Commercial	\$10,417
Governmental Facilities	\$10,417
Regional Commercial	\$10,417
Industrial	\$10,417
Base Rate	\$12,255

Residential Land Uses	Rate (\$/Parcel Acre)	\$ Per Dwelling Unit
Low-Density Residential	\$2,451	\$817
Medium-Density Residential	\$4,289	\$703
High-Density Residential	\$4,902	\$409



Adjusting Rates to Cover Costs

Adjusting Rates - Irrigation

Improving Cost Recovery

- Should KC Water charge an irrigation only fee to better recoup the peak demand costs?

Cost of Service – Existing Water Rates

	Adjusted Cost of Service	Revenue Under Existing Rates	Revenue Under Proposed Rates	Indicated Combined Revenue Increase
Inside City				
Residential	\$71,680,100	\$71,079,800	\$71,566,600	0.7%
Commercial/Industrial	\$57,155,400	\$58,194,700	\$59,234,100	1.8%
Seasonal Off Peak	\$1,248,900	\$1,254,200	\$1,262,700	0.7%
Private Fire Protection	\$1,074,300	\$1,116,000	\$1,116,000	0.0%
Total Inside	\$131,158,700	\$131,644,700	\$133,179,400	1.2%
Outside City				
Residential	\$736,500	\$722,700	\$728,800	0.8%
Commercial/Industrial	\$3,857,600	\$3,760,300	\$3,824,200	1.7%
Private Fire Protection	\$6,900	\$8,900	\$8,900	0.0%
Wholesale - Unrestricted Usage				
No Repump	\$773,200	\$693,000	\$698,800	0.8%
1st Repump	\$7,155,800	\$6,457,500	\$6,509,400	0.8%
2nd Repump	\$2,018,500	\$1,809,300	\$1,823,500	0.8%
Wholesale - Restricted Usage				
No repump	\$440,200	\$395,000	\$398,500	0.9%
1st Repump	\$8,520,300	\$7,718,000	\$7,782,000	0.8%
2nd Repump	\$805,000	\$724,300	\$730,100	0.8%
Total Outside	\$24,314,000	\$22,289,000	\$22,504,200	1.0%
Total	\$155,472,700	\$153,933,700	\$155,683,600	1.1%

Irrigation-Only Rates

- Certain customers use water only in summer, only at peak usage
 - Golf courses, nurseries, athletic fields, community gardens
- No sewer bill
- Customer behavior requires infrastructure sized to meet peaks
- Irrigation rates allocate these costs and assign them to the demand on the utility

Louisville Water Company (LWC)

- Accounts embedded in each customer class with zero sewage charge (indicating likely summer water usage)
- Customers skew peaking for each customer class
- Recommended own demand factors and rates
- 2009: Began the process of identifying all irrigation accounts and reclassifying, as needed
- 2011: LWC adopted an irrigation rate.
- 2017: Irrigation rate was \$4.13 per 1,000 gallons vs. \$2.17 per 1,000 gallons (highest tier) for regular water use.

Recommendations Discussion

Should KC Water charge an irrigation only fee to better recoup the peak demand costs?



Public Comment & Task Force Discussion



Next Meeting & Adjournment

Next Meeting

Tuesday, April 11, 2017

4:00-7:00 PM

South Patrol Police Station

9701 Marion Park Dr., Kansas City, MO 64137

April

Paying for Stormwater Programs with General Fund

Use Some Stormwater Fees to Partially Fund OCP Capital

Levee Maintenance Districts

Sales Tax or Property Tax for Capital

Stormwater Fee Increase

Special Assessment & Taxing Districts