

APRIL 18, 2017

KC Water Cost of Service Task Force

Meeting #11



Agenda

- Review Findings, Recommendations & Agenda
- Stormwater Program Current Revenue & Needs
- Stormwater Program Funding Options
- Levee Districts
- Task Force Discussion: Funding Stormwater
- Funding for the Overflow Control Program
- Task Force Discussion: Using Other Sources of Revenue for OCP
- Public Comment



Review Findings, Recommendations & Agenda

Recommendations:

Customer Assistance

KC Water should use non-rate revenue for low-income customer assistance, community gardens, water efficiency and other programs that bring value to the community. Non-rate revenue not spent on these programs annually can be used for rate relief for all ratepayers.

KC Water should modify the current Customer Assistance program by lowering the maximum amount distributed to an individual customer in order to help as many customers as possible.

Recommendations:

Customer Assistance, cont.

KC Water should use non-rate revenue to leverage funds from outside sources to maximize benefits to customers.

KC Water should target leak detection and water efficiency repair resources with customer assistance for low-income households to help conserve usage.

KC Water should add support for federal and state low-income assistance programs to the City's federal priorities agenda.

Recommendations: System Development Charges

The cost of extending services to new developments should not be born by existing ratepayers.

System Development Charges should be competitive with housing prices in the region.

Task Force Discussion: Irrigation Rates

Task Force **did not** recommend implementing an irrigation fee structure

- Concern raised about chasing off high-volume users.
- Administrative costs could outweigh incremental benefit to rest of the ratepayer base.
- Concern raised over costs to community gardens.

Upcoming Meetings

May 9th – 4:00-7:00 PM
Bruce R. Watkins Cultural
Heritage Center

Draft Recommendations Presentation

Public Hearing

June 6th – 4:00-7:00 PM
Southeast Community Center

Finalize Recommendations



Stormwater Program Current Revenue & Needs

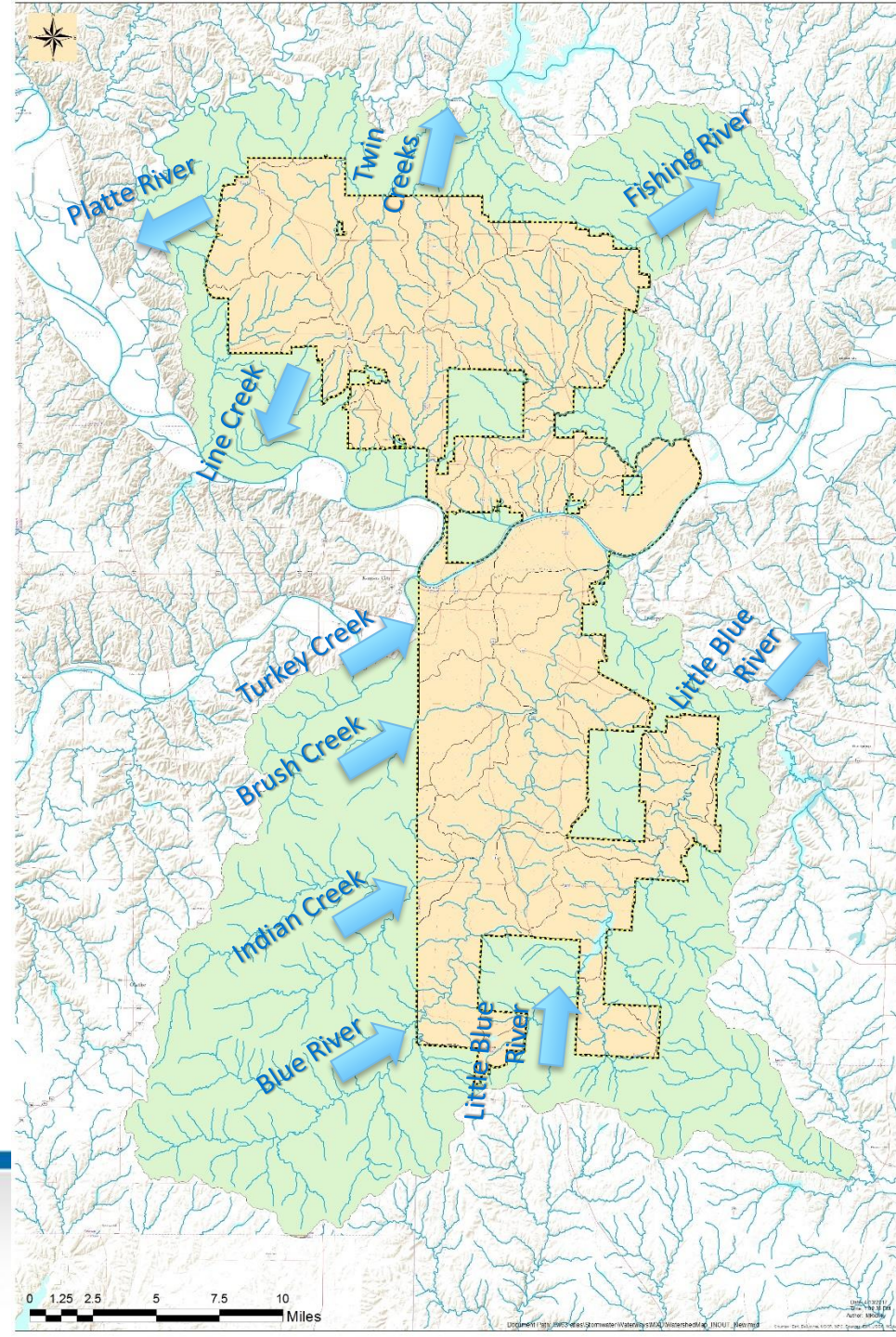
Stormwater Utility Contributing Areas

Northland

- Waterways tend to flow out of KCMO service area

Southland

- Waterways tend to flow into KCMO service area



STORMWATER

ROOF RUNOFF

LAWN RUNOFF

FERTILIZER

PET WASTE

MOTOR OIL

STREET RUNOFF



How Stormwater Relates to Wastewater – Separate Sewer System



How Stormwater Relates to Wastewater – Combined Sewer System



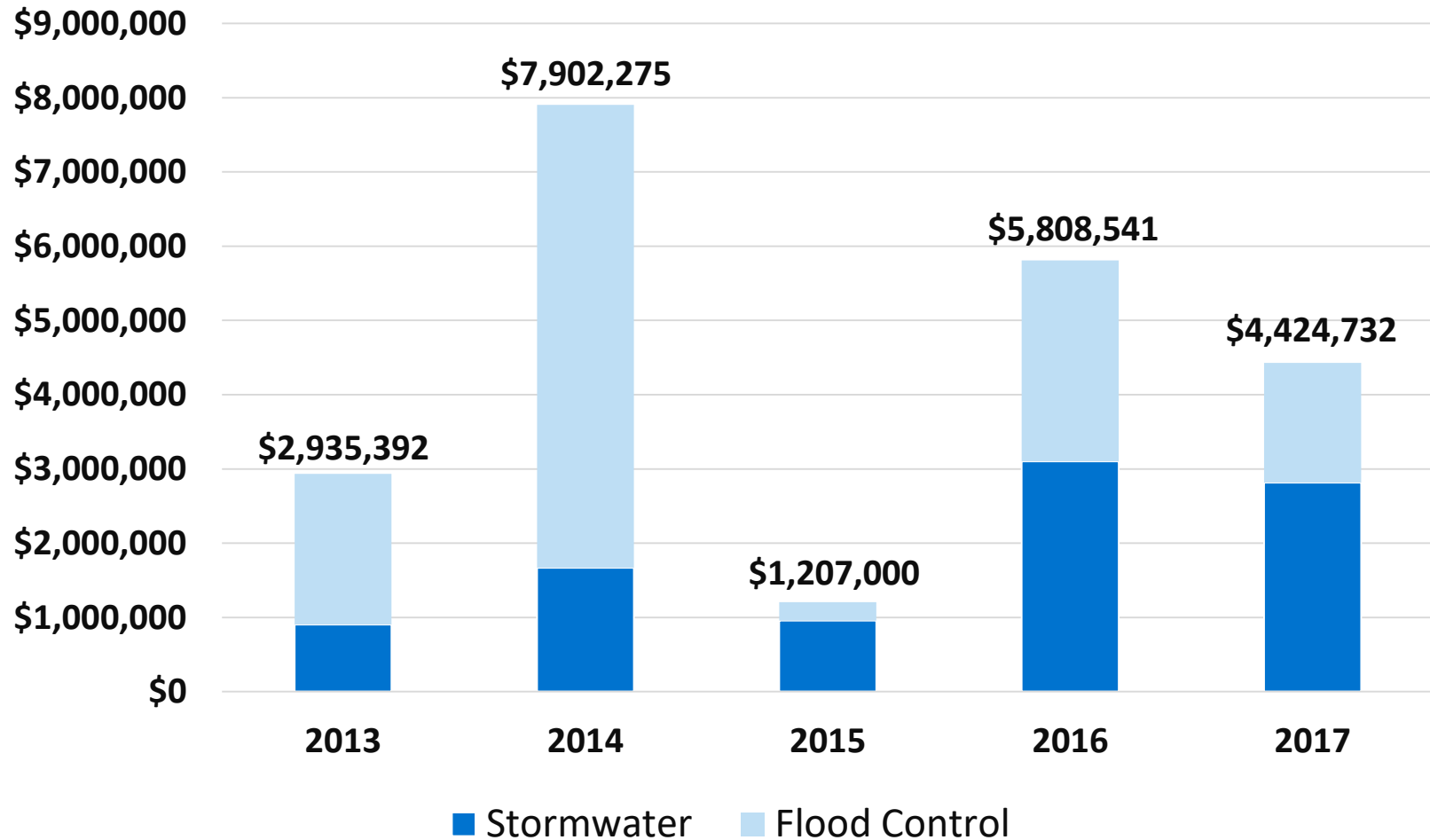
Stormwater Utility Snapshot

- 630 Miles of Storm Sewer
- 53,000 Storm Inlets
- 15 Stormwater Pump Stations
- 13.5 Miles of Levee (3rd Largest Levee System in U.S.)
- Stormwater Fee has remained unchanged since FY2003

Stormwater Recap

- Overview of Stormwater utility provided at June 14th, 2016 Task Force meeting.
- Historically Stormwater has been running an operating deficit with the difference being covered by cash reserves.
 - FY2017 projections show a deficit of (\$4.7M) compared to (\$4.2M) for FY2016
- Services provided have increased over time.
- Capital needs are significant
- Currently, capital comes from PIAC funding.
 - FY2017 PIAC budget of \$4.4M

Stormwater PLAC Funding

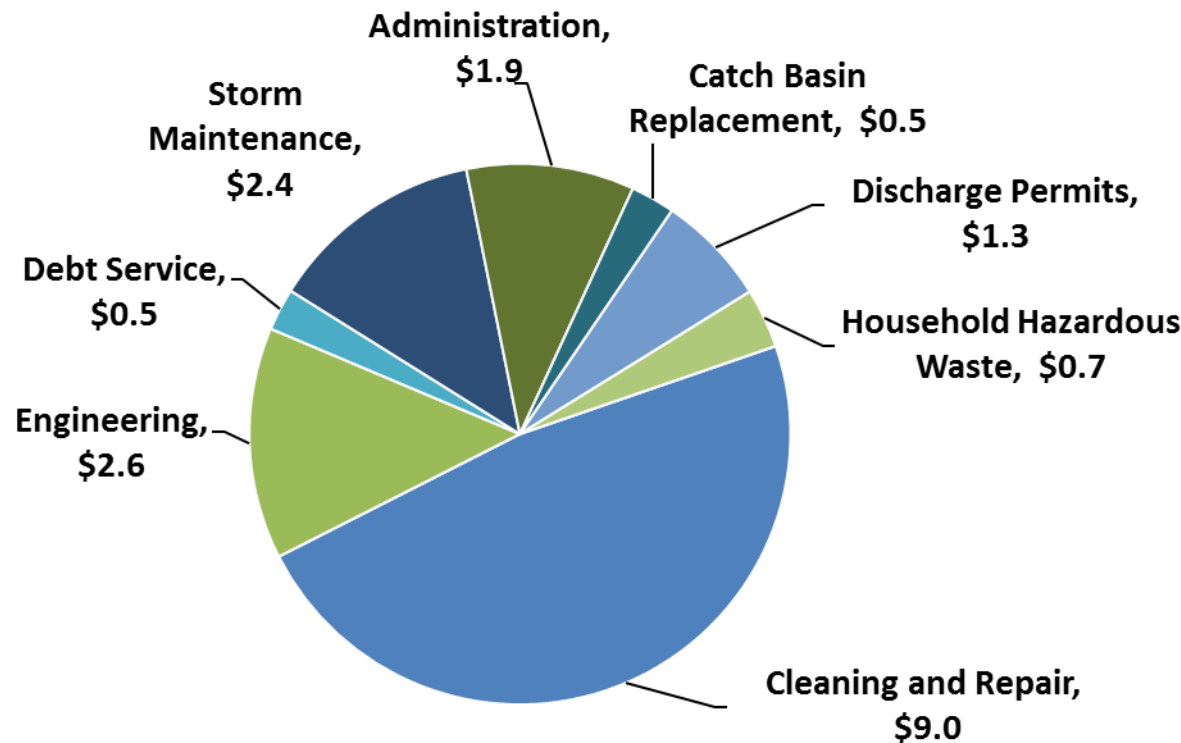


Stormwater Utility Budget

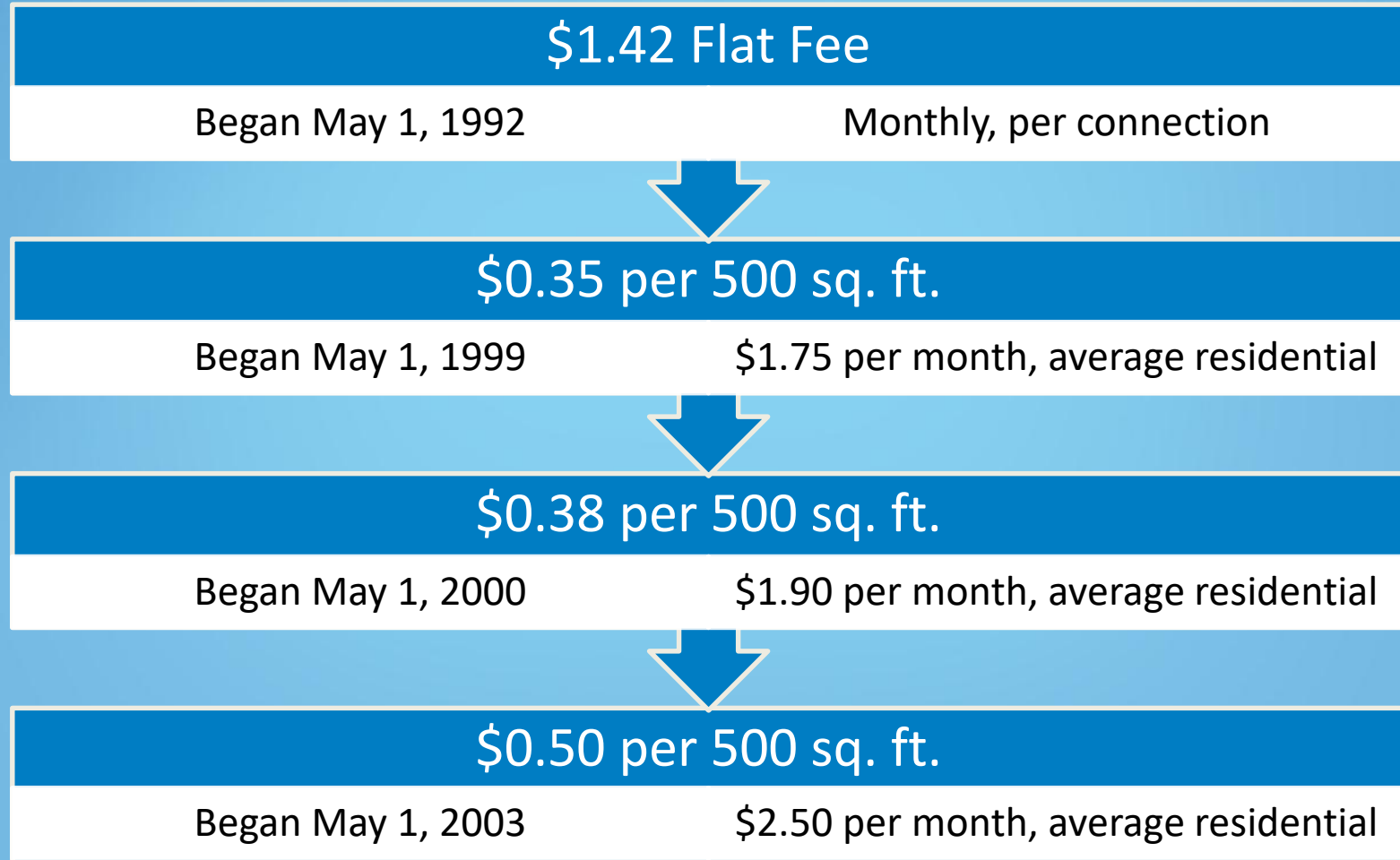
<u>Category</u>	<u>Amount</u>
Cleaning and Repair	\$9,024,584
Engineering	\$2,616,549
Debt Service	\$476,877
Storm Maintenance	\$2,440,368
Administration	\$1,896,384
Catch Basin Replacement	\$500,000
Discharge Permits	\$1,257,763
Household Hazardous Waste	\$671,155

Total **\$18,883,680**

**FY2017 Stormwater Utility Budget
(in millions)**



History of the Residential Stormwater Fee



KC-One – Comprehensive Citywide Stormwater Management Plan (2010)

- Part of Wet Weather Solutions Program
- Established priorities
- Evaluated options to fund Stormwater going forward including:
 - Increasing the Stormwater fee
 - Implementing a Stormwater sales tax
 - State and Federal grant funding
 - System Development Charges

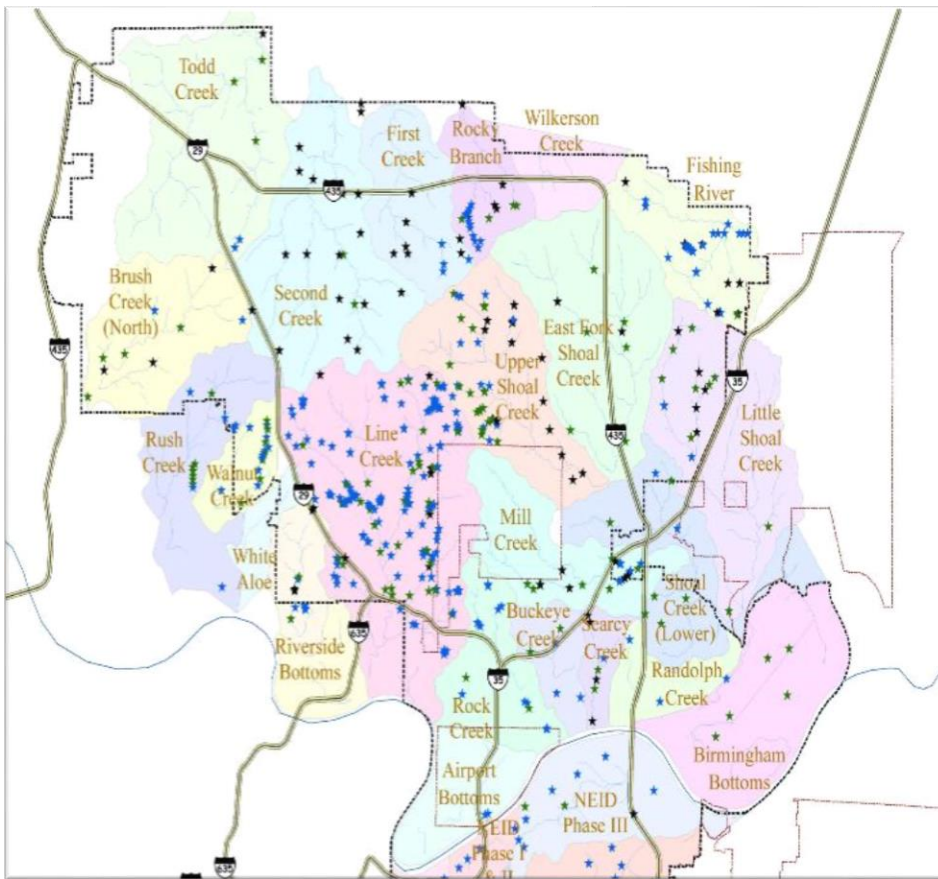
KC-One – Comprehensive Citywide Stormwater Management Plan (2010)

- Identified need of \$2.0 Billion in long term capital funding (2010 dollars)

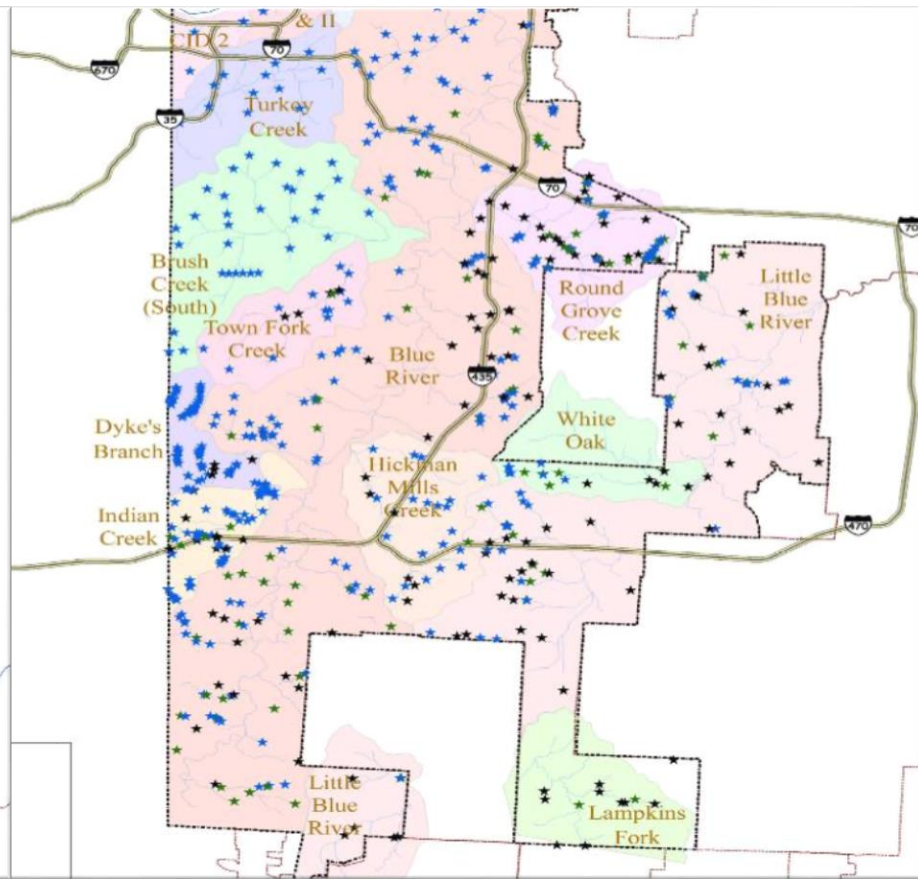
Source: KC-One City-Wide Comprehensive Stormwater Management Plan Executive Summary, April 2010

KC-One Recommended Project Locations

North of the Missouri River



South of the Missouri River



Historical Stormwater Operations

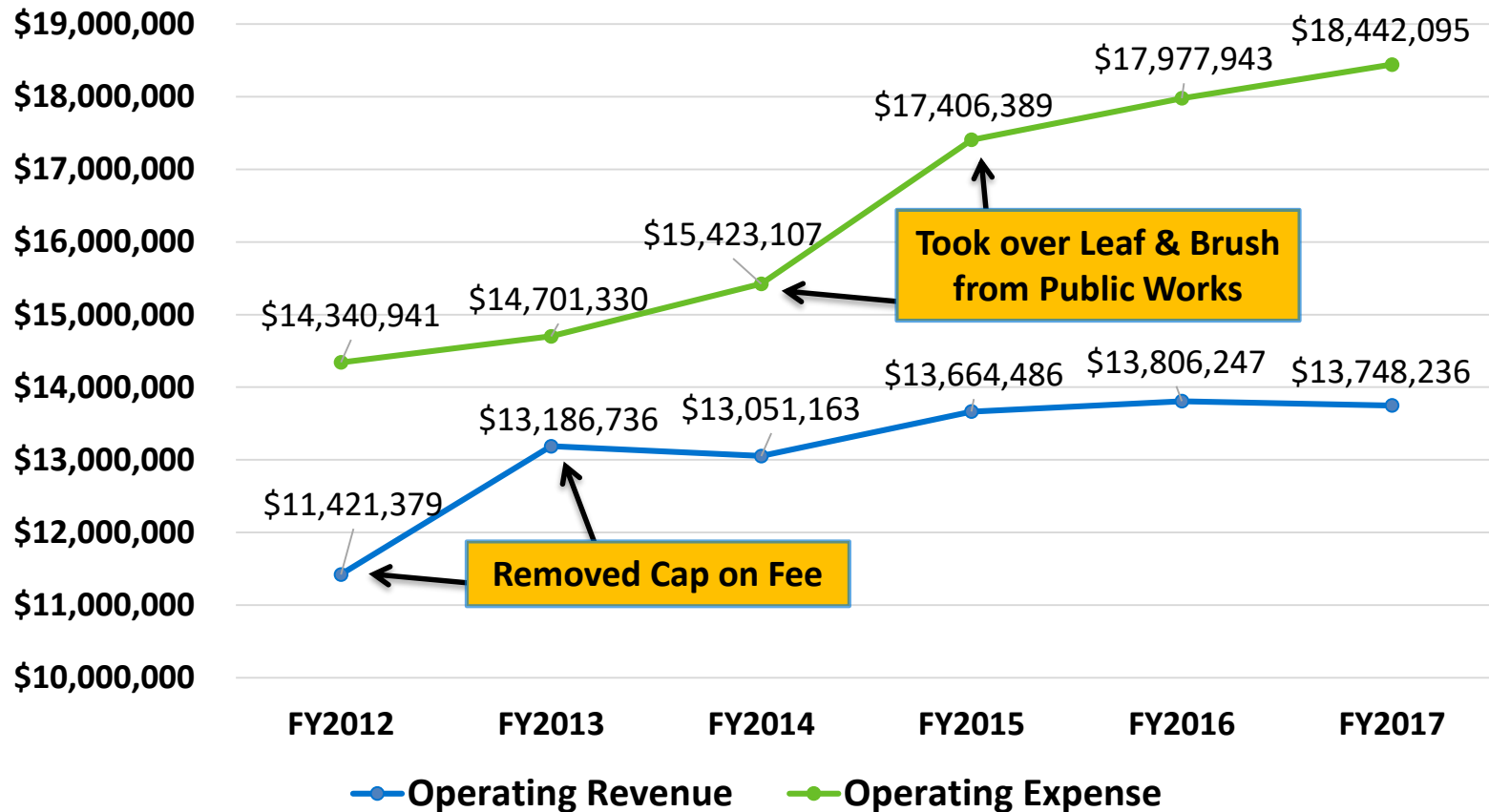
	Total Operating Revenues	Total Operating Expenses	Operating Income
FY2012	\$11,421,379	\$14,340,941	(\$2,919,562)
FY2013	\$13,186,736	\$14,701,330	(\$1,514,594)
FY2014	\$13,051,163	\$15,423,107	(\$2,371,944)
FY2015	\$13,664,486	\$17,406,389	(\$3,741,903)
FY2016	\$13,806,247	\$17,977,943	(\$4,171,696)
FY2017	\$13,748,236	\$18,442,095	(\$4,693,859)

Notes:

**Projected for FY2017 based on actuals through January 2017 (9 months).*

Operating Revenue vs. Operating Expense

KC Water Stormwater Financial Information FY2012-FY2017



Stormwater Challenges

- Needs have increased over time
 - Expectation of meeting state and federal water quality standards
 - Aging infrastructure has exceeded useful life
 - 17% of an estimated 900 miles of storm pipe is beyond its useful life.
 - Reinforced Concrete Pipe has a useful life of 100 years
 - Corrugated Steel Pipe has a useful life of 25 years
- Voters have to approve increase in fee
- Capital improvements funded using sales tax revenues under PIAC

Issue: *How should Kansas City fund Stormwater in the future?*

Westport - 2013



Westport – August 2016





Stormwater Program Funding Options

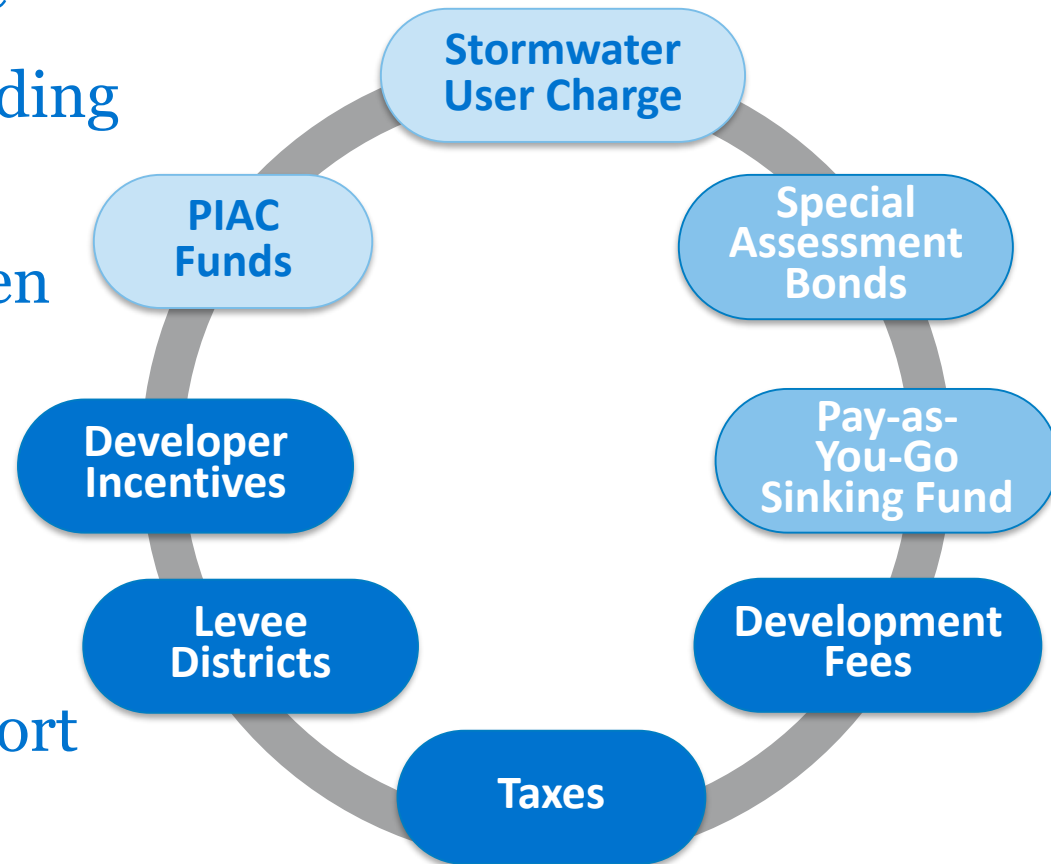
Defining an Achievable *Level of Service* Will Drive the Needed Revenues

- Flood Management
 - New development vs redevelopment
 - Combined vs separate sewer areas
- Operation & Maintenance Costs
 - Administration
 - Maintenance
- Result: Prioritized long-term stormwater CIP
 - Flood severity
 - Water quality benefits



Sustainable Stormwater Funding Includes all Viable Alternatives

- Restructure user charge
- Evaluate additional funding sources
- Offer incentives for green infrastructure
- Consider affordability issues
- Implement public campaign to build support



Funding Sources for Other Communities

- Most utilities use multiple sources of funding
- 2015/2016 Stormwater Utility Survey – Florida Stormwater Association (FSA) and Southeast Stormwater Association (SESWA)
- 250 Stormwater Utilities responded

Funding Sources for Other Communities, continued

- Stormwater Utility Funding
 - 55% Paid for All Administration Costs
 - 24% Paid for All O&M Costs
 - 10% paid for All CIP Costs
- Some utilities use other sources of funding
 - 52% used Ad Valorem Taxes
 - 16% used Sales Taxes
 - 27% used Gas Taxes
 - 46% used General Funds
 - 51% also used other funding too

Of 250 respondents, only 19 reported that Stormwater Utility revenues were sufficient for all stormwater activities.

From FSA-SESWA 2015-16 Survey

Missouri Stormwater Utilities

- 2016 Western Kentucky University Stormwater Utility Survey

<u>Community</u>	<u>Equivalent Residential Unit (ERU)</u>	<u>Monthly Fee (\$/ERU/Month)</u>	<u>Creation Year</u>	<u>Annual Revenue</u>	<u>2010 Population</u>
Arnold	1,750	\$3.00	2005	\$508,298	21,013
Columbia-Boone County		\$1.75	1993	\$1,582,500	115,273
Kansas City	500	\$0.50	1992	\$12,980,000	463,202
St. Louis Metropolitan Sewer District	*				318,069

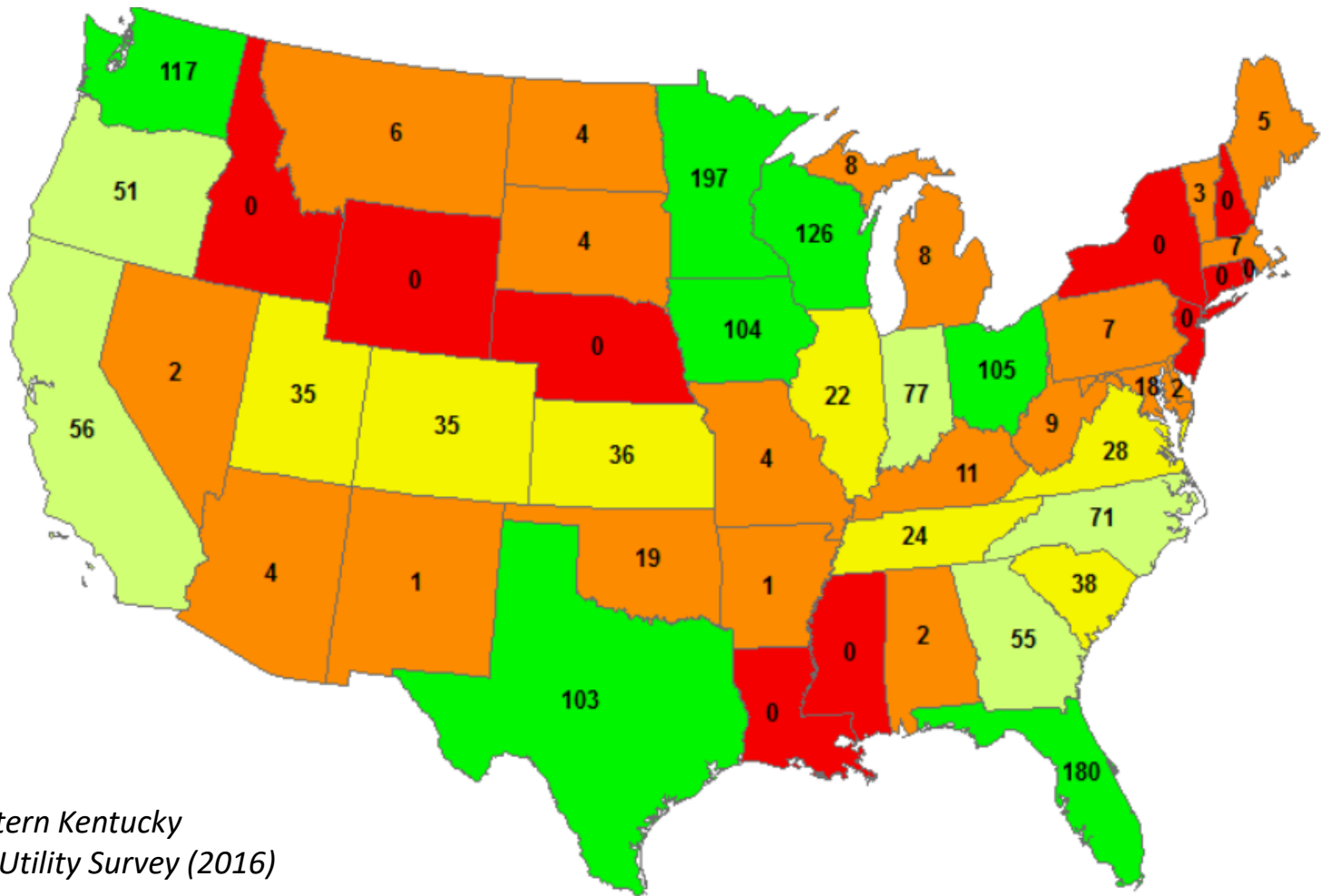
*Note: St. Louis MSD levies a stormwater tax

\$0.0195 per \$100 valuation for Regulatory Tax

\$0.10 per \$100 valuation for Stormwater Tax

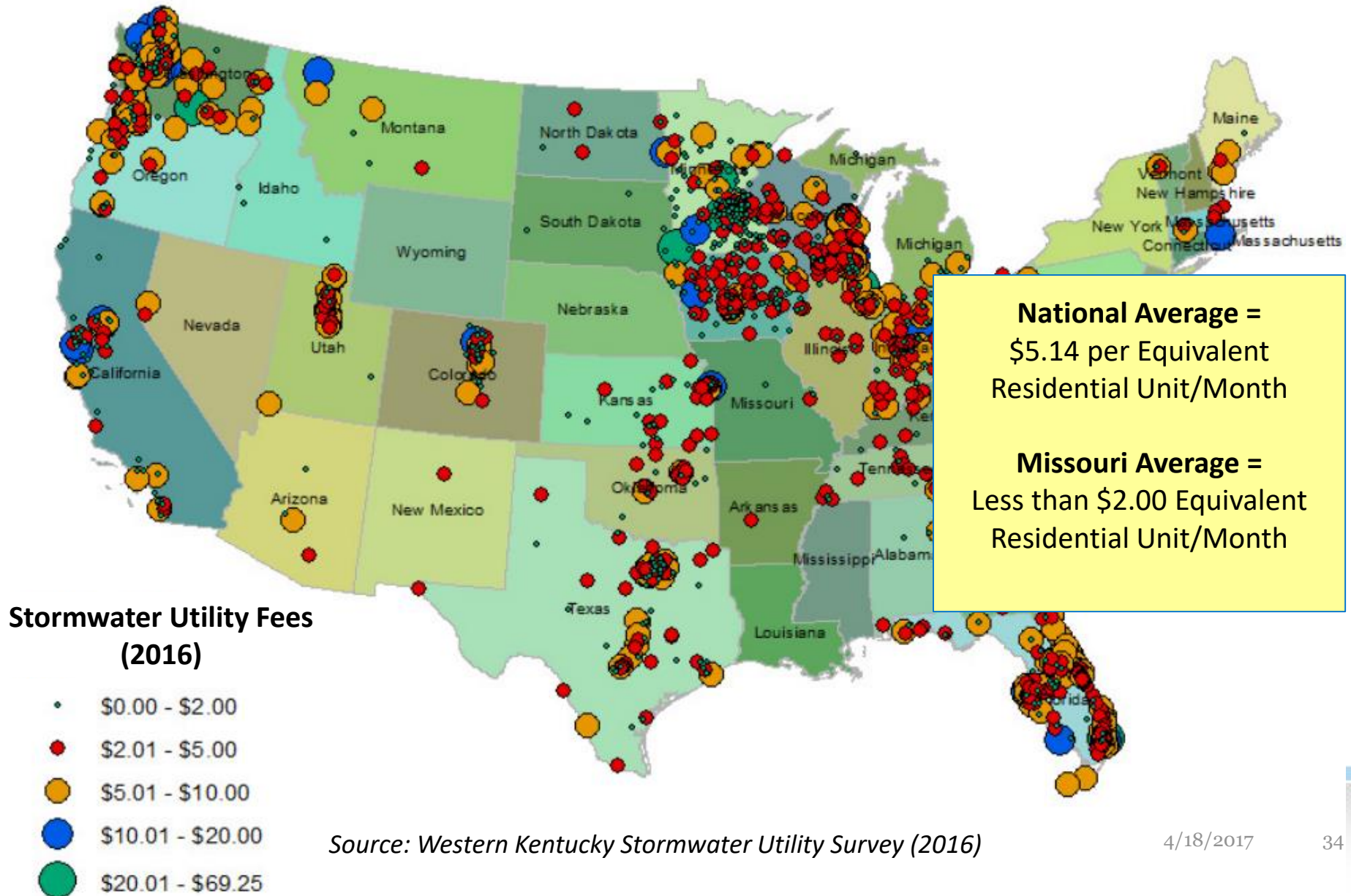
Note: For Kansas City, average home assumed to be 2,500 square feet of impervious area.

Stormwater Utilities by State



Source: Western Kentucky
Stormwater Utility Survey (2016)

Stormwater Utility Fees by State



Stormwater Fee vs. Tax

- Zweig et al. vs. The Metropolitan St. Louis Sewer District
- SC 92581, issued November 12, 2013
- St Louis stormwater fee prior to the case was \$2.29/100 sq. ft. annually

Comparison of monthly fee:
Kansas City \$0.50/500 sq. ft.
St Louis \$0.95/500 sq. ft.



Tax Exempt Changes

- Missouri Supreme Court ruled that Stormwater fee is a tax
- Application and verification process
- Tax exempt entities (examples)
 - Schools
 - Churches
 - Governments
 - Not-for-Profits

If all eligible accounts took advantage of tax exemption, the impact would be roughly a 12% decline on stormwater revenue (approximately \$2 million).

Paying for KC Stormwater

- Stormwater Fee Increase
- Sales Tax
- Property Tax
- Special Assessments
- Taxing Districts

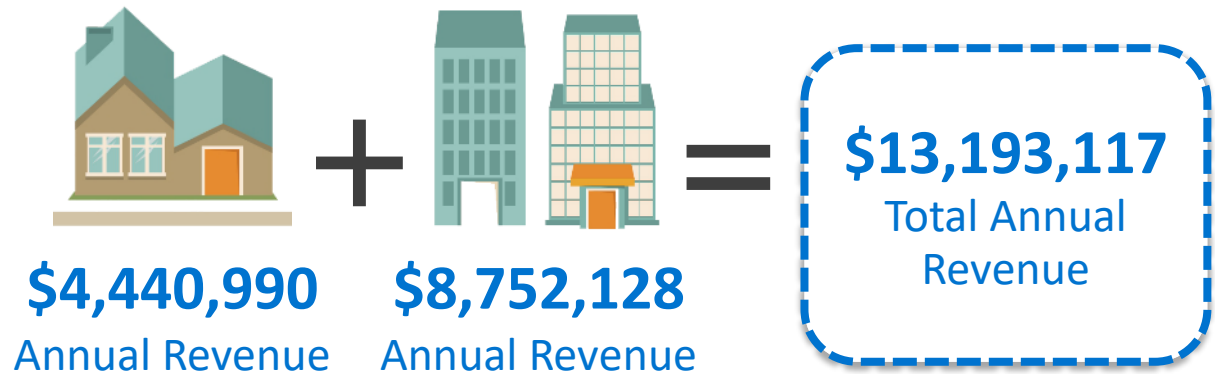
Funding Stormwater - Fee Increases

- The last Stormwater Fee increase was in 2003.
- The stormwater utility is underfunded and operating in the red, thus spending down reserves.
- To increase stormwater fees, a vote of the people is needed.
- Could be phased in over several years.

Should KC Water put a Stormwater Fee increase on the ballot?

Impact from Increasing Stormwater Fee

\$0.50 per 500 ft²
Existing



\$1.00 per 500 ft²
Increased



Stormwater Fee Increase (Double)

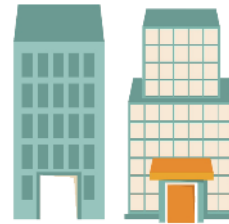
Makes up annual deficit –
Operating in black + limited capital program



+ \$2.50

Stormwater Fee Increase

\$5.00/mo



+ \$44.00

Stormwater Fee Increase

\$88.00/mo

Stormwater Fee Increase (4x)

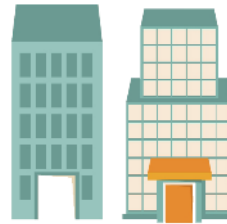
Suggested level in KC-One Stormwater Plan
Operating in black + capital funding



+ \$5.00

Stormwater Fee Increase

\$10.00/mo



+ \$88.00

Stormwater Fee Increase

\$176.00/mo

Funding Stormwater - Fee Increases

Pros	Cons

Should KC Water put a Stormwater Fee increase on the ballot?

Funding Stormwater - Sales Tax

- Some communities keep monthly utility bills lower with a dedicated sales tax.
- State legislation and voter approval would be needed.

Should KC Water pursue a dedicated sales tax to fund storm sewer capital?

Funding Options – Sales & Use Taxes

- City Total Sales Tax Rate = 2.875%
- Total Sales Tax Revenue (FY 2017) = \$230 Million
- Total Estimated Sales for FY 2017 = \$8 Billion
- Annual household* impact of 1/8th (0.125%) sales tax = \$15.74

** Using American Community Survey (2016) median household income of \$45,281*

Sales Tax – 1/8 Cent Increase

\$9 Million in additional revenue
Makes up annual deficit – limited capital program



+ \$15.74

Sales Tax Increase

\$1.31/mo

Sales Tax – 1/4 Cent Increase

\$18 Million in additional revenue
Operating in black + capital funding



+ \$31.48

Sales Tax Increase

\$2.62/mo

Sales Tax – 1/2 Cent Increase

\$36 Million in additional revenue
Operating in black + capital funding



+ \$62.96

Sales Tax Increase

\$5.25/mo

Funding Stormwater – Sales Tax

Pros	Cons

Should KC Water pursue a dedicated sales tax to fund storm sewer capital?

Property Tax Calculation Overview

- Start with the Market Value of the property
- If Residential, multiply market value by 19% to get Assessed Value
- If Commercial, multiply market value by 32% to get Assessed Value
- For vehicles, multiply market value by 33% to get Assessed Value
- Multiply the assessed value by the number of “mills” to calculate the property tax
- 1 mill = \$1 in property tax per \$1,000 of taxable value

Funding Stormwater – Property Tax

- Some communities keep monthly utility bills lower with a dedicated property tax.
- Voter approval would be needed.
- 1 mill increase in KCMO generates = \$750,000/year
- 12 mill increase = \$38/year for average residential home (assuming a \$140,000 home & \$15,000 car)
- 12 mill increase = \$60/year for similar value (\$155,000) of taxable commercial assets.

Should KC Water pursue a dedicated property tax to fund storm sewer capital?

Property Tax Increase

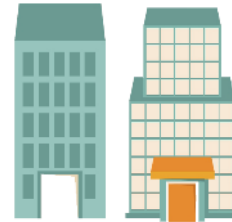
\$9 Million in additional revenue
Makes up annual deficit – limited capital program



+ \$38.00

Property Tax Increase

\$3.17/mo



+ \$60.00

Property Tax Increase

\$5.00/mo

Property Tax Increase

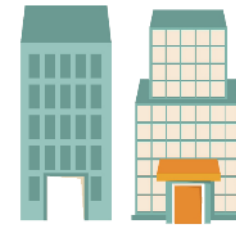
\$36 Million in additional revenue
Operating in black + capital funding



+ \$152.00

Property Tax Increase

\$12.67/mo



+ \$239.00

Property Tax Increase

\$19.92/mo

Metropolitan St. Louis District Taxes

- Prior to 2016:
 - Comply with Hancock Amendment (Article X, Section 22, Missouri Constitution)
 - General Administrative Tax = \$0.0196 per \$100 assessed valuation
 - Districtwide Stormwater Tax = \$0.0678 per \$100 assessed valuation
 - O&M, Construction & Improvement Taxes = ranging from \$0.055 to \$0.10 per \$100 assessed valuation depending on location

Metropolitan St. Louis District Taxes

- Proposition S (Stormwater Funding & Service Equalization) passed in 2016
 - Regulatory Tax = \$0.0195 per \$100 assessed valuation
 - Stormwater Tax = \$0.10 per \$100 assessed valuation
- Generates ~ \$67 Million for stormwater capital
- Unfunded need of \$500 Million

Funding Stormwater – Property Tax

Pros	Cons

Should KC Water pursue a dedicated property tax to fund storm sewer capital?

Funding Stormwater – Special Assessment / Taxing Districts

- KC Water could use special assessments where differing levels of service - capital investments are desired.
- Property owners would agree to charge a special assessment or tax themselves.

Should KC Water fund projects through special assessments and taxing districts?

Funding Options – Special Assessments

- Special Assessments are for special benefit
 - Kansas City examples
 - Curb and Sidewalk Repair
 - Sanitary Sewer Installation
 - Nuisance Abatement (including Mowing and Trash Removal)
 - Demolition and Board-up of Dangerous Buildings
 - Lien on property for non-payment
- Special Assessments go away when project is complete

Funding Options – Taxing Districts

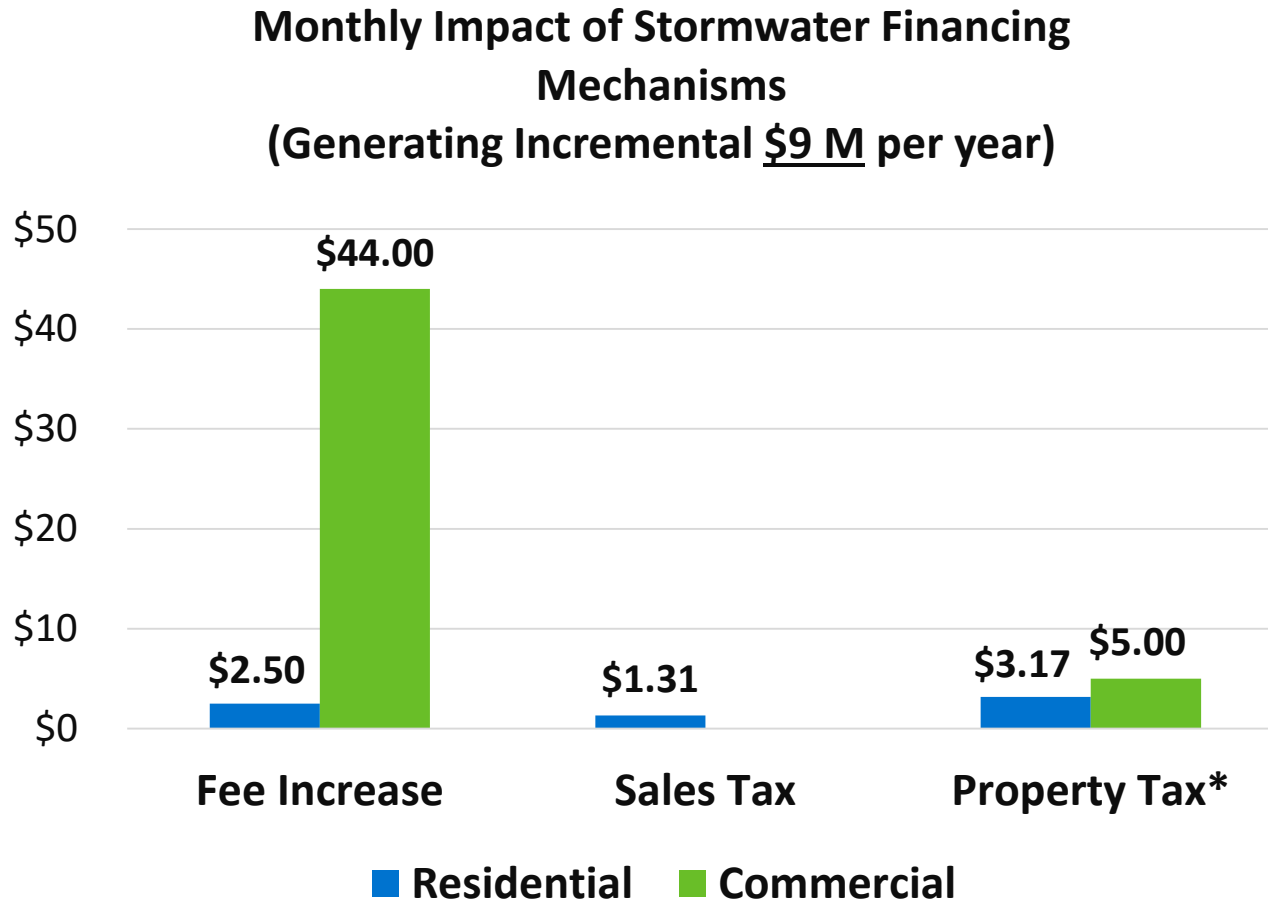
- Community Improvement Districts
 - Non-profit corporation or political subdivision of the State
 - Public improvements, public services and blight removal
 - Bonds, Taxes and Special Assessments:
 - Property taxes: majority vote in district
 - Sales taxes: 0.125% increments; majority vote in district
- Neighborhood Improvement Districts
 - 57% of voters in district or by petition of district voters
 - Stormwater improvements
 - Bonds and Special Assessments

Funding Stormwater – Special Assessment/ Taxing Districts

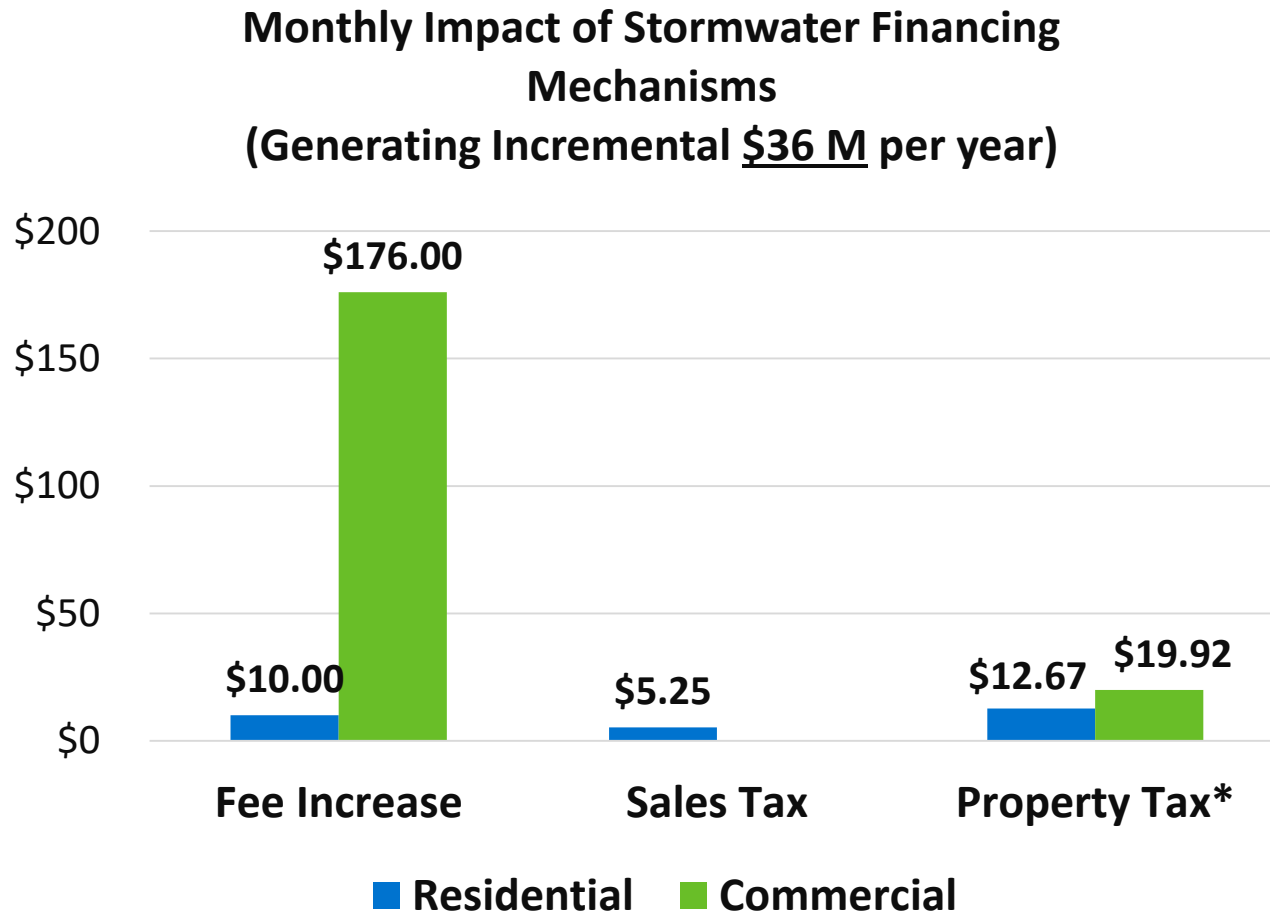
Pros	Cons

Should KC Water pursue a special assessment / tax district policy to fund storm sewer capital for high-risk flood areas?

Paying for KC Stormwater - Summary



Paying for KC Stormwater - Summary





Levee Districts

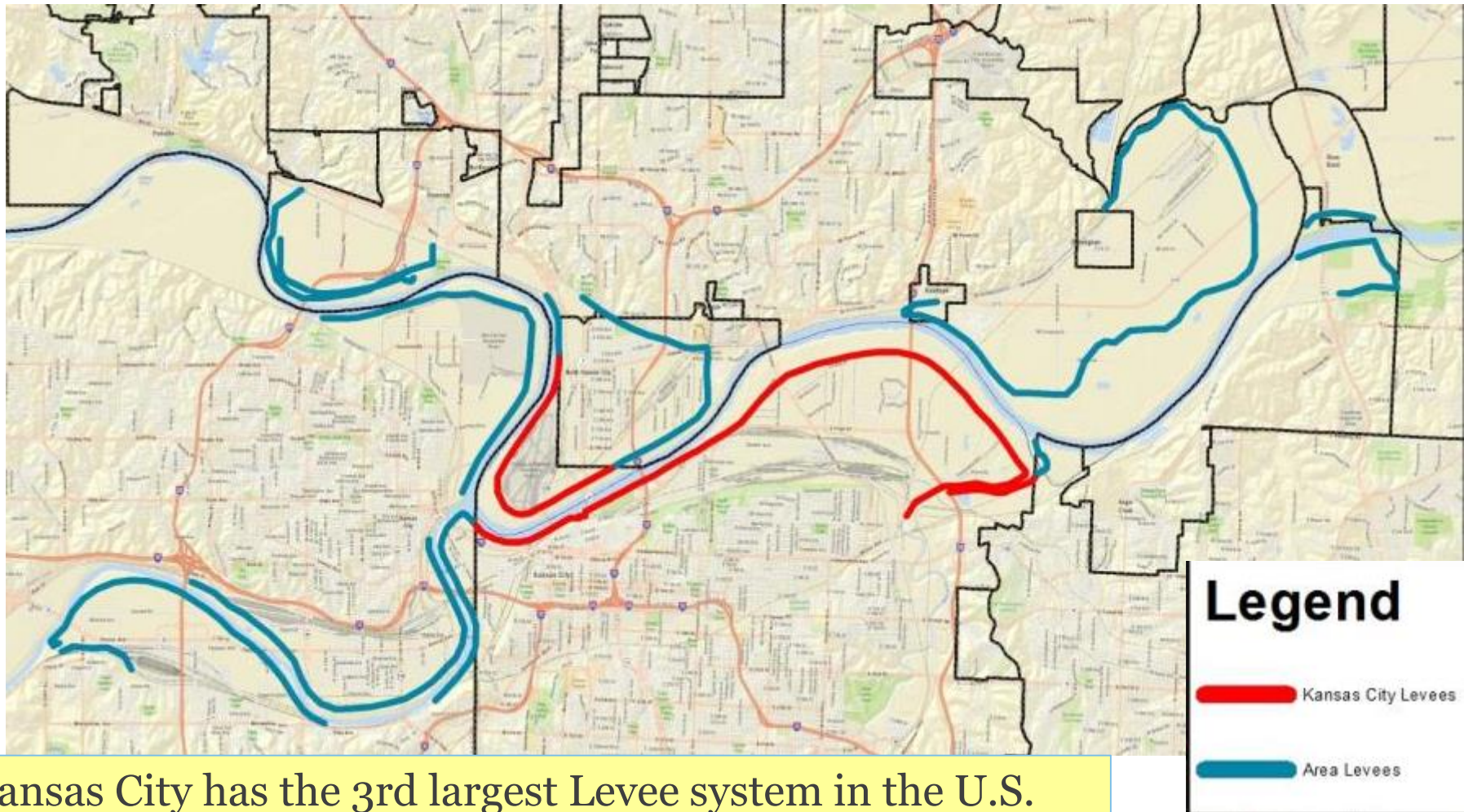
Levee Districts

- There are seven distinct levee districts that run along the Kansas and Missouri Rivers.
 - Argentine, Armourdale, Fairfax, North Kansas City, East Bottoms, Historic West Bottoms, Birmingham
- Over 60 miles of levees and levee walls.
- Structural integrity of these levees are of paramount concern to businesses located near the rivers.
- Protects more than 94,000 jobs, 5,000 structures and \$20B in investment from major flood event or levee breach (Source: KCIC website).

Levee Districts

- Kansas City has the 3rd largest levee system behind New Orleans, LA and Sacramento, CA.
- KC Water's levee system extends for 13.5 miles.
- The Stormwater division is responsible for maintaining the levees that border Kansas City, Missouri property owners.

Kansas City Levee Map



Industrial Districts

- West Bottoms Industrial Area
- Northeast Industrial Area
- Swope Park Industrial Area
- Dodson Industrial Area
- Blue Valley Industrial Area
- Turkey Creek Industrial Area

Recommendations Discussion

Pros	Cons

Should levee taxing districts be formed to fund the maintenance costs associated with the portion of the levee system that KC Water is responsible for?

Services moved from General Fund to KC Water

Service	FY 2017 Budgeted Amount	Change
Leaf & Brush Removal	\$0.5 Million	Moved from General Fund to KC Water in 2014
Household Hazardous	\$1.4 Million	Moved from General Fund to KC Water in 2005
Levee Maintenance	N/A	Moved from General Fund to KC Water in 2005
Street Sweeping	\$0.8 Million	Moved from General Fund to KC Water in 2009
Catch Basin Replacement	\$0.5 Million	Part of Street Network (Public Works)

Recommendations Discussion

Pros	Cons

Should the general fund pay for any of these programs?



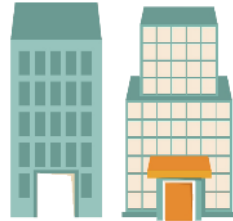
Funding for the Overflow Control Program

Impact on Wastewater Rate If Some Stormwater Fee pays Some of OCP



\$41.78

Existing
Average Residential
Wastewater Rate



\$302.02

Existing
Average Commercial
Wastewater Rate

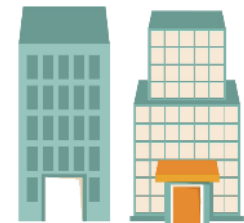
\$8,408,293

Additional Revenue to
be Applied to OCP



\$39.16

Potential
Average Residential
Wastewater Rate



\$283.11

Potential
Average Commercial
Wastewater Rate

Net Impact – Wastewater & Stormwater Bill



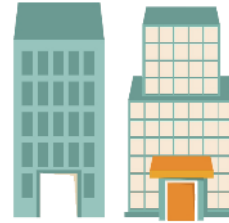
+ \$2.50

Stormwater Fee Increase

- \$2.62

Wastewater Fee Decrease

- \$0.12



+ \$44.00

Stormwater Fee Increase

- \$18.91

Wastewater Fee Decrease

\$25.09

Recommendations Discussion

Pros	Cons

Should stormwater fees be increased to pay for some OCP Capital Projects?



Public Comment & Task Force Discussion



Next Meeting & Adjournment

Next Meeting

Tuesday, May 9, 2017

4:00-7:00 PM

Bruce R. Watkins Cultural Center

3700 Blue Parkway, KCMO 64130

May

DRAFT Task Force Recommendations

Public Hearing