



KC WATER COST OF SERVICE TASK FORCE MEETING #12

May 9, 2017



AGENDA

- Welcome and Introductions
- Task Force Purpose and Topics Overview
- KC Water Overview
- Draft Recommendations
- Public Comment
- Task Force Discussion
- Next Meeting & Adjournment

KC WATER TASK FORCE MEMBERS

- Carol Adams – Kansas City Environmental Management Commission
- Laura Alvarez – H&R Block
- James Brox – Retired Economist, U.S. Department of Labor
- John Cottrell – UMKC
- Jill Erickson – Heartland Conservation Alliance
- Pat Ertz – Jackson County PWSD #2
- Carl Evans – Kansas City Public Schools Board Member
- Brenner Holland – Hunt Midwest
- Beth Low-Smith – Kansas City Healthy Kids
- Jan Marcason – Former Councilwoman and 2008 Task Force Chair
- Dave Mecklenburg – Kansas City Parks & Recreation Board Member
- John Rich – Mid-America Assistance Coalition
- Katheryn Shields – Councilwoman for 4th District at Large
- Jeff Thorn – Lee’s Summit Water Utilities
- Scott Wagner – Mayor Pro Tem / Councilman for 1st District at Large (Task Force Chair)

KC WATER TASK FORCE PURPOSE & TOPICS OVERVIEW



KC WATER TASK FORCE

- Mayoral-appointed Cost of Service Task Force
- Met 11 times since April 2016.
- Examined the financial aspects of Kansas City's current and long-term water, wastewater and stormwater needs.

KC WATER TASK FORCE

The Task Force pursued an effort to develop a **forward-looking funding strategy** to:

- Ensure that the fees collected from KC Water customers are **sufficient to cover** the long-term operational funding of its three utilities (Water, Wastewater, and Stormwater);
- Meet the state and federally **mandated requirements**
- **Pay future debt** requirements;
- Allocate costs and charge customers in a **fair and equitable** manner across customer classes for each utility; and
- Keep rates affordable for customers.

TASK FORCE CHARGE

What should be done to ensure that services provided by KC Water are

- funded in a way that is **fair/equitable**
- provides for **long-term financial stability**

What should be done to address the **burden** to customers of **rising rates**?



TASK FORCE TOPICS

- Review of each utility (Water, Wastewater, Stormwater) and associated expense drivers
- Task Force Guiding Principles
- Increasing Revenues
- Reducing Expenses
- Different Rate Structures
- Affordability and Customer Assistance
- Establishing a Customer Account
- Cost of Service Analysis
- Overflow Control Program/Consent Decree
- Financing Considerations (Debt/Cash)
- System Development Charges
- Stormwater Fees
- Use of sales tax and/or property tax to reduce rates
- Levee Districts

TASK FORCE GUIDING PRINCIPLES

FAIR &
EQUITABLE

- **Cost Recovery**: It is important that utility rates cover the full cost of providing service.
- **Direct Benefit**: Customers should experience a direct benefit from the infrastructure investments made.
- **Understanding**: Ratepayers should understand how services and infrastructure improvements are funded.

TASK FORCE GUIDING PRINCIPLES

FAIR &
EQUITABLE

- **Intergenerational**: Infrastructure investment should be paid for over time to distribute costs over multiple generations who will use the system.
- **Growth**: Growth should pay for growth. The full capital costs of services provided should be recovered from new development projects. Existing ratepayers should not fund the extension of service to new developments.
- **Simple**: Rates and charges should be straight-forward and minimize bad debt to not burden customers who pay on time.

TASK FORCE GUIDING PRINCIPLES

FINANCIAL
STABILITY

- **Replacement Costs**: It is important to plan for the eventual replacement of infrastructure in the rate structure.
- **Competitive**: Rates and charges should be competitive with other jurisdictions to help attract and retain businesses, residents, and customers.

TASK FORCE GUIDING PRINCIPLES

REDUCE
RATEPAYER
BURDEN

- **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.
- **Affordability**: It is important to reduce the impact of rate increases on customer's ability to pay bills.
- **Affordability and Fairness**: Fairness is important in structuring utility rates, but as rates rise, KC Water needs to consider affordability in structuring a funding plan.
- **Administrative Cost**: The cost of administration related to rates should be efficient.

KC WATER OVERVIEW



THREE UTILITIES



Water



Wastewater



Stormwater

ASSETS



1 Water Treatment Plant
18 Pump Stations
2,800 Miles of Water Main
35,000 Valves
23,000 Fire Hydrants



6 Wastewater Treatment Plants
39 Pump Stations
2,800 Miles of Sewer Main
67,000 Manholes



630 Miles of Storm Sewer
53,000 Storm Inlets
15 Stormwater Pump Stations
13.5 Miles of Levee

SNAPSHOT

- Combined water, wastewater, and stormwater municipal utility
- Serving Kansas City, MO since 1873
- \$379M Enterprise (FY18)
- 860+ Employees
- 470,000 residents served inside the city;
200,000 residents outside the city
- 170,000 residential & commercial customers
- 32 wholesale water agreements
- 27 interjurisdictional wastewater agreements
- Other programs include:
 - Curbside Leaf & Brush Collection
 - Household Hazardous Waste
 - Street Sweeping

SNAPSHOT

- Operates and maintains almost 2,800 miles of water mains in Kansas City.
 - Lined up end-to-end, these pipes would stretch from New York, NY to Los Angeles, CA.
- Produces an average of 90 million gallons of drinking water per day
 - That's enough water to fill approximately 145 Olympic-sized swimming pools each day.
- Conducts 164,000 tests annually on more than 19,000 water samples.
- Drinking water is regularly tested for over 290 constituents, above and beyond the number required by the US EPA.

AVERAGE RESIDENTIAL BILL (FY18)¹

☐ Water

Service Charge	\$13.90
Usage Charge ²	\$24.77
<i>Water Total</i>	<i>\$38.67</i>

☐ Wastewater

Service Charge	\$19.30
Volume Charge ²	\$41.94
<i>Wastewater Total</i> ³	<i>\$61.24</i>

☐ Stormwater

Impervious Surface Area	
<i>Stormwater Total</i> ⁴	<i>\$2.50</i>

TOTAL MONTHLY BILL \$102.41



1. Fiscal Year 2018 is May 1, 2017 – April 30, 2018
2. Based on 12-month (April 1, 2016 – March 31, 2017) actual average monthly usage (5.35 CCF or 4,000 gallons)
3. Includes 1.5% payment in lieu of taxes (PILOT) to the City's General Fund. PILOT is an operating expense and recoverable in the rate structure. Approved in City Charter by voters in 2006.
4. Stormwater based on \$0.50 per month per runoff unit (500 square feet)

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 6,300 customers assisted
- Funded by customer late fees and royalties from Service Line of America contract
- A recent EPA survey found that only 28 percent of water utilities offer bill paying assistance programs for low income customers



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

DRAFT RECOMMENDATIONS



DRAFT RECOMMENDATIONS

- Institute an Advance Payment policy for new customers before turn-on in order to reduce bad debt
- Pursue a strategy of modifying the Consent Decree (OCP)
- Use non-rate revenue for low-income assistance, community gardens and water efficiency
- Lower the maximum amount distributed per customer in order to help more customers through the Customer Assistance Program
- Target leak detection and water efficiency repair resources with customer assistance for low-income households to conserve usage
- Make water ratepayer assistance programs part of the City's legislative priorities agenda
- Reduce future utility rate increases with revenue (when available) from state and federal programs

DRAFT RECOMMENDATIONS (cont.)

- Existing ratepayers should not fund the extension of service so System Development Charges are recommended
- Maintain the declining block rate structure
- Levee districts should be formed
- Be efficient with stormwater operating expenses while continuing to meet all state/federal regulations
- KC Water should transfer stormwater services not driven by stormwater regulations to the General Fund
- Explore an increasing block rate structure for stormwater combined with an incentive program
- KC Water should pursue an increase in the stormwater fee to cover the operating deficit

REDUCING EXPENSES – ADVANCE PAYMENT

- It is important that customers pay their bill in a timely manner so other customers don't bear that burden.
- Options were discussed to reduce bad debt expense.
 - Advance Payment – customer pays in advance of use first month

The Task Force recommends...

- KC Water should **institute an Advance Payment policy** for new customers before turn-on in order to build greater financial stability. This includes:
 - collection in advance of service; and
 - an on/off service charge.
- Advance payment would be expected to reduce bad debt by \$4 million annually.
 - Would result in a reduction of ~\$2 per month per residential customer.

FAIR &
EQUITABLE

REDUCE
RATEPAYER
BURDEN

FINANCIAL
STABILITY

OVERFLOW CONTROL PROGRAM

- The Task Force discussed the wastewater program to reduce sewage overflows including:
 - Long-term project costs and potential rate increases
 - What is affordable according to state/federal government?
 - What if we extend the timeline without cutting costs?

OVERFLOW CONTROL PROGRAM

- Different scenarios were examined:
 - Current OCP Plan
 - 10 OCP projects constitute 70% of the \$4.5 billion in projected spend.
 - Removing a significant storage project
 - Extending OCP Plan out 10 and 15 years
 - Would gain one more year before hitting the threshold of the sewer portion of the bill going over 2% of median household income

OVERFLOW CONTROL PROGRAM

The Task Force recommends...

- KC Water should pursue a strategy of **modifying the Consent Decree** with the U.S. Environmental Protection Agency and Department of Justice.
- Develop a revised plan that
 - Reduces costs, ensures affordability and remains competitive with surrounding communities
 - Balances environmental and community needs
 - Focuses on rehabilitating/replacing existing infrastructure
 - Addresses multiple City infrastructure needs
 - Uses smart technologies as part of a Consent Decree modification to reduce costs and find efficiencies.



AFFORDABILITY – CUSTOMER ASSISTANCE

- The Task Force evaluated the current customer assistance program.
- KC Water is prohibited by the Hancock Amendment to use rate revenue to subsidize customers.
- KC Water collects non-rate revenue from late fees and this revenue can be used to assist customers.
- Qualified customers can request up to **\$500 per year** in assistance towards paying balances.
- Over **6,300 customers** have received assistance since the inception of the program in 2009.

AFFORDABILITY – CUSTOMER ASSISTANCE



The Task Force recommends...

- KC Water should use non-rate revenue for **low-income customer assistance, community gardens, water efficiency**, programs that bring value to the community.
- KC Water should modify the current Customer Assistance program by **lowering the maximum amount distributed (\$500)** to an individual customer in order to help more customers.

AFFORDABILITY – CUSTOMER ASSISTANCE



The Task Force recommends...

- 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 water ratepayer assistance** programs to the City's federal priorities agenda.

RATE STRUCTURES

- The Task Force was **not charged with setting rate levels.**
- The City Council is responsible for establishing water, wastewater, and stormwater rates.
- The Task Force evaluated different types of rate structures, including:
 - Declining block rate structure - EXISTING
 - Uniform rate structure
 - Inclining block rate structure
 - Seasonal rate structure

RATE STRUCTURES

The Task Force recommends

- Maintaining the **declining block structure** with a lifeline rate
- The first block in the tiered rate structure is the “lifeline” rate which is applied to all customers
- Roughly 75% of customers pay **only** the first block rate, making the current type of rate structure the more affordable option

FAIR &
EQUITABLE

REDUCE
RATEPAYER
BURDEN

INCREASING REVENUES

- The Task Force looked at ways to increase revenues. Other than raising rates, revenue from rates can really only be increased by **adding more customers**.
- KC Water already provides drinking water and wastewater services to many surrounding communities. There is **not a lot of opportunity to expand that customer base**.
- Both development and redevelopment will **not be sufficient** to address the burden of increasing rates and cover long-term growth of the utility.

INCREASING REVENUES - SYSTEM DEVELOPMENT CHARGES

- The Task Force evaluated System Development Charges, generally defined as **one-time charges paid by new development** connecting to the water and wastewater systems.
- Current Policy: New capacity is funded from current customers (no system development charges)
- Examples of surrounding communities in the Kansas City Metro area using System Development Charges was shared with the Task Force.

INCREASING REVENUES - SYSTEM DEVELOPMENT CHARGES

FAIR & EQUITABLE

REDUCE RATEPAYER BURDEN

The Task Force recommends...

- Growth should **pay for growth**.
- **Existing ratepayers should not fund the extension of service** to new developments.
- SDCs should be structured so as **not to discourage redevelopment**.
- Ensuring **SDCs remain competitive** with surrounding communities and recover system expansion.

OTHER SOURCES OF REVENUE – STATE AND FEDERAL GRANTS/ LOANS

The Task Force discussed...

- Availability of state and federal funds
- KC Water uses many of these limited programs

OTHER SOURCES OF REVENUE – STATE AND FEDERAL GRANTS/ LOANS

The Task Force recommends...

- KC Water should reduce future utility rate increases with revenue (when available) from state and federal programs.
- The City should include the pursuit of state and federal funds on its legislative agenda.
- KC Water should support the development of new state and federally-funded programs aimed to assist customers with their bills.



STORMWATER FUNDING

The Task Force discussed...

- Stormwater Fees in KCMO have **remained unchanged since May 2003**.
- Since that time, the Stormwater utility has **taken on more services** (e.g. Leaf & Brush Removal, Street Sweeping, Household Hazardous Waste) and thus operational expense from the General Fund.
- Since 2009, stormwater has spent more money than it took in annually, **using cash reserves to make up the difference**.
- In FY 2019, cash reserves will not be available to cover the Stormwater operating deficit.
 - Expenditures must be reduced
 - Revenues must be increased
 - Or a combination of the two

STORMWATER FUNDING

The Task Force discussed...

- Options to fund stormwater operations, maintenance and capital including:
 - Sales Tax
 - Property Tax
 - Raising the Stormwater Fee
 - Special Assessments
 - Taxing Districts
- Stormwater operations and maintenance is currently funded by stormwater fee.
- Expansion of the Stormwater system funded by sales tax and federal dollars.

STORMWATER FUNDING

The Task Force recommends...

- Levee Districts should be formed.
- KC Water should be efficient with stormwater operating expenses while continuing to meet all state/federal mandates.
- Transfer stormwater services not driven by stormwater regulations to the General Fund.
- KC Water should explore an increasing block rate structure for Stormwater combined with an incentive program. This means the more hard surface a property has, the higher rate per square foot. Now the fee is a flat fee per square foot.
- The long-term strategy is for KC Water to pursue an **increase in the Stormwater Fee** to cover the operating deficit and fund some flood reduction capital projects.

FAIR &
EQUITABLE

REDUCE
RATEPAYER
BURDEN

FINANCIAL
STABILITY

LEVEE DISTRICTS

- The Task Force evaluated the potential use of Special Assessments and Taxing Districts to pay for necessary services that the Stormwater utility provides.
- The Task Force reviewed the Kansas City area levee system and the importance of what it protects.
 - KC Water is responsible for maintaining the portion of the levee system in Kansas City, Missouri (\$2.2 million annually)
- KC Water could use special assessments where differing levels of service - capital investments are desired (areas more prone to flooding).
- Property owners would agree to charge a special assessment or tax themselves.

LEVEE DISTRICTS

The Task Force recommends...

- KC Water should explore the use of Levee Districts to pay for ongoing levee maintenance.
- Should property owners desire increased flood protection, they could also vote to tax themselves and use the funds for capital projects.

FAIR &
EQUITABLE

REDUCE
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BURDEN

FINANCIAL
STABILITY

PUBLIC COMMENT



PUBLIC COMMENT GUIDELINES

- Members of the public are invited to issue comments.
- The speaking order follows the order of sign in.
- The Task Force Chairman will call the names.
- Members of the public are asked to state their name and address prior to beginning their comments.
- Comments are limited to 3 minutes per person.
- Comments will be timed and reminders given to encourage adherence to the limit and allow for as many members of the public as possible to have the opportunity to speak.

PUBLIC COMMENT GUIDELINES, CONT.

- Members of the public are discouraged from raising questions regarding individual properties unless they speak to a broader issue that is relevant to the public at large.
- KC Water staff will be happy to answer questions regarding individual properties after the meeting.
- The Chairman reserves the right to manage the input process as needed.

PUBLIC COMMENT GUIDELINES, CONT.

- Written comments will be accepted by the Task Force and are encouraged.
- Please provide them at the sign-in table or mail/email to:

Water.Cost@kcmo.org or

KC Water c/o Kip Peterson

4800 E. 63rd St. Kansas City, MO 64130

TASK FORCE DISCUSSION



NEXT MEETING & ADJOURNMENT



FINAL MEETING

Finalize Recommendations

Tuesday, June 6, 2017

4:00-7:00 PM

Southeast Community Center

4201 East 63rd Street





THANK YOU.

