



KC WATER COST OF SERVICE TASK FORCE MEETING #13

June 6, 2017



AGENDA

- Welcome and Introductions
- Recap of Task Force Purpose & Overview
- Final Recommendations
- Adjourn

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 AND GUIDING PRINCIPLES



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 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.

FINAL RECOMMENDATIONS



RECOMMENDATIONS: CUSTOMER ASSISTANCE/BILLING



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 rate 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 for the majority of customers.

FAIR &
EQUITABLE

REDUCE
RATEPAYER
BURDEN

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 to build greater financial stability. This means the customer can not activate service until one month's payment is made.
- Advance payment would be expected to reduce bad debt by \$4 million annually
 - Equivalent to ~\$2 per month per residential customer.

FAIR &
EQUITABLE

REDUCE
RATEPAYER
BURDEN

FINANCIAL
STABILITY

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**.
- System Development Charges should be structured so as **not to discourage redevelopment**.
- Ensuring **System Development Charges are competitive** with surrounding communities.
- System Development Charges should be used to **increase capacity** of the utilities to **support growth**.

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 (e.g. late fees) 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 (e.g. late fees) to leverage funds from outside sources to maximize benefits to customers. KC Water should develop a program to assist low-income customers with **targeting leak detection and water efficiency efforts**.
- The City should support **federal and state water ratepayer assistance** programs as part of the City's legislative priorities agenda.

RECOMMENDATIONS:
REGULATORY RELIEF/
STATE & FEDERAL ASSISTANCE



OVERFLOW CONTROL PROGRAM

- The Task Force discussed the wastewater program to reduce sewage overflows including:
 - Long-term project costs and potential rate increases
 - Affordability relative to ratepayers' burden
 - Extending 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 in FY2021

OVERFLOW CONTROL PROGRAM

The Task Force recommends...

- The City should pursue a strategy of **modifying the Consent Decree** with the U.S. Environmental Protection Agency and Department of Justice to ensure sustainability of the Overflow Control Program.
- Develop a revised plan that
 - Reduces costs, ensures affordability and allows rates to be competitive with surrounding communities
 - Focuses on rehabilitating/replacing existing infrastructure
 - Desires to get the greatest environmental health benefit relative to the spend
 - Addresses multiple City infrastructure needs
 - Uses smart technologies to reduce costs and find efficiencies
 - Emphasizes the utilization of green solutions, both public and private



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 for water and wastewater infrastructure on its legislative agenda.



RECOMMENDATIONS: STORMWATER



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, the stormwater utility has maintained a structural operating imbalance, **using cash reserves and PIAC for capital financing.**
- In FY 2019, cash reserves are projected to be down to 90 days. In the future:
 - 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 (PIAC)
 - Property Tax
 - Raising the Stormwater Fee
 - Special Assessments
 - Taxing Districts
- Stormwater operations and maintenance is currently funded by the stormwater fee only.
- Expansion of the Stormwater system is funded by sales tax and federal dollars.

STORMWATER FUNDING

The Task Force recommends...

- KC Water should be efficient with stormwater operating expenses while continuing to meet all state/federal mandates.
- 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. The timing of such a decision is subject to the judgement of the political leadership.
- 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. The current fee structure is a flat fee per square foot.

FAIR &
EQUITABLE

REDUCE
RATEPAYER
BURDEN

FINANCIAL
STABILITY

STORMWATER FUNDING

The Task Force recommends...

- KC Water should review options for adopting city ordinances that require developers to integrate stormwater best management practices when development or redevelopment occurs.
- Protect and enforce existing city ordinances that benefit water quality.

**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 capital investments are desired (for example, areas more prone to flooding).
- Property owners would have to 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 assess themselves and use such funds for capital projects.

FAIR &
EQUITABLE

REDUCE
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FINAL RECOMMENDATIONS

Customer Assistance / Billing

- Maintain the existing declining block rate structure ●●
- Institute an Advance Payment policy for new customers to build greater financial stability ●●●
- System Development Charges should be used to increase capacity of the utilities to support growth ●●
- Use non-rate revenue for low-income customer assistance, community gardens and water efficiency programs ●
- Lower the maximum amount distributed to an individual customer in order to help more customers ●
- Develop a program to assist low-income customers with targeting leak detection and water efficiency efforts ●

FINAL RECOMMENDATIONS (cont.)

Regulatory Relief/ Federal & State Assistance

- Pursue a strategy of modifying the Consent Decree (OCP) to ensure sustainability of the program ●●●
- 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 ●

FINAL RECOMMENDATIONS (cont.)

Stormwater

- Be efficient with stormwater operating expenses while continuing to meet all state/federal regulations ●●●
- Pursue a long-term strategy to increase in the stormwater fee to cover the operating deficit ●●●
- Explore an increasing block rate structure for stormwater combined with an incentive program ●●●
- Review options for adopting city ordinances that require developers to integrate stormwater best management practices when development or redevelopment occurs ●●●
- Explore the use of Levee districts to pay for ongoing levee maintenance ●●●

TASK FORCE DISCUSSION



ADJOURNMENT





THANK YOU.

