



KC WATER COST OF SERVICE

TASK FORCE
CITY COUNCIL
August 3, 2017
PRESENTATION



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 13 times April 2016 – June 2017
- Examined the financial aspects of Kansas City's current and long-term water, wastewater and stormwater needs.
- Solicited public input & held public hearings.

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.

CONSTRAINING FACTORS

- **Hancock Amendment:**

- A tax and expenditure limitation written into the Missouri Constitution.
- Limits our ability to support low income customers to “non-rate revenue” funds, such as late fees and penalties.
- There must be a direct relationship between the services received and the rate charged.
 - Because rates are derived based on the cost to serve the customer, if rate relief is given to one group of customers, the costs that are not recovered from that group must be recovered from another group.
 - If some customers paid more than their service cost, that would be subject to a Hancock challenge as being a tax.

RECOMMENDATIONS



FINAL RECOMMENDATIONS

Rate Structure & Charges

- Maintain the existing declining block rate structure with a lifeline rate. Roughly 75% of customers pay only the first block (lifeline) rate – making the current type of structure the more affordable option for the majority of customers.
- Growth should pay for growth -- Enact System Development Charges should be used to increase capacity of the utilities to support growth while not discouraging redevelopment and keeping KCMO competitive with surrounding communities.

FINAL RECOMMENDATIONS

Customer Assistance / Billing

- Institute an Advance Payment policy for new customers to build greater financial stability
- Use non-rate revenue for low-income customer assistance, community gardens and water efficiency programs. Non-rate revenue not spent on these programs annually can be used for rate relief for all ratepayers.
- Lower the maximum amount distributed (\$500) 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
- Continue to provide education and outreach on programs, rates, the Overflow Control Program's impacts on rates, affordability, customer assistance and how to read the bill.

FINAL RECOMMENDATIONS (cont.)

Regulatory Relief/ Federal & State Assistance

- Pursue a strategy of modifying the Consent Decree (OCP) because the current plan is not affordable now & as currently planned it is not sustainable for future generations regardless of the timeframe.
- Apply integrated planning techniques and best practices – adjust the OCP plan & take a regional approach to prioritize stormwater and wastewater improvements together as they both can improve water quality.
- 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.
- Explore ways to address the operating deficit and fund some flood reduction projects while considering the overall impact on customers' bills. Revenue from stormwater fees is the preferred option, rather than property or sales taxes.
- Explore 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. Should property owners desire increased flood protection, they could also vote to assess themselves & use funds for capital projects.



THANK YOU.

