



**WATER UTILITIES ADVISORY BOARD
Action Letter**

Wednesday, December 13, 2023
2:00 p.m.
Lee's Summit Water Utilities Service Center
1200 SE Hamblen Road
Lee's Summit, MO 64081

Members Present:

Mike Atcheson, Chair (Developer)
Cynda Rader, Vice-Chair (Resident)
Mark Leetch (Resident)
Bryon Livingston (Resident)
Kyle Gorrell (Business)
Glen Jones (Builder)

Members Absent:

Anthony Columbatto (Resident)
Colleen Fullerton (Business)

1. Call to Order

Mr. Mike Atcheson called the meeting to order at 2:00 p.m.

2. Roll Call

3. Approval of Agenda

Mr. Kyle Gorrell made a motion to approve the agenda and was seconded by Mr. Glen Jones. The Board unanimously agreed for the approval of the agenda.

4. Election of Officers

Mr. Gorrell made a motion to nominate Mr. Mike Atcheson as Chair and was seconded by Mr. Jones. The board unanimously approved Mr. Mike Atcheson as Chair of the Water Utilities Advisory Board.

Mr. Mark Leetch made a motion to nominate Ms. Cynda Rader as Vice-Chair and seconded by Mr. Gorrell. The board unanimously approved Ms. Cynda Rader as Vice-Chair of the Water Utilities Advisory Board.

5. Public Comments

No public comments

6. Business

A. 2023-5998 Approval of the September 13, 2023 Water Utilities Advisory Board Action Letter

Ms. Rader made a motion to approve the Action Letter and seconded by Mr. Jones. The board unanimously voted to approve the September 13, 2023 Action Letter.

B. 2023-5999 Consideration of Water and Sewer Rates

Staff has completed an update of the Cost of Service model to meet financial viability goals as defined in the Water Utilities Strategic Plan. The objective of the model is to meet operational expenses, system renewal needs and provide financial policies for stability of the utility's next 10 years.

Some key inputs were reviewed as part of the annual model update:

Water Purchases:

- City of Independence – no increase was projected for FY24 – future rate increases were anticipated at 3% for the remaining years
- Kansas City Water – projected a 3% rate increase to be effective May 1, 2024 – future rate increases set at 3% for the remaining years

Sewer Treatment:

- Middle Big Creek – in FY24 rates increased from \$41.00 per connection to \$44.00. Future rate increases are anticipated to address growth and the subsequent debt that will be issued related to improvements in the district
- Little Blue Valley Sewer District – rates are expected to continue to increase as projected by LBVSD's planning documents to satisfy previous issued debt and continuous improvements necessary for meeting service levels and regulatory compliance

System Renewal:

- Capital Improvement Projects inflation has been applied to projects assuming a diminishing factor over time. During 2021 and 2022, inflationary impacts were 5.8% and 7.2%. Adjustments to Capital Projects have been made to recognize that impact and ensure that sufficient revenues were generated over the projected 10-year planning period to meet renewal goals

Personnel:

- Personnel expansion to manage growth and the necessary changes in the organization continue to be completed during the 10-year planning period
- Other personnel adjustments are incorporated to adjust to market conditions

Other expenses categories:

- Throughout the 10-year planning period, inflationary factors have been assigned to each expenditure category, and as each year the model is updated with those expected costs are then projected for the remainder of the planning period

The Cost of Service model provides a financial plan to meet the ongoing operating and capital needs of the utility.

- The Cost of Service model identifies increased revenue needs for each of the next 10 years and is consistent with the Strategic Plan
- The model addresses the infrastructure rehabilitation needs as identified and schedules the projects in accordance with the financial plan
- The model follows financial rate policies specified in the Strategic Plan and presented to the Water Utilities Advisory Board
- The model generates a cost allocation between customer classes consistent with industry standards to be fair and equitable

Staff recommends:

- Amend January 1, 2026 water and sewer rate schedule from 4% increase to 5%
- Amend January 1, 2027 water and sewer rate schedule from 4% increase to 5%
- Append January 1, 2028 water and sewer rate schedule with a 5% increase

Discussion:

Comparative Rates:

In reference to rate comparison that was presented, Mr. Livingston asked as to the basis of the comparison and the comparator communities. Mr. Boice explained the 5,000 gallons was selected based on the average consumption of residential customer bills through the year. Mr.

Boice indicated that 63% of the residential bills in FY23 were for 5,000 gallons or less so this level provides a reliable sample of our users for comparison. In regards to the comparator communities, Mr. Boice explained that he had selected communities that were neighboring Lee's Summit as well as communities that were similar or larger to Lee's Summit in population. Mr. Livingston asked if North Kansas City should be added as a comparator which staff responded that the community demographic was much smaller than Lee's Summit but could be included if it was the Board's decision.

Mr. Livingston asked how the block structure of the residential rates was determined. Mr. Boice explained that the inclining block rate structure was included in the 1994 Water and Sewer Rate Study and implemented in 1995. He also explained that the blocks were considered effective in providing some conservation of water to assist or offset additional water supply needs that were related to the growth of the City. Mr. Livingston asked specifically why the blocks were set at 7,000 gallons for the first tier given that the LSWU utilized 5,000 gallons for the average. Mr. Boice explained that while the average was 5,000 gallons, the 7,000 gallon threshold ensured that over 75% of residential bills would be within that block. The tier would then be more inclusive of normal residential water consumption and provide some variance from the average.

Mr. Livingston asked if staff had considered lowering the increase considering the revenues generated during the FY23 period. Mr. Boice explained that while the revenues were stronger in FY23, it was due to higher consumption which also included additional costs to purchase the water and energy to distribute it. In addition, the rate model considers the current financial state of the utility. Mr. Boice said that although revenues were stronger in FY23, the utility is a closed system so the higher revenues in a particular period help to offset additional increases over the planning period. Mr. Boice also said that one of the Board's goals was to have incremental rate increases and make rate adjustments as predictable as possible.

Motion:

Mr. Leetch made a motion, seconded by Mr. Gorrell and the board unanimously voted to amend the rate schedule for January 1, 2026 and January 1, 2027 from 4% to 5% increase and append the January 1, 2028 rate schedule with a 5% increase as presented to be included in the City's Schedule of Fees & Charges.

C. 2023-6000 Consideration of the Water Connection Fee Recommendation

Mr. Boice reviewed the proposed modifications to the projects that were identified in the Water Master Plan. Those projects anticipated the extension of mains along Todd George Parkway and establishing system looping at the pressure zone boundary at Strother Road, however, the bond issue is expected to construct the main extension along Todd George to the system west of 470 at the pressure zone boundary which is estimated at \$1.2m.

Staff performed further review of supply opportunities, it was determined that additional supply may be available through interconnects with Kansas City along M150 Highway. The project is anticipated to add 5 MGD to Lee's Summit and estimated at \$6m.

Regarding other projects that were included in the water tap fee, project costs were updated based on the construction cost index which was 2.7%.

Changes to CIP projects for Water Tap Fee:

- Todd George Road (Colbern to Strother)
 - Original cost: 4,825,000
 - Revised costs: 1,200,000

- Todd George Road (Strother to Woods Chapel)
 - Original cost: 3,713,000
 - Revised cost: 0

- KC Supply – M150 Hwy Connection
 - Original cost: n/a
 - Revised cost: 5,500,000

During the 2022-2023 fiscal year, there were 254 permits issued for new connections that equate to 382.33 equivalent units consumed.

Staff recommends:

- Approval of the revised projects
- Addition of 5 MGD to the available equivalent units
- Increase the water tap fee for residential equivalent unit for the (5/8"x3/4" meter) to \$3,973
- Increase fees proportionally to the size of the water meter

With there being no questions, Ms. Rader made a motion and seconded by Mr. Jones, the board unanimously recommends City Council approval to amend water tap fee and fee schedule effective July 1, 2024.

D. 2023-6001 Consideration of the Sanitary Sewer Connection Fee Recommendation

The sanitary sewer connection fee model was implemented in July 2022 as a city-wide approach for determining connection fees. Under the guidance of the WUAB, this model is updated annually to ensure that fees are collected to meet the development needs of the city.

The approved methodology is similar to the Water Tap Fee methodology and projects are based on the Wastewater Master Plan:

- Projects anticipated based on growth (development)
- Assumed certain improvements would be necessary to meet demands in a variety of basins
- Assumed some coordination of improvements with Little Blue Valley Sewer District's improvements specifically in the Big Creek watershed
- Developed to be in alignment with the City's Comprehensive Plan and anticipated coordination with Little Blue Valley Sewer District development

During the 2022-2023 fiscal year, there were 298 equivalent residential units consumed through the issuance of over 180 building permits. The number of remaining equivalent units was reduced from 13,118 to 12,820.

Mr. Boice explained as staff reviewed potential development projects and existing infrastructure this year, an additional project was identified for inclusion in the sewer connection fee model. The project has been entitled MBC-Winnebago EFHB and is anticipated to cost \$1.27m. This project is necessary to accommodate growth anticipated in the Middle Big Creek basin that flows into the MBC interceptor under Lake Winnebago. Other project costs in the model were updated based on the construction cost index which is 2.7% for this year.

Staff recommends:

- Increase sewer connection fee from \$2,159 to \$2,285 per residential equivalent unit (5/8"x3/4" meter) effective July 1, 2024.
- Increase fees proportionally to the size of the water meter

With there being no questions, Mr. Jones made a motion and seconded by Ms. Rader, the board unanimously recommends City Council approval to amend the sewer connection fee and fee schedule effective July 1, 2024.

6. Roundtable

Mr. Mark Schaufler made the board aware that the October 2023 Strategic Plan received approval from the City Council and that it's a priority of the water department to review and provide yearly updates to the board relative to items in the Strategic Plan.

Mr. Bryon Livingston and Mr. Glen Jones were absent at the September 2023 meeting and didn't receive their appreciation award for their help and guidance in the strategic planning process. Mr. Schaufler acknowledged their efforts and presented them with their awards at this meeting.

7. Adjournment

The meeting adjourned at 3:25 p.m.