

Legislation Text

File #: BILL NO. 22-109, **Version:** 1

An Ordinance amending the Schedule of Fees and Charges for the City of Lee's Summit to take effect July 1, 2022, regarding sewer charges.

(Note: First read by Council on May 24, 2022. Passed by unanimous vote.)

Key Issues:

The Utility's staff has completed an update of the Cost of Service model to meet financial viability goals as defined in the Water Utilities Strategic Plan. This model provides a 10-year financial plan to meet the Utilities ongoing operating and capital needs. The objective of the model is to update financial policies to achieve the financial stability needed to sustain bond ratings, operational expenses, and system renewal needs as defined by the Water Utilities Department Strategic Plan.

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 water and sewer revenue needs for each of the next 10 years.
- The model addresses the infrastructure rehabilitation needs as identified and schedules the projects in accordance with a financial plan.
- The model is in compliance with the financial and rate policies specified in the Strategic Plan and approved by the City Council.
- The model generates a cost allocation between customer classes consistent with industry standards to be fair and equitable.
- On March 2, 2022, the Water Utilities Advisory Board reviewed and unanimously recommended approval of amending the adopted rate schedule for January 1, 2025 to increase the water and sewer rates from 3% to 4% and to append the rate schedule with a 4% increase to water and sewer rates effective January 1, 2026.
- The amended water rate and connection fee charges were approved by the City Council on April 26th, 2022.
- Changes to the sewer rate schedule are being presented separate from the water rates due to the specific requirement for a public hearing.

Background:

On December 15, 2011, the City Council adopted the Water Utilities Strategic Plan. This Strategic Plan was the result of a comprehensive assessment and strategic planning process involving many customers and stakeholders in the utility. Through the assessment and planning process, operational practices & procedures,

long-term plans for infrastructure improvements, the fiscal health of the utility and other aspects of the utility were reviewed and compared to industry standards and benchmarks when available and reviewed by a Customer Advisory Group which was appointed for this purpose by the Mayor and City Council.

Although many areas of the utility were reviewed and evaluated, the Customer Advisory Group identified two areas as high priorities. One of these areas dealt with the financial viability and sustainability of the utility while the other priority addressed the stability of the infrastructure and systems supporting the delivery of water and sanitary sewer services.

In 2013, a Cost of Service Study was completed to address the financial sustainability of the Utility through a detailed review of rising operating and maintenance expenses, a backlog of capital improvements and the existing rate structures. A model was developed to assist with the financial planning and rate making needs of the Utility that has been utilized in subsequent years.

On April 26th, 2022, the City Council approved the amended water rate fees and charges as they were incorporated into the Schedule of Fee's and Charges. However, because a public hearing is specifically required by state statute to consider changes to sewer fees and charges, the sewer charges are being presented separately for City Council consideration on the May 24th, 2022 agenda.

Impact/Analysis:

Several key inputs were reviewed as a part of the annual model update.

Update from FY21 Performance

- In anticipation of the potential impacts of COVID, the FY21 water revenues were forecasted to be approximately 5% below original projections however, the FY21 performance for water was 6% greater than the revised forecast and 4% greater for sewer revenues.
- Overall revenues for FY21 were 6% above budget estimates with new connections, new service activations and reactivations of services results ahead of budget estimates.
- Expenditures for FY21 were approximately 2% below budget projections. The main categories being sewer treatment, electricity and depreciation expenses. Personnel as a category was approximately 7% below budget estimates as multiple position vacancies occurred through the year.

Update of Major expenditures

- Sewer Treatment
 - o Middle Big Creek - In FY22 rates increased from \$37.00 per connection to \$38.00, as of October 2021. Future rate increases are anticipated to address growth and the subsequent debt that will be issued related to improvements in the district.
 - o Little Blue Valley Sewer District - Rates Rates are expected to continue to increase as projected by LBVSD's planning documents to satisfy previously issued debt and continuous improvements necessary for meeting service levels and regulatory compliance.
- Inflation
 - o Throughout a 10-year planning period, inflationary factors have been assigned to each expenditure category, and as the model is updated each year those expected costs are then projected for the remainder of the planning period.
 - o To adjust to the impact of supply chain issues and rising costs related to CIP projects, inflation

- has been applied to projects assuming a diminishing factor over time.
- System Re-investment
 - o In recognition of the need to invest in the system renewal projections, the cost of service model was adjusted to ensure that sufficient revenues were generated over the projected 10-year planning period of the model.
 - o The cost of service model reflects sewer system improvement projects identified in the most recent Wastewater Master Plan and those projects have been incorporated into the CIP for this planning period.
- Personnel
 - o Personnel expansion to manage growth and the necessary changes in the organization continue to be completed during the 10 year planning period.

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Recommendation:

On March 2, 2022, the Water Utilities Advisory Board reviewed and unanimously recommended amending the adopted rate schedule for January 1, 2025 to increase the sewer rates from 3% to 4% and to append the rate schedule with a 4% increase to the sewer rates effective January 1, 2026.

Staff recommends amending the rate schedule as presented to be included in the City's Schedule of Fees & Charges