

Legislation Text

File #: 2019-3205, **Version:** 1

Presentation of Financial Planning and Rate Recommendations.

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 model was developed as a component of the Strategic Plan. The objective of the model was to implement financial policies to achieve the financial stability needed to sustain bond ratings, operational expenses, and system renewal needs.

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 findings of the Strategic Plan.
- 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 financial and 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.

Proposed Committee Motion:

I move to recommend to City Council approval to append the rate schedule with a 4% increase to water and sewer rates effective January 1, 2024 as set forth by the cost of service model.

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.

Impact/Analysis:

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

FY19 Performance resulted in approximately \$2.5m additional funds to incorporate into the model.

Revenue increases in Water Sales, Interest Earnings, and Sewer Reimbursements, Expenses were lower due to position vacancies.

Water Purchases

City of Independence - No rate increase for current year - future rate increases remain 3%

Kansas City Water - Current year rate increase expected to be 1% - future rate increases set at 3% for 2020 to 2029

Sewer Treatment

Middle Big Creek - Anticipates rate increase from \$32.50 per connection each month to \$34.50

Little Blue Valley Sewer District - Adjusted due to wet weather for 2018 and basis of future expenditures

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. Water and Sewer rates have been projected for a 5-year period based on that plan. The plan anticipates 4% increases will be necessary over the remaining 5-years of the plan.

Mark Schaufler, Director of Water Utilities

Jeff Thorn, Assistant Director of Engineering Services

Brent Boice, Assistant Director of Support Services, Water Utilities

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