

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 6158-02
Bill No.: HCS for HB 2289
Subject: Utilities; Water Resources and Water Districts; Sewers and Sewer Districts;
Political Subdivisions
Type: Original
Date: April 26, 2018

Bill Summary: This proposal modifies provisions for waterworks and sewerage rates.

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2019	FY 2020	FY 2021
Total Estimated Net Effect on General Revenue	\$0	\$0	\$0

ESTIMATED NET EFFECT ON OTHER STATE FUNDS			
FUND AFFECTED	FY 2019	FY 2020	FY 2021
Total Estimated Net Effect on <u>Other</u> State Funds	\$0	\$0	\$0

Numbers within parentheses: () indicate costs or losses.

This fiscal note contains 6 pages.

ESTIMATED NET EFFECT ON FEDERAL FUNDS			
FUND AFFECTED	FY 2019	FY 2020	FY 2021
Total Estimated Net Effect on <u>All</u> Federal Funds	\$0	\$0	\$0

ESTIMATED NET EFFECT ON FULL TIME EQUIVALENT (FTE)			
FUND AFFECTED	FY 2019	FY 2020	FY 2021
Total Estimated Net Effect on FTE	0	0	0

☐ Estimated Net Effect (expenditures or reduced revenues) expected to exceed \$100,000 in any of the three fiscal years after implementation of the act.

ESTIMATED NET EFFECT ON LOCAL FUNDS			
FUND AFFECTED	FY 2019	FY 2020	FY 2021
Local Government	(Unknown, greater than \$775,000)	(Unknown, greater than \$775,000)	(Unknown, greater than \$775,000)

FISCAL ANALYSIS

ASSUMPTION

In response to a previous version, officials at the **City of St. Charles** stated that water and sewer customers outside of the City limits are charged more than the residents within the City limits because they do not pay any property taxes to the City of Saint Charles. Most municipalities charge the direct costs of water and sewer services to the enterprise funds but do not charge the indirect costs of financial administration, human resources or other general administration of these funds. This legislation would put an unfair burden on the residents of the City of Saint Charles.

Additionally, as rates are based on the direct costs of water and sewer services, this proposal would force a rate increase of approximately 3% to all customers to recapture the loss of revenue caused by the legislation. The City of Saint Charles has more than 186 unincorporated "pockets" and carries more than unincorporated 2,000 water/sewer accounts. The table below shows the projected loss of revenue to our city based on 2017 consumption.

City of St. Charles, Missouri									
Estimated Lost Revenue @ City Rates for County Customers Served									
Based on 2017 County Water & Sewer Consumptions									
		2018 Rates		2018 Estimated Revenue		Estimated Lost Revenue			
	2017 Data	County	City	County Rates	City Rates	Totals	Water	Sewer	
Residential - County									
Water Usage ⁽¹⁾	93,918	\$6.35	\$3.89	\$ 596,379.30	\$ 365,341.02	\$ (231,038.28)			
Water Units	12,445	\$0.1190	\$0.0992 ⁽²⁾	540,548.58	450,608.56	(89,940.02)	\$ (320,978.30)		
Sewer Usage ⁽¹⁾	90,074	\$9.10	\$5.84	\$ 819,673.40	\$ 526,032.16	\$ (293,641.24)			
Sewer Units	12,185	\$0.1312	\$0.1093 ⁽²⁾	583,515.28	486,114.48	(97,400.80)		\$ (391,042.04)	
Commercial - County									
Water Usage ⁽¹⁾	10,704	\$6.35	\$3.89	\$ 67,970.40	\$ 41,638.56	\$ (26,331.84)			
Water Units	509	\$0.1190	\$0.0992 ⁽²⁾	22,108.42	18,429.37	(3,678.54)	\$ (30,010.33)		
Sewer Usage ⁽¹⁾	8,879	\$9.10	\$5.84	\$ 80,798.90	\$ 51,853.36	\$ (28,945.54)			
Sewer Units	436	\$0.1312	\$0.1093 ⁽²⁾	20,879.17	17,394.00	(3,485.17)		\$ (32,430.71)	
Totals				\$ 2,731,873.44	\$ 1,957,412.02	\$ (774,461.42)	\$ (350,988.68)	\$ (423,472.74)	
⁽¹⁾ 1,000 gallons									
⁽²⁾ Per day									

ASSUMPTION (continued)

Officials at the **City of Kansas City** assume this legislation would have a significant fiscal impact on the City in an indeterminate amount.

Kansas City's rates are based on the cost of service to those locations outside our City (as opposed to what it costs us to serve customers inside our corporate limits).

There is current case law that allows the City to charge outside buyers a different rate. An artificial cap like the one proposed in this legislation does not take into account the actual costs of providing those services. This means that it may cost Kansas City more to deliver the services than is allowed by this legislation.

There are several other problems this legislation poses to Kansas City, including (1) the legislation ignores the contributions and risks endured by customers inside our corporate limits who pay to extend system components; (2) rate payers inside our corporate limits would have to make up the difference (i.e. City residents would pay more so that outside buyers can have service at the price set by the legislature); (3) this legislation may cause a violation of our bond covenants as our City is obligated to set fees in certain ways; and (4) our City could have a Hancock Amendment problem (e.g. could trigger a challenge to the City's rate structure) and the obligation to set reasonable rates related to debt service is also found in state statutes. Finally, since there is no duty to provide water or sewer services outside the City, the City might decide as a result of this legislation to not sell these water and sewer services to entities outside the City causing disruptions and a lack of service for such entities.

Officials at the **City of Liberty** assume a negative unknown fiscal impact from this proposal.

Officials at the **City of O'Fallon** state that in most municipal water companies, the property taxes help to subsidize the cost of the utility system and only the customers within the corporate boundaries are those that participate in property tax costs. The general fund typically pays for the financial personnel responsible for budgeting, accounts payable, financial statement reporting, auditing, etc. In addition to this, it is typical that the general fund also pays for administration costs related to making and administering policy, managing personnel through human resources and benefit programs, etc.

Oversight assumes by capping the rate for water and sewer for customers outside the city limits, cities could have a loss in revenues. Oversight is unclear how much each city charges customers for water and sewer who are outside the city limits. Therefore, Oversight will reflect a negative unknown fiscal impact greater than \$775,000 for this proposal. Oversight assumes local political subdivisions could increase the rates on all customers to make up the lost revenue.

ASSUMPTION (continued)

In response to a previous version, officials at the **Department of Economic Development** assumed no fiscal impact from this proposal.

Officials at the **Metropolitan St. Louis Sewer District** assume no fiscal impact from this proposal.

<u>FISCAL IMPACT - State Government</u>	FY 2019 (10 Mo.)	FY 2020	FY 2021
	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>

<u>FISCAL IMPACT - Local Government</u>	FY 2019 (10 Mo.)	FY 2020	FY 2021
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LOCAL POLITICAL SUBDIVISIONS

<u>Revenues</u> - Local Political Subdivisions - loss from charging the same rate for water and sewer to customers outside the city limits	(Unknown, greater than <u>\$775,000</u>)	(Unknown, greater than <u>\$775,000</u>)	(Unknown, greater than <u>\$775,000</u>)
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ESTIMATED NET EFFECT ON LOCAL POLITICAL SUBDIVISIONS	(Unknown, greater than <u>\$775,000</u>)	(Unknown, greater than <u>\$775,000</u>)	(Unknown, greater than <u>\$775,000</u>)
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FISCAL IMPACT - Small Business

Small businesses' water and sewer rates could be impacted by this proposal.

FISCAL DESCRIPTION

Currently, a city, town, village or sewer district may charge higher rates for water or sewer services to premises outside of the corporate boundaries. This bill would prohibit the entity supplying the service from charging a rate more than 150% of the rate charged for service to premises inside the corporate boundaries.

This legislation is not federally mandated, would not duplicate any other program and would not require additional capital improvements or rental space.

SOURCES OF INFORMATION

City of St. Charles
City of Kansas City
City of Liberty
City of O'Fallon
Department of Economic Development
Metropolitan St. Louis Sewer District

Ross Strope



Acting Director
April 26, 2018