

City of Independence

MEMORANDUM

City Council Office

DATE: June 19th, 2015

TO: Audit and Finance Committee

FROM: Zachary Walker, Management Analyst

SUBJECT: Review of Proposed Modifications to the IRAP/ISHARE Program



In January 2015, the Independence Mayor was presented with a utility assistance proposal from the Community Services League (CSL) and several advocates for that organization. The proposal seeks to revise existing utility assistance programs offered in partnership between the City of Independence and CSL. In order to provide thorough examination and consideration of this proposal, the Mayor requested the City Council's Audit and Finance Committee further review the proposal with assistance from the City's Management Analyst. This report represents a summary of that review.

Scope and Methodology

This analysis of the utility assistance program modification proposal has been conducted pursuant to Chapter 1, Article 43 of the City Code of the City of Independence, which outlines the duties of the City Management Analyst. This report represents a non-audit activity, which is defined as professional services other than audits or attestation engagements.¹ As such, the report does not constitute an audit conducted in accordance with Generally Accepted Government Auditing Standards. The report was assigned by the City Council's Audit and Finance Committee in February 2015. Report methods include:

- Conducting interviews with staff from the City's Power and Light Department as well as staff from the Water Department's Customer Service Division.
- Meeting with staff from the Community Services League to further investigate the proposal.
- Reviewing the City Charter and other City ordinances pertaining to utility operations.
- Reviewing historical documents pertaining to the establishment, funding, and management of the utility assistance programs.

Assistance Programs Overview

The City financially supports two utility assistance programs: the Independence Rate Assistance Program (IRAP) and the I-Share program. The IRAP program is designed to help low-income elderly or disabled people with utility costs. Qualified citizens of Independence pay only 50% of the electric charges on their bill. This program is administered by CSL. Program qualifications include:

¹ Comptroller General of the United States, *Government Auditing Standards*, (Washington, D.C.: U.S. Government Printing Office, 2011), p. 19.

- Be at least 60 years old or disabled;
- Live within the city limits of Independence;
- Be the head of household;
- Have a maximum income of all household members no greater than 150% of the poverty level as announced by the Health and Human Services Department;
- Have resources not exceeding \$3,000, excluding residence and vehicle; and
- Not own rental property.

The I-Share program is designed to help low-income families who are facing utility shut-offs due to having a delinquent account. Under the program, Independence Power & Light matches, dollar for dollar, money that is donated by its' customers to this assistance program. I-Share provides short term cash assistance and is also administered by CSL.

Funding History

On June 17th, 1985, the City Council approved Ordinance No. 8767 establishing a temporary program to discount electric bills of economically disadvantaged elderly and/or disabled customers by 50 percent. The stated purpose of the program was to provide relief to the disadvantaged elderly and disabled from the recently approved (1985) and planned increases in electric rates. Until 2001, the program was administered by CSL at no direct cost to the City. On August 16th, 2001, the City Council approved Ordinance No. 14903 after determining it necessary to provide financial support to CSL for their program administrative work. The ordinance authorized \$625 to be paid monthly to the Community Services League for administrative services, with the payment being increased annually by \$25 per month beginning July 1st, 2002. In Fiscal Year 2013-14, the City of Independence allocated a total of \$145,300 through the Power and Light Non-Departmental Fund for the IRAP program. According to the proposal, the IRAP program served 413 households in Fiscal Year 2014 and paid an average of \$324 per IRAP participant.

IRAP Program					
Year	Budget	Customer Assistance	Administrative Fee	Total	Fund Depleted
FY 2004-05	\$ 95,000	\$ 86,600	\$ 8,400	\$ 95,000	8 months
FY 2005-06	\$ 95,000	\$ 86,300	\$ 8,700	\$ 95,000	8 months
FY 2006-07	\$ 95,000	\$ 86,300	\$ 8,700	\$ 95,000	7 months
FY 2007-08	\$ 145,300	\$ 135,700	\$ 9,300	\$ 145,000	9 months
FY 2008-09	\$ 145,300	\$ 135,400	\$ 9,600	\$ 145,000	8 months
FY 2009-10	\$ 145,300	\$ 135,100	\$ 9,900	\$ 145,000	7 months
FY 2010-11	\$ 145,300	\$ 134,800	\$ 10,200	\$ 145,000	6 months
FY 2011-12	\$ 145,300	\$ 134,800	\$ 10,500	\$ 145,300	6 months
FY 2012-13	\$ 145,300	\$ 134,500	\$ 10,800	\$ 145,300	4 months
FY 2013-14	\$ 145,300	\$ 134,200	\$ 11,100	\$ 145,300	6 months
Total	\$ 1,302,100	\$ 1,203,700	\$ 97,200	\$ 1,300,900	

The proposal notes that funding for the IRAP program is usually fully expended within 4-6 months. As seen in the historical table above, only once has the program run out of funding in four months. Typically, funds are depleted within 6-8 months. The proposal also states that the IRAP and I-Share

programs have not been substantially changed since they were first developed. While this is generally true of the I-Share program, the IRAP program was increased by 53% beginning in Fiscal Year 2007-08.

I-Share began in 1978 as an effort among a group of local residents and the Community Services League. Mayor Lee Comer declared December 1978 as I-Share month, a city councilmember donated a month's salary, and with church and civic support \$3,681.66 was raised. In 1980, the City of Independence was asked to donate \$1,000 to the I-Share Fund. The City of Independence allocated \$1,000 in 1981 and 1982. In 1982, Councilmember Jim Nauser requested the first ordinance which established the policy for the City to equally match all donations to the I-Share program with an initial cap of a \$20,000 match in Fiscal Year 1982-83. The fund has grown over the years, and is currently funded by Power and Light Non-Departmental Fund, with the City providing matching funds of up to \$37,550 in Fiscal Year 2013-14. According to the proposal, the I-Share program provided assistance to 226 households in Fiscal Year 2014. The average assistance was \$188 per household.

I-Share Program		
Year	Budget	Paid Out
FY 2004-05	\$ 35,000.00	\$ 28,874.00
FY 2005-06	\$ 135,000.00	\$ 134,678.67
FY 2006-07	\$ 35,000.00	\$ 35,084.70
FY 2007-08	\$ 35,000.00	\$ 32,115.75
FY 2008-09	\$ 35,000.00	\$ 30,354.00
FY 2009-10	\$ 35,000.00	\$ 39,301.00
FY 2010-11	\$ 35,000.00	\$ 25,717.82
FY 2011-12	\$ 37,550.00	\$ 26,759.31
FY 2012-13	\$ 37,550.00	\$ 26,094.05
FY 2013-14	\$ 37,550.00	\$ 37,241.74
Total	\$ 457,650.00	\$ 416,221.04

As seen in the table above, the City Council made a one-time supplemental appropriation to the I-Share program in Fiscal Year 2005-06 of \$100,000 as a result of concerns over rising natural gas bills.

Program Administration

Applicants can come in anytime during the month and make an application for assistance. Applications are weighted based on who referred the applicant (i.e., school social worker, hospital, etc.) or special issues (i.e., cancer, life threatening issue, etc.). Applicants are then selected off of a priority list until the funding is exhausted. In some cases, applicants can receive assistance almost immediately, depending on how critical their issues are. CSL is only paying the arrearage part of a bill, not current bills. According to the proposal, CSL generally restricts payment to approximately \$300 to \$400 for high delinquent bills. If more money is owed by the applicant, CSL will work with the customer to try and secure financial assistance from other organizations or churches that might contribute. The client can only receive assistance once a year.

Proposal Overview

There are several components of the utility assistance program proposal that was submitted to the Mayor. Objectives of the proposal which involve and/or impact the City are as follows:

1. Increase the number of households receiving utility assistance from CSL from 639 to 1,600 through revised eligibility requirements and increased financial support from the City of Independence.

- a. Reduce IRAP funding from \$145,300 to \$20,000 and increase I-Share funding from \$37,550 to \$362,000. Total net City funding increase (according to proposal): \$200,000.
- b. Amend eligibility for direct assistance programs:
 - i. Proposed IRAP eligibility requirements:
 1. Be at least 60 years old or disabled;
 2. Have a health condition that requires keeping the house cool in the summer for medical purposes;
 3. Be under 150% of the poverty guidelines;
 4. Limit payment to half the electricity bill for only the three summer months when electricity usage is the highest.
 - ii. Proposed I-Share eligibility requirements:
 1. Household income less than 150% of the poverty guidelines;
 2. Have not received direct utility assistance in the past 12 months;
 3. Have not had electricity disconnected more than once in the past 12 months;
 4. Have a delinquent bill or have had their electricity turned off for more than two days;
 5. Cannot afford the deposit to get their electricity turned on;
 6. Must take the CSL How to Live on a Small Income class.
2. Utilize Independence Power & Light staff assistance to develop educational materials related to energy conservation information.
3. Have CSL and IPL work together to develop a referral form that IPL can use in making referrals to CSL for utility assistance.
4. Direct the Public Utilities Advisory Board and IPL to study low income home weatherization programs. Specifically, increase IPL staff time to perform in-home energy audits upon the request of a low-income renter.

Summary of Findings and Recommendations

Having reviewed the proposal and after having met with all pertinent parties, the report makes the following recommendations:

Assess Program Parameters and Eligibility Guidelines as Proposed

City staff fully support and encourage CSL to review the utility assistance programs to ensure that available funds are used for maximum benefit of those who seek assistance. In particular, revised

eligibility guidelines should be focused on maximizing the available funding in order to serve as many clients as possible for the longest duration of time possible. In addition to the revised guidelines stated in the proposal, these revised guidelines should also explore the maximum amount of funding made available to each client. The City should be a part of this review to help ensure public funds are utilized in the most prudent means possible.

Promote Existing Energy Efficiency, Home Weatherization, and Code Compliance Materials & Services

The proposal indicates that many low-income families rent apartments and single-family homes that are energy inefficient, which can adversely impact their ability to conserve energy usage. While the proposal suggests that City-staff time be increased to perform in-home energy audits upon the request of a tenant, such an option is not feasible, given the many other demands on staff's time. Indeed, both City data and information collected through the U.S. Census Bureau indicates that as many as 20,000 rental units are located within Independence. Moreover, landlord-tenant issues regarding property ownership would likely have to be addressed in order to grant access to a rental unit.

As the proposal notes, however, a Home Weatherization Program Exists through United Service Weatherization Program to assist low-income families by making energy efficiency upgrades that will assist in lowering the amount of energy used to heat their homes. There is no cost to the recipient to participate in this program. Proof of ownership is required. Though this program does not apply to rental properties whose owners do not meet the income restrictions, a number of federal, state, and local laws are in place to protect tenants against inadequate housing and unresponsive landlords. A Landlord-Tenant Guide has been developed by the City of Independence and can be obtained by contacting the Independence Health Department. This guide should be updated to ensure weatherization and energy conservation guidelines and other current information regarding rental property resources is included.

Continue Dialogue with the City about Management of Delinquent Accounts

The proposed idea of having the City make referrals to the Community Services League for utility assistance ultimately proves difficult for a number of reasons. Of primary concern is that failure to pay one's utility bill is not necessarily an indication of one's eligibility for utility payment assistance under the current program guidelines. In fact, the City has actively strived to be proactive in seeking to monitor and limit the number of delinquent accounts while determining the root cause of the problem and referring customers accordingly. For example, the Customer Service Division has delegated a staff member to participate on the Hungry and Homeless Coalition. This staff member speaks with community service agencies regarding account shutoffs and delinquent accounts in order to maintain communication and remain sensitive to customer needs while operating the utilities in a businesslike fashion. Moreover, the City works closely with customers on a case-by-case basis to establish payment plans to help customers who have fallen behind on their payments. Finally, the City has recently revised the guidelines for shutoffs during extreme weather events. The new policy, which was recommended by the Public Utilities Advisory Board and adopted by the City Council, bring the City's shutoff guidelines in line with those utilized by the Missouri Public Service Commission and will curtail the number of shutoffs performed by the City.

To this end, then, the City and CSL should continue dialogue to fully understand the scope and capability of services provided by each entity while continuing to identify opportunities for future partnerships

that will seek to minimize the number of delinquent customer service accounts through proactive and preventative measures.

Withhold Further Action on Increased Funding

At the heart of the proposal is a suggestion that funding from the City be increased to further expand the ability to support those who qualify for utility assistance under the IRAP or I-Share program. The proposal states that “one of the benefits to Independence residents having a City-owned utility company is the desire on the part of the City to assist low-income residents.” While there are a multitude of benefits to the City owning its’ own utilities, Section 3.17 of the City Charter is unwaveringly clear that the principal requirement of the City-owned utilities is that they “be operated in a businesslike manner.” To that end, the City must walk a very fine line to ensure that the rates for all three utility services are set at a level that meets the operating and capital needs of these enterprises.

Because the proposal makes specific requests for additional funding, however, some clarification regarding the assumptions utilized to develop the proposal is necessary. The proposal requests a total increase of \$199,200 for the IRAP and I-Share programs with the assumption that this amount reflects the increase in utility costs “since the current assistance programs were developed several years ago”. In fact, residential rates have gone up approximately 40% since 2007, or approximately 5% per year on average. The requested increase put forward in the proposal represents an increase of over 100%. To match the 40% increase in rates, the additional budgeted amount would be \$73,120, for a new total assistance amount of \$255,920.

Moreover, the proposal requests that after one year, the City fund the annual utility assistance program at an amount no less than 0.3% of the previous year’s operating revenue. In Fiscal Year 2013-14, 0.3% of actual operating revenues would equal approximately \$416,000 per year.

The amount and type of utility assistance provided should be somewhat reflective of norms in the industry. To that end, the Independence utility assistance programs were evaluated in comparison to those offered by the neighboring electric utility, Kansas City Power & Light. KCP&L offers two utility assistance programs. One such program is Dollar-Aide. Funding for this program is raised by KCP&L employees and other benefactors and matched by the company at the rate of 50-cents for every dollar raised. The total annual budget for this program is approximately \$250,000. The second program offered by KCP&L is the Economic Relief Pilot Program (ERPP). The ERPP allows a credit of up to \$50 per month, for a maximum of twelve consecutive months, for qualified customers in need of financial assistance to pay their electric bill. Currently, the number of participants is limited to 2,000. The total annual budget for this program is \$1,200,000. Eligibility is limited to active, Missouri residential accounts with KCP&L that are in good standing (one that is not currently disconnected and not currently at risk of being disconnected), income at or below 185% of the current federal poverty level, and those accounts that have not been previously removed from the program due to mishandling of a KCP&L account (non-payment, tampering, diversion, or fraud).

Between these two programs, total KCP&L customer assistance totals \$1,450,000. Total operating revenue for KCP&L in calendar year 2013 was approximately \$1,670,000,000 (\$1.67 billion). As such, customer assistance programs represented approximately 0.0008% of KCP&L operating revenues. In that same time, total operating revenue for Independence Power & Light totaled \$135,000,000 (\$135 million). Total customer assistance program funding totaled \$182,850. As such, customer assistance

programs represented approximately 0.001% of Independence Power & Light operating revenues. By comparison, then, Independence Power & Light contributes 25% more funding from its operating revenues to customer utility assistance programs than KCP&L. To that end, the IRAP and I-Share programs are already generous in their support of customer assistance when compared to the largest peer in the region. To go significantly beyond the current level of support may potentially put the City in jeopardy of violating the Charter requirement to operate the utilities in a businesslike manner.

In addition to these very clear Charter limitations specifying that the City utilities be operated in a businesslike manner, the City is conducting a rate analysis study as called for in Resolution 5933. Understanding the long-range financial plans, revenue projections, and operating and capital expenses that will drive future activities is imperative before making any decisions on any proposed increases in assistance funding. To presume the ability to increase funding without a holistic assessment of the utility's financial needs would be both shortsighted and irresponsible. Once the long-range financial structure is known, then sound financial and strategic decision making can occur.