

CITY COUNCIL STUDY SESSION MINUTES

October 21, 2014

The City Council of the City of Norman, Cleveland County, State of Oklahoma, met in a study session at 5:35 p.m. in the Municipal Building Conference Room on the 21st day of October, 2014, and notice and agenda of the meeting were posted at the Municipal Building at 201 West Gray, and the Norman Public Library at 225 North Webster 48 hours prior to the beginning of the meeting.

PRESENT: Councilmembers Heiple, Castleberry, Miller, Holman, Jungman, Lang, Quinn, Williams, and Mayor Rosenthal

ABSENT: None

Item 1, being:

DISCUSSION REGARDING PROPOSED INCREASES IN THE CITY OF NORMAN WATER RATES AND WATER METER CONNECTION FEES.

WATER RATES

Mr. Komiske, Director of Utilities, highlighted total costs for Phase II of the Water Treatment Plant (WTP) Upgrade Project as \$30.1 million that consists of low lift pumping - \$2.6 million; ozone contactor with diffusers - \$2.1 million; ozone feed system and building - \$12.3 million; biofiltration upgrade - \$2.7 million; UV system - \$3.5 million; residual handling improvements - \$1.2 million; chemical feed improvements - \$3.5 million; pump station rehabilitation - \$1.8 million; maintenance/storage building - \$0.5 million; and existing building and lighting rehabilitation - \$0.8 million.

Mr. Komiske highlighted additional funding needed for Phase II capital improvements as \$31 million that includes regulatory mandates, water quality, safety, etc.; \$12 million for new wells to add two million gallons per day (mgd) capacity; \$2 million for land acquisition; and \$3 million for water line replacements for a total of \$50 million. He said a reserve requirement of \$4 million per year would be needed for capital improvements.

Mr. Komiske said several existing wells have been taken out of service because they no longer meet new Environmental Protection Quality (EPA) requirements regarding heavy metals so by blending wells together they can be put back into service. According to the Strategic Water Supply Plan (SWSP), the City will need two mgd of additional well capacity even after wells have been brought back into service. He said land will need to be purchased for new wells and new piping installed.

Mr. Komiske said \$1.8 million per year would be needed for additional annual maintenance and operations costs that consist of additional power required for ozone treatment - \$500,000; purchasing two mgd from Oklahoma City (OKC) - \$1 million; and annual operations costs - \$300,000. Mr. Komiske said in two years OKC will not allow Norman access to emergency water. He said Norman usually purchases water from OKC on an emergency basis during summer peak demands; however, in October 2016, OKC's rates will change and Norman will be charged based on time of day and peak day usage. He said OKC's current rate for Norman is \$7.50 per 1,000 gallons, but that could change to approximately \$17 to \$26 per 1,000 gallons, which basically places Norman as a base rate customer.

Mr. Komiske said during the public meeting held on October 8, 2014, citizens suggested adding an additional tier charge to the rate block as well as a drought surcharge. Mr. Komiske said Norman adopted its inverted rate block in 1999, for conservation purposes. He said the more water a customer uses the more expensive the water becomes per unit and that affected 25% of residential customers. He said the inverted rates did decrease water usage during peak demand times. He said Norman is the only City surveyed that has four tiers in its rate block. Edmond has three tiers while Moore, Enid, and OKC have two tiers. He said some cities have a flat rate so no matter how much water is used, the price is the same.

WATER RATES, continued

Mr. Komiske highlighted the proposed rate increases as follows:

	PRESENT	PROPOSED
BASE FEE w/CIC *	\$5.50	\$7.50
0 to 1,000	\$2.00	\$3.50
1,001 to 2,000	\$2.00	\$3.50
2,001 to 5,000	\$2.00	\$3.50
5,001 to 15,000	\$2.10	\$4.20
15,001 to 20,000	\$2.75	\$5.20
More than 20,000	\$4.95	\$6.80

*Capital Improvements Charge

Mr. Komiske highlighted a proposed fourth tier of \$6.80 per 1,000 gallons over 20,000 gallons, which is higher than any other metro city's highest rate. Mayor Rosenthal said Norman's base rate is the lowest in the metro area. She said OKC's base rate is \$12 and Mr. Komiske said Moore recently added an additional \$8 to their existing base rate. Councilmember Castleberry said OKC is trying to cover their debt service through their base rate whether they sell water or not.

Mr. Komiske said during the public meeting held on October 8th, citizens suggested adding another tier rate for customers that use over 40,000 gallons per month. He said 1.1% of residential customers use more than 40,000 gallons per month so if the City added a fifth tier and charged \$9 per 1,000 gallons for any usage over \$40,000, it would only generate \$138,000 in revenue.

Mr. Komiske said another suggestion at the public meeting was to add a drought surcharge. He said a drought surcharge is an increased rate for water usage during a drought. He said two main reasons for a drought surcharge is rate stabilization and to impact customer usage. He said ways to apply a drought surcharge include charging a flat rate surcharge to all customers for all consumption; usage over a threshold; tied to a particular drought designation/restriction; and built in "start/stop" triggers. He said there are many variations to start/stop triggers and much discussion would need to take place.

Mayor Rosenthal said the fifth tier in excess of 40,000 gallons affects 1.1% of residential customers and asked if those customers are all single family homes or if some of them are multi-family apartments. Mr. Komiske said some of them could be apartment complexes that are considered residential so they could easily go over the 40,000 gallon mark affecting their total bill. Mayor Rosenthal said many of the new apartment complexes have individual meters whereas older apartment complexes have one meter. Councilmember Miller said the fifth tier is about making a statement on conservation and encourages people to be more careful about their use of water. She asked the dollar amount of a drought surcharge and Mr. Komiske said that is unknown since Norman does not currently have a drought surcharge. He said it is a complicated issue and there are a lot of ways of doing it.

Councilmember Jungman asked why the fifth tier starts at 40,000 instead of 30,000 and Mr. Komiske said that was a suggestion brought up in the public meeting, but Staff has not built that tier into the rate structure.

Councilmember Jungman asked if a resident can install multiple meters to try to mitigate the tier rates and Mr. Komiske said residents can install a maximum of two meters, but they would have to pay a connection fee. He said one meter would be for domestic use and the other for irrigation use, but there are very few homes with two meters.

WATER RATES, continued

Councilmember Lang said if an apartment complex is on one meter and chooses to install individual meters, would they have to pay the connection fee and Mr. Komiske said yes. Councilmember Lang said if the connection fee is increased, residents will be stuck with a large fee and Mr. Komiske said the apartment owner would pay the connection fee. Councilmember Lang said the renter will end up paying the fee in some way and felt it would be cost prohibitive to do that.

Mayor Rosenthal asked Councilmembers thoughts on adding a fifth tier and, if so, should it start at 30,000 gallons or 40,000 gallons. Councilmember Williams said Council would need to decide which breakdown makes the most sense and felt data on that would be useful and Councilmembers agreed. Mr. Komiske said Staff would put some data together for Council's review.

Councilmember Lang would like to see the unintended consequences of charging the higher rate to people in a lower income bracket that live in an apartment complex with only one connection. He does not believe the intent of Council is to punish the people who cannot afford it. Mayor Rosenthal said it would be naïve to think that water costs are not being passed onto the renter and agreed that Council needs to know the unintended consequences.

Councilmember Quinn said when the City went to the inverted rate, did that have an effect on water consumption and Mr. Komiske said yes, consumption was reduced to below the 20,000 gallons moving customers into a lower rate tier.

Mayor Rosenthal said Council would like to see a proposal for a fifth tier as well as its unintended consequences.

Mayor Rosenthal asked Councilmembers thoughts on a drought surcharge. She said the main reason for Norman to consider a surcharge would be rate stabilization and she is not sure Norman's customers are really interested in Council stabilizing rates. She said what the City is doing on the conservation side has the desired impact and felt a drought surcharge would be too complicated to explain to citizens. Councilmember Castleberry said the tiered rate structure encourages conservation regardless of whether or not the City is in a drought. Mayor Rosenthal agreed and said adopting the odd/even watering as a general practice is consistent with being good stewards of the resource all of the time.

CONNECTION FEES

Mr. Komiske said Norman began charging connection fees in 1974, to cover replacement and extension of the water and sewer system including water and sewer plants and payment of bonds issued for the same purpose. He said the current connection fee is \$575 for water and \$275 for sewer for a total of \$850. He said fees get significantly larger with larger size connections because a larger pipe diameter potentially places more demand on the system. He said the City averages 600 connections per year, but have ranged from 340 to 900.

Mr. Komiske highlighted the proposal to phase connection fee increases over the next two year as follows:

2015	\$ 800
2016	\$1,000

Mr. Komiske said suggested effective dates for connection fee increases as August 1, 2015, and August 1, 2016.

CONNECTION FEES, continued

Mr. Komiske said another item discussed at the public meeting was possible triggers for a third connection fee adjustment. He highlighted possible triggers as:

- OKC will eliminate “emergency” water availability on October 1, 2016
- New wells should be underway to determine more accurate costs
 - Wells vary from 122 gallons per minute (gpm) to 220 gpm
 - Connecting piping necessary from 1,200 feet to 5,000 feet
- Recent data reflected 110 gallons per capita per day (gpcpd) usage rather than 131 gpcpd used

Mayor Rosenthal said many citizens have asked why the City is not using the same projected costs for the well side that is being used for the WTP side and her understanding is that there is more certainty on the assumptions on the WTP side because of the work that has already been done as opposed to wells where the City is unsure where they will be located. She asked at what point in the planning process for acquiring land, test holes, etc., would Staff have the most accurate estimate and Mr. Komiske said Staff will not have the most accurate figures until it is history. He said constructing a well is a long process. He said the City hired a consultant to look at the geology of where the wells should be located then land would have to be purchased, test holes dug, etc. He said it could easily be a year and a half before a couple of wells are bid so Staff will know how much the contractor would charge to do the work.

Councilmember Jungman understood it is hard to predict the cost of building 12 new wells, but asked what Mr. Komiske’s range of confidence would be and Mr. Komiske said there is too much variability in constructing wells to predict an amount. He said to drill a hole in the ground and not know what is below makes it hard to predict. Councilmember Jungman said Staff has stated that wells vary from 122 gpm to 220 gpm and asked what number Staff used to get those figures and Mr. Komiske said he did not remember as it was just an estimate going forward. Councilmember Jungman said it would be nice to know what numbers are being used to build that assumption and he understands historic costs being more certain, but if the City always uses historic costs for connection fees, the City will be behind forever and if the City uses future costs for rate payers, the City will always be even or ahead forever, which is not working. Mayor Rosenthal disagreed and said Staff has to use the best costs known and the variability for wells is considerable. She said if the City can construct eight wells producing at 220 gpm that are 1,200 feet from the WTP then costs will be much lower than if ten wells are constructed producing at 122 gpm and are 5,000 feet away from the WTP. She said the issue here is the uncertainty before a well site is determined. Councilmember Jungman said the City is basically saying all the uncertainty goes on the rate payer and rate payers will overpay if necessary or customers will underpay if necessary, but the City is not willing to suffer any uncertainty on connection fees.

Councilmember Heiple constructed a private well on his property and said there is a huge variance in the range of costs so he knows firsthand how wide the range can be. He said compared to \$50 million for the WTP, the wells costs are small in comparison. Councilmember Castleberry said Norman does not have enough wells for current customers and the two million mgd will just keep Norman’s current customers supplied. Mr. Komiske said Norman is currently purchasing a portion of Del City’s allocation from Lake Thunderbird so obviously the City does not meet current water supply demand. Mayor Rosenthal said the 122 gpm to 220 gpm number are based on a one year data point and it would be a risk to establish a connection fee based on that.

Councilmember Jungman asked why the City would need a trigger for a third connection fee and Mr. Komiske said that is simply a proposal for Council to revisit the connection fees at any time to make adjustments as needed. Councilmember Castleberry liked the trigger because it forces Council, current and future, to revisit the fees and either take action or leave as is. Councilmember Miller said the trigger gives the public the sense that

CONNECTION FEES, continued

Council will stay on top of the situation and developers pay enough fees as it is. Councilmember Jungman said it is strange to him that the trigger deals with costs yet Council is not willing to deal with costs here and will always be behind. He said he does not accept the fact that Staff has no ability to reasonably estimate future costs.

Councilmember Castleberry said developers are not paying the fees, the homeowner is paying the fee or the apartment owners are paying the fees. He said these fees hurt individual citizens and makes affordable housing in Norman less affordable. Councilmember Lang said the only other option is to stop development. He said the fact of the matter is Norman is not currently producing enough water for existing customers. Councilmember Jungman felt Norman gets enough from rate payers and Councilmember Lang disagreed and said all you have to do is look at the Fund Balance over the past ten years. He said Norman is not charging enough for the water being provided.

Councilmember Castleberry said it does not help matters that rates are only raised every ten years and Councilmember Quinn agreed and said Council has this very argument every eight to ten years because no one knows what the real costs are and what to charge customers. Mayor Rosenthal said an advantage of a trigger would be to review rates more often.

Councilmember Jungman felt the City should charge costs. Mayor Rosenthal said the work done to estimate costs on the WTP is very different than what is known about potential costs for wells and that is why she is comfortable using historical costs. She said there seems to be consensus to add a trigger to stay on top of rates and fees.

Mayor Rosenthal asked Mr. Bryant to answer a couple of questions raised during the public meeting. Why is the City not raising the sewer excise fee and charging a stormwater runoff fee during this rate increase process. Mr. Bryant said Enterprise Funds are specific to each particular enterprise of water, sewer, sanitation, etc. He said because Council is focusing on a water rate increase it would be difficult for Council to start looking at an excise fee for sewer or a stormwater fee to be placed on the same election. Mr. Bryant said, by State statute, there would have to be separate questions on the ballot.

Mayor Rosenthal said a year ago, Council decided not to place an excise fee on the ballot because Council wanted to evaluate the fee and assess its impact and asked where Staff is on getting that information. Mr. Steve Lewis, City Manager, said Staff has prepared a Request for Proposal (RFP) to engage those services, which will be released in the very near future. Mayor said the intent of the RFP is to evaluate the impact of covering costs as well as the impact on growth issues in the community. Councilmember Miller asked when Council would be able to review the RFP and Mr. Lewis said in 90 to 120 days.

Councilmember Holman referred to the comparison chart of connection fees and said a 2,400 square foot home in Norman costs \$4,350 in combined fees and the next highest City is \$2,670 so it costs \$1,680 more to build a house in Norman. He asked why there is such a large gap between Norman and other cities and Mr. Lewis said the primary difference is the excise tax Norman charges. Councilmember Holman said no other city on the comparison chart charges an excise tax.

Councilmember Miller said Edmond charges \$14,385 for two inch waterline connections, which is a huge difference than other cities and asked why. Mayor Rosenthal said Edmond has not been particularly welcoming to apartment complexes and Edmond also does not have the on-campus student housing issues that Norman faces. She said Norman's proposed two inch connection fee would increase from \$3,745 to \$6,667. Councilmember Castleberry said Tulsa has no connection fees and assumed they charged connection fees through their rates. Councilmember Holman said they can do that because they can raise rates without a vote of the people.

PUBLIC COMMENTS

Ms. Lyntha Wesner, 626 Tulsa Street, asked about the \$1,530 amount mentioned at an earlier meeting as being the true cost of the City for connection fees and Mayor Rosenthal said that is not the true cost in the sense that true costs are not known. Mr. Komiske said the \$1,530 was based on the assumption of getting two mgd out of \$12 million investment, calculating how many homes that would service then dividing that number into the \$12 million. He said that earlier discussion was looking forward and assuming a cost of X amount instead of using historical costs.

Councilmember Jungman asked if new wells are estimated in the cost of \$50 million for Phase II of the WTP Project and Mr. Komiske said yes. Councilmember Jungman said Staff can estimate that cost, but cannot estimate for another parallel calculation?

Mayor Rosenthal said as Councilmember Miller stated earlier, the City can estimate high or estimate low and if the City estimates low they would have a hard time explaining to voters they made a mistake and need another increase. She said the City does not have the ability to increase utility rates, but does have the ability to increase connection fees.

Items submitted for the record

1. Memorandum dated October 21, 2014, from Steve Lewis, City Manager, to Mayor and City Council
2. PowerPoint presentation entitled, "031 Water Fund Study Session," dated October 21, 2014
3. Water Rate Increase Public Meeting, Public Comments, October 8, 2014
4. Comparison chart of water and sewer connection fees

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The meeting adjourned at 6:45 p.m.

ATTEST:

City Clerk

Mayor