

CITY COUNCIL CONFERENCE MINUTES

April 23, 2013

The City Council of the City of Norman, Cleveland County, State of Oklahoma, met in a conference at 5:30 p.m. in the Municipal Building Conference Room on the 23rd day of April, 2013, 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 Castleberry, Gallagher, Griffith, Jungman, Kovach, Lockett, Spaulding, Williams, and Mayor Rosenthal

ABSENT:

None

Item 1, being:

DISCUSSION REGARDING THE FYE 2014 CITY OF NORMAN BUDGET – ENTERPRISE FUNDS.

Mr. Steve Lewis, City Manager, said Staff presented the FYE 2014 General Fund and Special Revenue Funds Budget to Council on April 16, 2013, and tonight's presentation is about the FYE 2014 Enterprise Funds. He said Enterprise Funds include Water, Water Reclamation (wastewater), and Sanitation Funds.

Ms. Suzanne Krohmer, Budget Manager, summarized the FYE 2013- 2014 Budget calendar and said Council will consider adoption of the budget on June 11, 2013. She said the three Enterprise Funds are operated in a manner similar to private business enterprises where the intent of the City is that costs of providing goods and services to the general public is financed or recovered primarily through user charges.

WATER FUND

Ms. Krohmer said over 4.5 billion gallons of water is produced annually, there is over 570 miles of pipe, and production runs 24 hours a day, seven days a week, 365 days a year. She said major revenue assumptions for FYE 2014 are projected to be 9.3% higher than FYE 2013 budget figures. She said 2 1/2 % of that is assumed customer growth and 6.7% is a projected increase in FYE 2013 estimated figures.

Ms. Krohmer said in 1999, an inverted block rate was adopted to encourage conservation, which affected about 25% of residential customers. She said the more water a customer uses, the more they pay and the higher quantity of water used, the higher the rates. She said in 2006, water rates were increased to the current level. She said a 2.5% annual customer growth rate is built into the FYE 2014 Budget. Councilmember Gallagher said the annual growth rate is actually 1.5% and he feels 2.5% is high since the City of Norman is not growing that fast. Mr. Anthony Francisco, Director of Finance, said growth is based on revenue not population all although it fluctuates based on the weather; the historic pattern has been 2.5% growth in revenue. He said because of the inverted block rate, growth has a lot more to do with the weather and if the City grows as much as it did in 2012, the actual figure would be 6%.

Ms. Krohmer highlighted Norman's water rates compared to other communities and Norman is one of the lowest. She highlighted the City's current rate structure. Ms. Krohmer said Water Fund expenditure assumptions include \$400,000 budgeted for the purchase of emergency water from Oklahoma City (OKC); \$1,296,002 for raw water purchase from the Central Oklahoma Master Conservancy District (COMCD), which includes reserve for the lake augmentation study from OKC; and \$429,700 for fleet related replacement purchases. She said the ending Fund Balance is estimated to be \$2,566,019. She said the City has a targeted operating reserve of 8% and capital reserve equal to the annual average of the next five year capital expenditure plan, which is approximately \$735,788 short of the desired target.

Water Fund, continued:

Ms. Krohmer highlighted current major capital water projects as Robinson Water Line Replacement under I-35 (\$2,297,600 in FYE 2014 and \$754,400 in FYE 2015) and Segment D 24" Waterline Relocation – Highway 9 – Chautauqua – Imhoff – Berry – Lindsey to Briggs (\$3,053,175). Future projects include the Phase I Water Treatment Plant; Crossroads Waterline Replacement, arsenic related well modifications, and projects resulting from Strategic Water Supply Plan update.

Councilmember Gallagher asked if the Summit Lakes Waterline Project is scheduled for FYE 2014 and Mr. Komiske said it is scheduled in FYE 2013. Councilmember Gallagher asked if budgeted funds included a water tower and Mr. Mark Daniels, Utilities Engineer, said \$2.5 was budgeted for the water tower under a different project name.

Mayor Rosenthal asked if funds budgeted for projects resulting from the Strategic Water Supply Plan are simply a placeholder and Mr. Komiske said yes, \$350 million is budgeted to allow for projects that need to be addressed in the future. Mayor Rosenthal said one of many scenarios in the Strategic Water Supply Plan is drilling new wells and asked if those types of projects are being moved up because she feels that is more realistic than placing a big number in the budget for future projects. Mr. Komiske said the Strategic Water Supply Plan is almost completed and is being narrowed down to four portfolios, but until that decision is made by Council no numbers are being applied to projects in the budget. Councilmember Kovach said he agreed with the Mayor on moving well projects forward. He said there are several water quality regulations coming forward from the State and all indications point toward some type of treatment of arsenic wells so it would be reasonable to move in that direction. Mayor Rosenthal said the reason for the Strategic Water Supply Plan process was to garner more specific details for voters to understand why a rate increase is important and Council needed to have answers to all options before asking the public for a rate increase since the citizens voted against a water rate increase in 2010.

Councilmember Castleberry asked if anything is being done for short-term water supply and Mr. Komiske said not at this time. Councilmember Castleberry asked how much it costs to drill a well and Mr. Komiske said approximately half a million dollars. Mr. Komiske said \$2 million is needed to be able to obtain one million gallons of water per day. Councilmember Kovach asked how much water the City can purchase from OKC and Mr. Komiske said up to six million gallons per day depending on the pressure differential. Councilmember Kovach said the City budgets \$400,000 to \$500,000 for emergency water from OKC each year and he was wondering if the City could use a Revenue Bond to drill extra wells to alleviate the need for OKC water. Mr. Komiske said the City would have to spend \$12 million dollars to build enough wells to get through water peak demand. Councilmember Gallagher said in order to be a good steward of a resource you need to use what you can locally and plan for the worst, which means drilling what we can locally instead of being dependent upon projects that may never happen and voters may never approve of. Mr. Komiske said the City does not have the money to drill wells that will only acquire four hundred gallons per minute. He said costs have changed significantly since the last rate increase in 2006, and waterlines need to be replaced so there is no money for significant projects to obtain additional water.

Councilmember Kovach asked if the City contracts with anyone to purchase water and if so, when those commercial rates were last increased and Mr. Komiske said the only contract the City has is with the University of Oklahoma (OU) and they pay 90% of the current commercial rate. Mr. Komiske said businesses pay a flat rate of \$2.10 per thousand gallons whether they are large or small. Councilmember Castleberry asked if the City makes money selling water and Mr. Komiske said no, the City is going into the red every year. Councilmember Castleberry said if the City drills another well, would they make money off that well and Mr. Komiske said that is difficult to answer because when there is a drought consumers use a lot of water, which is good for the City and that is why revenues for the last two years have been higher than expected. Councilmember Castleberry said in

Water Fund, continued:

the FYE 2015 projected budget there are revenue bond proceeds of \$21 million and asked how that money is going to be used. He asked if the City could move that money to FYE 2014 and Mr. Komiske said that money is budgeted for the Phase II Water Treatment Plant Upgrade.

Councilmember Griffith asked how many wells were lost due to arsenic and Mr. Komiske said 15 out of 30. Councilmember Griffith asked if recovering lost wells would save the City money in the long run versus drilling new wells and Mr. Komiske said that is an option in the Strategic Water Supply Plan, but it has its complications.

Councilmember Kovach said in a recent Finance Committee meeting, Mr. Francisco mentioned the City having revenue bond money that has to be spent within a certain timeframe and asked the amount of that bond money. Mr. Francisco said \$3 million and a large portion of that has been apportioned for a high pressure waterline in Summit Lake Addition. Councilmember Gallagher thought that waterline was \$700,000 and Mr. Daniels said it is currently \$1.2 million because the size of the pipe was increased. Councilmember Kovach asked if the balance of the revenue bonds could be used for a well and Mr. Francisco said he would have to find out if using the money for a well would satisfy the requirements of the bond. Mr. Komiske said some of the money has been realigned into other waterline projects. Mr. Daniels said there is approximately a \$1.2 million in the Segment D Waterline Project that has not been obligated to be spent at this point, so theoretically that money could be used on another project. Councilmember Gallagher felt that money could be used for wells and Mr. Francisco said the question is whether or not it is legal to use revenue bond money programmed for waterlines on wells and he would need to contact the Bond Counsel.

Mayor Rosenthal said the Strategic Water Supply Plan update will provide answers, but that will not happen before the budget is adopted.

SANITATION FUND

Ms. Krohmer said a 2% rate of growth has been estimated for the Sanitation Fund. She said residential user fees are \$17.20 per month that included a \$3 per month recycle charge and twenty cents for the Oklahoma Solid Waste Management charge. She said a \$1 increase is proposed for additional polycarts beginning July 1, 2013, for a cost of \$8 per month. She highlighted sanitation rates in other communities and Norman is one of the lowest.

Ms. Krohmer said no new capital projects are scheduled in FYE 2014 and \$1.2 million is included in the budget for fleet related replacement purchases. She said landfill tipping fees are projected to increase by \$71,726 in FYE 2014. The ending fund balance is projected to be \$2,110,487 with a targeted fund balance of \$2,697,458.

Councilmember Castleberry said we are budgeting a \$174,000 loss for FYE 2014 (expenditures over revenue). This year's budget is \$2.5 million expenditures over revenue. He asked if FYE 2013 is expected to close out with a \$2.5 million loss. Mr. Komiske indicated the expenditures would be higher than revenues since revenues can only be increased by a vote of the people.

WATER RECLAMATION FUND

Ms. Krohmer said residential wastewater service rates have not been increased in over 16 years. Current residential rates include a base rate \$3.90 plus \$1.60 per 1,000 gallons of treated wastewater. In October 2001, an additional \$5 fee was added for an expanded Sewer System Maintenance Program. She said a 3% increase is projected for user fee revenues in FYE 2014 and a 35% rate structure is assumed in FYE 2015 (contingent upon voter approval) for the South Water Reclamation Facility improvements. She said revenue bond proceeds supported by the newly-approved rate structure are assumed to be received in FYE 2014 to finance the Water Reclamation Facility expansion. She highlighted the rate structure for surrounding communities and Norman is the lowest.

Water Reclamation Fund, continued:

Ms. Krohmer said the ending fund balance projected for FYE 2014 is \$11,464,668 and that figure is assuming revenue bond proceeds. She said \$590,000 in new capital projects is projected that includes \$500,000 for a Non-potable Effluent Reuse System.

Ms. Krohmer said the Water Reclamation Facility Expansion and Improvements Project to increase capacity by five million gallons per day (MGD) will cost \$52.3 million and will be programmed over two years and split between wastewater funds.

SEWER MAINTENANCE FUND

Ms. Krohmer said the main source of revenue is from a \$5 per month sewer maintenance rate and the fifty cents per month Capital Improvements charge. She said major projects for FYE 2014 include replacement of sewer lines at a cost of \$6,799,743. All sewer maintenance rate projects must be on a pay-as-you-go basis.

NEW DEVELOPMENT EXCISE TAX FUND

The main source of revenues for New Development Excise Tax Fund is from new residential and commercial construction. Ms. Krohmer said projected revenues in FYE 2014 are \$1,450,000 that consists of \$1,100,000 from residential projects and \$350,000 from commercial projects.

SEWER SALES TAX FUND

Ms. Krohmer said the Sewer Sales Tax Fund was used to account for the temporary one-half cent sales tax implemented in October 2001, which ended in September 2006, to provide collection and treatment capacity improvements necessary to meet existing, approved, and obligated needs. She said the ending fund balance estimated to be \$5,769,844 is currently being held in reserve to meet treatment expansion needs for current obligation utility customers at a future Northside Wastewater Treatment Facility. She highlighted utility rates in other communities and said Norman is the lowest.

Mayor Rosenthal said the 35% rate structure assumption is a larger increase than previously assumed figures of 25% to 27%. She asked if the Sewer Sales Tax Fund is the reason for the higher percentage assumption and Mr. Francisco said yes, as reserve in the Sewer Sales Tax Funds will not be used for the South Wastewater Treatment Plant expansion the rate increase will need to be higher. Mayor Rosenthal asked if any money is coming out of the Sewer Sales Tax Fund in terms of paying for new capacity and Mr. Komiske said yes. Councilmember Castleberry asked why Staff is making that assumption and Mayor Rosenthal said, after much discussion, Council decided to hold the money for a Northside Treatment Facility. However, Council needs to rethink sitting on that money for up to fifteen years while asking customers for a 35% increase opposed to a 25% increase.

Sewer Sales Tax Fund, continued:

Councilmember Kovach said several Councilmembers had questioned the legality of using sewer sales tax money on the southside plant because of the specific ballot language. He questioned increasing the southside plant capacity from 5 MGD to 17 MGD, when the City is only permitted for 16 MGD. He said it will be difficult to explain to the voters why the City is going to overbuild one million gallon capacity on the hopes that someday the Oklahoma Department of Environmental Quality (ODEQ) will allow the City to use that capacity especially when the City has a northside option which will be the better plant for water reuse. He asked why the City is continuing to design and build for more capacity than can be permitted for and if the City has ever done that before? Mr. Komiske said the north and south plant capacities are based on the Norman Land Use and Transportation Plan and full build out would require 4.5 MGD on the northside and 17 MGD on the southside.

Sewer Sales Tax Fund continued:

Mr. Komiske said the ODEQ will only permit a 16 MGD plant because that is what the amount allowed to be discharged into the South Canadian River. He said City Staff has argued that pollutants will be reduced so the volume should not matter, the amount of pollutants should matter; and the City currently does not discharge 16 MGD to the river anyway due to effluent reuse options utilized by the plant. However, ODEQ does not see it that way. Councilmember Castleberry asked the cost difference to build 16 MGD versus 17 MGD plant and Mr. Komiske said incrementally it is not much to do it. He said in order to plan for Norman's future, a 17 MGD plant is needed on the south side so it makes no sense to build a 16 MGD plant and fifteen years from now try to add one million gallon capacity as the cost would be much higher.

Councilmember Kovach asked if the City would add an extra million gallon capacity to a northside plant when built and Mr. Komiske said designs were based on land use and where the flows are. He said there is a natural ridge through Norman and based on where homes would be built the 17 MGD would flow by gravity to the south and 12 MGD would flow by gravity the north. He said ODEQ does not want cities to build-out more than twenty years. He said State Chamber of Commerce has determined that Norman does not need a 16 MGD plant let alone a 17 MGD plant so they overruled Norman's growth calculations. Mr. Komiske said in twenty years when the City needs a 17 MGD plant it will be there and can be permitted at that time. He said \$500,000 was budgeted to build pipeline east to the southside plant in order to accommodate new construction to Lake Thunderbird.

Councilmember Castleberry asked if any of the Enterprise Funds project an increase in revenue over the next year and Mr. Komiske said not if rates stay the same, because expenditures continue to increase.

Ms. Krohmer highlighted Norman's total utility rate package with 15 comparable cities and assuming 10K gallon water usage, Norman was the lowest at approximately \$65 per month behind Moore at approximately \$80 per month.

Items submitted for the record

1. PowerPoint presentation entitled, "City Council Fiscal Year 2013-2014 Budget Study Session Enterprise Funds," dated April 23, 2013

The meeting adjourned at 6:25 p.m.

ATTEST:

City Clerk

Mayor