



City of Norman, OK

Municipal Building
Council Chambers
201 West Gray
Norman, OK 73069

Master

File Number: O-1415-15

File ID: O-1415-15	Type: Ordinance	Status: Non-Consent Items
Version: 1	Reference: Item No. 23	In Control: City Council
Department: Legal Department	Cost:	File Created: 10/07/2014
File Name: Water Rates Ordinance	Final Action:	

Title: CONSIDERATION OF ORDINANCE NO. O-1415-15 UPON SECOND AND FINAL READING: AN ORDINANCE OF THE COUNCIL OF THE CITY OF NORMAN, OKLAHOMA AMENDING SECTION 21-113 OF CHAPTER 21 OF THE CODE OF ORDINANCES OF THE CITY OF NORMAN, OKLAHOMA, CONTINGENT ON VOTER APPROVAL OF ORDINANCE NO. O-1415-16 INCREASING THE MONTHLY BASE FEE FOR RESIDENTIAL METERED USERS FROM FOUR DOLLARS (\$4.00) TO SIX DOLLARS (\$6.00); INCREASING THE MONTHLY WATER RATES FOR RESIDENTIAL METERED USERS FROM TWO DOLLARS (\$2.00) TO THREE DOLLARS AND FIFTY CENTS (\$3.50) PER THOUSAND GALLONS FOR THE FIRST 5,000 GALLONS OF WATER, FROM TWO DOLLARS AND TEN CENTS (\$2.10) TO FOUR DOLLARS AND TWENTY CENTS (\$4.20) PER THOUSAND GALLONS FOR WATER USAGE BETWEEN 5,001 AND 15,000 GALLONS, FROM TWO DOLLARS AND SEVENTY-FIVE CENTS (\$2.75) TO FIVE DOLLARS AND TWENTY CENTS (\$5.20) PER THOUSAND GALLONS FOR WATER USAGE BETWEEN 15,001 AND 20,000 GALLONS, AND FROM FOUR DOLLARS AND NINETY FIVE CENTS (\$4.95) TO SIX DOLLARS AND EIGHTY CENTS (\$6.80) PER THOUSAND GALLONS FOR WATER USAGE OVER 20,000 GALLONS; INCREASING THE MONTHLY BASE FEE FOR NON-RESIDENTIAL WATER SERVICE FROM FOUR DOLLARS (\$4.00) TO SIX DOLLARS (\$6.00); INCREASING THE WATER RATES FOR NON-RESIDENTIAL METERED USERS FROM TWO DOLLARS AND TEN CENTS (\$2.10) TO THREE DOLLARS AND EIGHTY CENTS (\$3.80) PER THOUSAND GALLONS FOR WATER USAGE UP TO SUCH CUSTOMER'S AVERAGE WINTER CONSUMPTION AS DEFINED HEREIN AND FROM TWO DOLLARS AND TEN CENTS (\$2.10) TO FOUR DOLLARS AND TWENTY CENTS (\$4.20) PER THOUSAND GALLONS FOR WATER USAGE EXCEEDING SUCH NON-RESIDENTIAL METERED USER'S AVERAGE WINTER CONSUMPTION AS DEFINED HEREIN; PROVIDING AN EFFECTIVE DATE FOR SAID INCREASE SUBJECT TO VOTER APPROVAL; AND PROVIDING FOR THE SEVERABILITY THEREOF.

Notes: ACTION NEEDED: Motion to adopt or reject Ordinance No. O-1415-15 upon Second Reading section by section.

ACTION TAKEN: _____

ACTION NEEDED: Motion to adopt or reject Ordinance No. O-1415-15 upon Final Reading as a whole.

ACTION TAKEN: _____

Agenda Date: 11/10/2014

Agenda Number: 23

Attachments: O-1415-15, O-1415-15 (Annotated), O-1415-15 Substitute, O-1415-15 Substitute (Annotated)

Project Manager: Kathryn Walker, Assistant City Attorney

Entered by: kathryn.walker@normanok.gov

Effective Date:

History of Legislative File

Ver- sion:	Acting Body:	Date:	Action:	Sent To:	Due Date:	Return Date:	Result:
1	City Council	10/14/2014	Introduced and adopted on First Reading by title only				Pass
	Action Text: That this Ordinance be Introduced and adopted on First Reading by title only. by consent roll call						
1	City Council	10/28/2014	Postponed				Pass
	Action Text: Postponed until 11/10/14						

Text of Legislative File O-1415-15

Body

BACKGROUND: Norman's Water Treatment Plant (WTP) was built in 1966 to treat six million gallons per day (mgd) of water and was upgraded in 1982 to a capacity of 14 mgd. The last successful water rate increase was in 2006. The rates were implemented at that time to fund, among other things, replacement of 15 wells that were lost due to arsenic levels that exceeded new lower federal limits, resurfacing water storage tanks, replacement of small or deteriorated water lines that were prone to failure due to adverse soil conditions, WTP improvements and replacement of large commercial meters.

In 2007, the Norman Utilities Authority (NUA) hired Carollo Engineers to assess the condition of the WTP which had no significant improvements in over 20 years. The evaluation included the physical condition of the facilities, the hydraulic capacity of existing treatment units and interconnecting piping, whether existing equipment and process units met current regulatory requirements and evaluation and selection of new technologies to replace outdated equipment. This assessment process resulted in a number of recommended WTP improvements to be accomplished in two phases due to funding constraints.

In 2009, the NUA began construction of the Phase I WTP Improvements Project. The Phase I WTP improvements were completed in March 2011 at a cost of \$17 million. The Utility's engineering staff applied for and received a loan through ARRA (American Resource Recovery Act) and received a grant (principal forgiveness) of \$2 million. The project generally included:

1. Increasing peak WTP capacity from 14 mgd to 17 mgd by adding Clarifier #4
2. Rehabilitation of the lime, alum and carbon dioxide feed systems
3. Electrical system replacement and efficiency improvements
4. Installation of an emergency generator
5. Replacement of major process equipment including underdrains, filter media, backwash equipment and pumping improvements
6. Installation of 2.5 miles of 48 inch pipe from the WTP toward Lake Thunderbird increasing raw water delivery capacity to 17 mgd

The recommended Phase II WTP Improvements were deferred due to funding constraints. Phase II will address improved residuals management; more stringent regulatory requirements; safety issues, including hazardous chemicals; and enhancement of water quality.

Current water disinfection methods do not meet revised State requirements and current disinfection chemicals do not meet State design standards. Improvements related to enhanced water quality will allow the WTP to treat water for pharmaceuticals and household chemicals, as well as byproducts resulting from algae and increased phosphorus loads. These improvements will also enhance the taste of the water and reduce seasonal odor issues. Safety issues will be addressed by eliminating storage of highly hazardous liquefied gasses such as chlorine and ammonia. Some of the equipment and facilities will be rehabilitated, repaired or

replaced as they are beyond their useful life. Finally, Phase II improvements will address residuals by developing a more viable long term plan for their disposal. The costs of these improvements are currently estimated to be approximately \$31 million.

In addition to the Phase II WTP Improvements, Norman's recently adopted 2060 Strategic Water Supply Plan recommends an expansion of the ground water supply system, as well as expanded piping to allow blending of wells that currently do not meet EPA guidelines, to meet current capacity needs. The estimated cost for these projects is approximately \$16 million. As part of its ongoing water line replacement program, an additional \$3 million is needed to replace and upsize water lines. Finally, as part of its ongoing waterline improvements program, an additional \$3 million is needed to complete the southern water transmission loop.

An estimated total of \$50 million in capital facilities is planned from these combined projects:

WTP Phase II - \$ 31,000,000
Water Well Field Expansion - \$ 12,000,000
Blending - \$ 2,000,000
Land purchases - \$ 2,000,000
Waterline Replacement and Upsizing - \$ 3,000,000

TOTAL CAPITAL FACILITIES - \$ 50,000,000

These capital facility needs cannot be financially supported by the current water rate structure. Ordinance No. O-1415-15 amends the water rate structure and is a companion item to Ordinance No. O-1415-16 that calls an election to be held on January 13, 2015 for voters to consider the rate increase proposal. Outlined below is the series of public discussions that have occurred to formulate the rate increase proposal, several of which occurred after First Reading of the Ordinances on October 14, 2014. Included in the packet is a substitute Ordinance that reflects the most recent Council discussions. It is anticipated that a Motion will be made on Second Reading to amend the Ordinance and the Title though the substitute language include in the packet.

DISCUSSION: Staff presented water rate scenarios based on the capital needs totaling \$50 million discussed herein and the associated increased operational costs to the City Council, acting as the Trustees of the NUA. With new additional annual operational costs totaling \$1.8 million and annual debt service payments for capital improvements totaling an estimated \$4 million (based on a 20 year note), an additional \$5.8 million is needed annually from the City's water ratepayers. At its meeting on September 23, 2014, NUA/Council discussed the various scenarios and ultimately opted to move forward with the water rate increases found in Ordinance No. O-1415-15 as presented on First Reading. However, since the Council discussion on September 23, 2014, a Public Hearing was held on October 8, 2014 and Council again discussed the proposal at its Study Session on October 21, 2014. A number of questions have been raised and consideration upon Second Reading of the rate ordinance was postponed from October 28, 2014 to November 10, 2014 to allow additional time to discuss the proposal.

Two issues were discussed during a Study Session on November 4, 2014 that resulted in proposed amendments to Ordinance Nos. O-1415-15 and O-1415-16. An annotated version showing the proposed amendments compared to the ordinance as presented on First Reading is included with this item. The first proposed amendment reduces the proposed rate increase for residential customers using 15,000 gallons or less of water per month. Although the bulk of the planned well field expansion is to address current capacity needs, some of the new wells will address short-term new capacity needs driven by community growth. It has been estimated that of the \$12 million in new wells recommended by the 2060 Strategic Water Supply Plan, \$3 million (25%) of those costs would be for additional capacity to serve new customers. Removing \$3 million from the rate structure reduces the revenue need by \$300,000 per year. Those costs would then need to be funded from connection fees. Removing \$300,000 from the rate structure would allow for changes in the proposed commodity rates for lower tier water users. For customers using 0 - 5,000 gallons of water, instead of the proposed rate of \$3.50 per thousand gallons, the rate could be \$3.35 per thousand gallons. For customers using 5,001 - 15,000 gallons of water, instead of the proposed rate of \$4.20 per thousand gallons, the rate could be \$4.10 per thousand gallons.

The second proposed amendment involves the addition of a surcharge during peak months for residential high water users to encourage the City's highest users to conserve water during the hottest and driest months of the

year. The surcharge would only apply to residential customers as defined in R-1 and R-1A zoning districts. This definitional approach to users subject to the surcharge is intended to apply to primarily single-family dwelling unit customers, but not apartment complexes that may provide water to its tenants through a single meter that may result in the surcharge being passed on to tenants of those types of apartment complexes. The surcharge will also apply only during July and August (billed in August and September) when the City typically is required to purchase additional water supplies to meet current capacity needs. The high usage surcharge is proposed to charge an additional \$0.35 per thousand gallons for any water usage over 20,000 gallons in July or August.

Original Proposal (Substitute Proposal in parenthesis)

For all customers, it is proposed that the base fee increase from \$4.00 to \$6.00 per month. The current capital improvements charge (CIC) of \$1.50 will remain intact but with no additional increase. For residential customers, the tiered conservation usage rates remain as originally proposed at First Reading, with the exception of the proposed amendments shown in parenthesis. The rate increase proposal is as follows:

Water Usage (gallons): 0 to 5,000

Present Rate (per thousand): \$2.00

Proposed Rate (per thousand) \$3.50 **(\$3.35)**

Water Usage (gallons): 5,001 to 15,000

Present Rate (per thousand): \$2.10

Proposed Rate (per thousand) \$4.20 **(\$4.10)**

Water Usage (gallons): 15,001 to 20,000

Present Rate (per thousand): \$2.75

Proposed Rate (per thousand) \$5.20

Water Usage (gallons): over 20,000

Present Rate (per thousand): \$4.95

Proposed Rate (per thousand) \$6.80

Currently, non-residential customers (commercial, industrial and institutional classifications) are charged \$2.10 per 1000 gallons of water used. Staff proposed a tiered conservation rate for these customers based on their Average Winter Consumption. The Average Winter Consumption is the average of a non-residential customer's water usage over the previous December, January and February. If the non-residential customer uses a volume of water equal to or less than its Average Winter Consumption, then the rate for the water is proposed to be \$3.80 per 1000 gallons. If the non-residential customer uses a volume of water that exceeds its Average Winter Consumption, then the rate for the water is proposed to be \$4.20 per 1000 gallons.

(High Usage Surcharge (per thousand): \$0.35 for residential usage over 20,000 gallons in July in August.)

The Substitute proposal realigns the funding sources for the capital needs recommended in the Phase II WTP improvements and SWSP of \$50,000,000 to be generated as follows:

Water ratepayers - \$47,000,000

Connection fees - \$ 3,000,000

Although revenue from ratepayers is generally considered a more reliable and stable source of funding, using an average of 600 new connections per year, coupled with an increase in connection fees to be considered by Council in November, it is projected that sufficient connection fee revenues will be generated for the remaining portion needed for the identified capital needs for the water system.

The next available election date is January 13, 2015. If the rates are adopted by the citizens, then they will go into effect on March 2, 2015.

RECOMMENDATION: The proposed rates in Ordinance No. O-1415-15 (Substitute Proposal) are the result of NUA/Council's discussion and represent rates designed to cover necessary capital and operational expenses

associated with planned improvements. Ordinance O-1415-16 calls a Special Election (Substitute Proposal) for a public vote on these rates on January 13, 2015. Staff recommends approval of Ordinance No. O-1415-15 and O-1415-16, both as amended, upon Second and Final Reading.