

## CITY COUNCIL STUDY SESSION MINUTES

April 21, 2015

The City Council of the City of Norman, Cleveland County, State of Oklahoma, met in a Study Session at 5:30 p.m. in the Municipal Building Conference Room on the 21st day of April, 2015, 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 24 hours prior to the beginning of the meeting.

**PRESENT:**

Councilmembers Allison, Castleberry, Heiple, Holman, Jungman, Lang, Williams, Mayor Rosenthal

**ABSENT:**

Councilmember Miller

Item 1, being:

**DISCUSSION REGARDING THE PROPOSED FYE 2016 CITY OF NORMAN BUDGET – OVERVIEW OF THE ENTERPRISE FUNDS – WATER FUND, SANITATION FUND, AND WATER RECLAMATION FUND INCLUDING SEWER MAINTENANCE, NEW DEVELOPMENT EXCISE, AND SEWER SALES TAX.**

Ms. Suzanne Krohmer, Budget Manager, highlighted the Fiscal Year 2015-2016 Budget calendar and said Enterprise Funds are operated similar to private business enterprises, where the intent of the City is that the costs of providing goods or services to the general public is financed or recovered primarily through user charges. She said Enterprise Funds include water, sanitation, and water reclamation, as well as sub-funds to include sewer maintenance, new development excise, and sewer sales tax.

**Water Fund**

Water production - over 4.5 billion gallons produced annually, has over 590 miles of pipes, and production runs 24 hours per day, 365 days a year. The major revenue assumption for the Water Fund in FYE 16 are user revenues projected at 10.6% higher than FYE 15 adopted budget figures. A portion of the increase is projected future customer growth and the remaining is due to the rate increase approved by citizens on January 13, 2015.

The water rate history includes:

- Inverted block rate adopted in 1999 to encourage conservation. Affects about 25% of residential customers. Progressive rate structure charges higher rates to highest quantity water users;
- March, 2006: Water rate increase approved;
- August, 2010: Water rate increase failed; and
- January, 2015: Water rate increase by citizen approval to current level.

Ms. Krohmer highlighted comparison residential water rates for several Oklahoma communities, i.e., Ardmore, Bartlesville, Broken Arrow, Edmond, Enid, Lawton, Midwest City, Moore, Oklahoma City, Ponca City, and Tulsa as well as out of state communities, i.e., Lawrence, Kansas; Denton, Texas; and Lubbock, Texas.

Ms. Krohmer said before the water rate increase, the City of Norman water rates were the lowest; however, since the water rate increase in January, 2015, the City's water rates are now more average. The current rate structure for Norman is as follows:

<b>Gallons</b>	<b>Rates (per 1,000/gallon)</b>
Base Fee	\$6.00
0 – 5,000	\$3.35
5,001 – 15,000	\$4.10
15,001 – 20,000	\$5.20
Over 20,000	\$6.80

Ms. Krohmer said summer surcharge for July and August are \$0.35/1,000 gallons for usage over 20,000 gallon per month.

Water Fund expenditure assumptions include:

- \$1,200,000 budgeted for interim water purchase contract from Oklahoma City (OKC). (The current OKC emergency water rate \$7.85 per 1,000 gallons);
- \$1,287,840 for Central Oklahoma Master Conservancy District (COMCD) raw water purchase. An increase of \$13,000 from last year;
- \$438,311 included in FYE 16 Budget for fleet related replacement purchases and other equipment;
- Ending fund balance estimated to be \$2,931,630; and
- Staff targets an operating reserve of 8% and a Capital reserve equal to the annual average of the next 5-year capital expenditure plan; thus, meeting the operating reserve but short of the desired Capital reserve by approximately \$9,237,807. The Capital reserve number is inflated due to the multitude of projects projected over the next few years.

Mayor Rosenthal asked whether the emergency water purchase is based on average purchases from the last several years or is the City shifting to buying more water from OKC. Mr. Ken Komiske, Director of Utilities, said last fall during the water rate increase proposal process, discussions were held regarding the City purchasing water from OKC on a long-term basis due to a significant increase in rates for emergency water purchases. He said one option was that Norman would begin purchasing water now, approximately two million gallons per day, so that Norman could save and bank reservoir-use until the summertime. He said Norman can begin a new allocation of the water reservoir each October; however, Staff did not know whether the rate increase would be approved by the voters until January, 2015, thus the City began using up some of the water reservoir which resulted in no reservoir bank. Mr. Komiske said Staff anticipates having a normal summer causing the City to use some of the emergency water we purchased from OKC at the rate of \$7.85 per 1,000 gallons. He said beginning in October 2015, through the end of FYE 16 the City will begin buying two million gallons per day from OKC. The Mayor asked if this will be a “phased-in year” for which Norman will begin buying water on a daily basis from OKC and Mr. Komiske said yes, that is correct.

Councilmember Holman ask about the COMCD raw water purchase and Mr. Komiske said that covers the City’s debt service, i.e., operations, maintenance, pumping costs, etc., that Norman purchases from COMCD.

Water projections include the following:

- Major carry-over projects from FYE 15 expected to be complete by FYE 16:
  - Berry Road Water Line Replacement project continued (\$4 million total);
  - New Elevated Storage Water Tank continues (\$3.2 million total);
  - Hydro-geological well field analysis \$700,000 (\$11 million more in FYE 16-17);
  - Lindsey Water Line project (part of widening) (\$2.8 million total);
  - Phase II Water Treatment Plant (\$4.7 million of the \$31 million total); and
  - Robinson Street under I-35 Water Line Replacement (\$5.2 million total with \$2.07 million in FYE 16).
- Major Water Projects for FYE 16:
  - Crossroads Boulevard Area Water Line Replacement Design (\$149,000 with construction beginning FYE 17 at a cost of \$1.15 million total project; and
  - Well Field Blending (\$482,000 for pipeline modeling, first of three (3) year \$2.5 million project).
- Future Projects:
  - Phase II Water Treatment Plant Improvements (FYE 17);
  - Segment D Water Line Improvements (Chautauqua Avenue – Lindsey Street to Highway 9 in FYE 17); and
  - Projects resulting from Strategic Water Supply Plan Update.

Councilmember Castleberry asked how the City could only have a 10% increase in water rates from the recent water rate increase and Mr. Anthony Francisco, Finance Director, said the water rate increase did not go into effect until March 1, 2015; therefore, the FYE16 budget will only show rate increases for eight (8) months versus the full 12 months. Councilmember Castleberry was concerned about having a negative Water Fund Balance in two (2) years and Mr. Komiske said that has to do with the timing and intensity of capital projects. Mr. Komiske said Staff is looking at selling bonds for the new well project which will help spread out some of the projects and stated that some of the large-ticket projects, i.e., Crossroad Area Water Line Replacement Design and the Well Field Blending will (most likely) not begin on schedule due to the availability of City engineering and manpower that will be involved. Councilmember Castleberry asked when Staff anticipated the next rate increase and Mr. Komiske said in 2018 or 2019.

Mayor Rosenthal requested regular updates regarding the Hydro-Geological Well Field Development Analysis/Project in particular since it will be a key piece and will involve a great deal of public discussion during the rate increase election. Councilmember Castleberry asked whether the City keeps track of the connection fees separately and Staff said yes.

### **Sanitation Fund**

Major revenue assumptions for the Sanitation Fund include a 2% growth rate per year; user fees are \$17.20 per unit per month which include \$3.00 per month, curbside recycling charge and \$0.20 for the Oklahoma Solid Waste Management Charge; and a \$1.00 increase for additional polycarts (making charge \$7.00 per month) began in March, 2015.

Ms. Krohmer highlighted a comparison of residential sanitation rates for the same cities previously mentioned. She said the City of Norman provides a lot more services than the cities listed, e.g., free Spring/Fall clean-up days; once/weekly collection; yard waste collection; four (4) recycling drop-off centers; free compost (when available); curbside recycling; and free brush drop-off.

Sanitation Fund major expenditures include the following:

- Placeholder for investigation of a Material Recovery Facility (MRF) for recyclable projects (\$1 million);
- \$1,481,100 included in FYE 16 budget for fleet related replacement purchases;
- \$1,892,060 for landfill tipping fees (no increase from FYE 15); and
- Ending fund balance of \$3,325,057 (meets all reserve requirements).

Councilmember Holman asked when the last sanitation rate increase occurred and Staff replied Fall, 2011.

Mayor Rosenthal asked whether the investigation of an MRF will include an analysis of whether or not it would be a business service that would make sense for Norman and Mr. Komiske said yes. Mr. Komiske said this will not be a full recovery facility but rather a mini MRF, i.e., collect cardboard, white goods, metals, etc.; however, a business plan needs to be worked out first. He said initially the thought was to re-skin the old transfer station but after further discussions it was determined the building was not in good enough shape.

Councilmember Castleberry said he typically does not like placeholders and asked how Staff determined the \$1 million figure for a MRF. Mr. Komiske said the \$1 million placeholder is for approximate costs to re-skin the building, install a better foundation, cost of a cardboard baler/equipment, etc. He said Staff will make a presentation, to include a business plan, to Council requesting suggestions, guidance, and/or approval before any investigation and/or work commenced. Councilmember Castleberry said he is concerned that approving this expenditure now will result in having to approve the project when it comes forward and Mayor Rosenthal felt the placeholder was in the budget for multiple years due to management turnover and the need for a business plan is key before making an investment. Mr. Steve Lewis, City Manager, said Council can request to take the placeholder (\$1 million) out of the Sanitation Fund and return it to the retained earnings for the Enterprise Fund and request a budget appropriation when the project comes forward for Council approval. He said that tends to over-inflate that account/line item and Staff wanted to make certain Council was aware of the project, but Staff will

keep and/or adjust this placeholder however Council desires. Mayor Rosenthal said she understood Councilmember Castleberry's concerns; however, she does not have any objection to this placeholder since this is a project that has been embraced by prior Councils for several years.

Councilmember Jungman asked whether Staff will prepare the business plan and Mr. Komiske said Staff will first look at the options available and prepare a business plan; however, if it needs to be taken a step further, outside resources will be requested. Mr. Komiske introduced Mr. Brett Scovill, Solid Waste Superintendent, stating he is a good resource for knowing what options are available within the state as he worked with other private industries before coming to the City. He is confident Mr. Scovill can analyze Norman's needs to what is available to provide an overview of what a business plan might look like.

Mayor Rosenthal asked where the nearest MRFs are located (to Norman) and Mr. Scovill said there are closer MRFs; however, the most efficient is Tulsa Recycling Transfer in Tulsa. He said Tulsa Recycling Transfer would consider the commodity if Norman could figure out a method of conveyance. He felt research would need to be completed determine the best plan.

Councilmember Holman asked what the tipping fees are based on and Mr. Komiske said that is Norman's disposal costs to the landfill. Councilmember Holman asked if the tipping fees have gone down since curbside recycling utilizes polycart(s) rather than the smaller bins. Mr. Komiske said curbside recycling is much more robust; however, the population has increased as well. Mr. Komiske said the City is adding a small amount more (tons) of solid waste each year, but the Spring and Fall clean-ups may skew that figure a little bit. He said a 4% to 5% increase each year is typical, but Staff budgeted more for tipping fees in FYE15 and some of that amount carried over to FYE16 budget.

Ms. Krohmer highlighted the curbside recycling program stating the City has a 5-year curbside recycling contract with Republic Services which began August, 2013, and it is working very well for the City. She said the curbside recycling was single-streamed to every other week utilizing larger polycarts and including additional recyclable materials. Ms. Krohmer said multi-family recycling is being explored and the overall participation rate has increased to 87% compared to a five year average of 41%. She said the amount of recycling collected each month has increased to 430 tons compared to a five (5) year average of 270 tons.

Councilmember Holman asked about the status of a recycling program for multi-family and commercial customers and Mr. Komiske said Staff has contacted Republic Services who will contact the Apartment complexes and/or management companies to see if they are interested in multi-family recycling. He said this will take the City out of being the middle-man which slows down the process with no additional income to the City. Mr. Komiske said it typically depends on how many parking spaces an apartment complex is willing to give up for the recycling bin/dumpsters. He said Republic Services is currently picking up commercial recycling in Moore and Staff is checking on whether Norman can piggyback off of their commercial recycling to allow pick up at the same time. Mr. Komiske said the City currently recycles cardboard and do not want to lose that particular commodity. He said there are other recycling companies who will pick up paper commodities now if the City chooses to set up services to do so.

Councilmember Williams asked how the participation percentage is measured, i.e., are citizens merely putting out their recycling bin at every opportunity or are citizens allowing the recycling bin to completely fill before placing it at the curbside. Mr. Komiske said it is only for participation rate rather than how full the recycling bins are each time they are placed at the curbside.

Mr. Scovill said each Norman resident averages approximately 30 pounds of recycling per month and Councilmember Williams asked how that compared with other cities. Mr. Scovill said the national average for set-out rate is 37% and Norman is at 87%. He said the tons per month is approximately 18% by weight which is right at the national average.

### **Water Reclamation Fund**

Major revenue assumptions for the Water Reclamation Fund include the residential wastewater services rates increased in November, 2013 - current rates are \$5.00 base plus \$2.70 per 1,000 gallons of treated wastewater. She said in October, 2001, an additional \$5.00 fee was added for an expanded sewer system maintenance program and user fee revenues for FYE16 are budgeted at a projected 2% increase from last year's budget. Ms. Krohmer said revenue bond proceeds (Statewide Revolving Fund Loan), supported by newly-approved rate structure, were received in FYE15 to finance Water Reclamation Facility (WRF) expansion.

Ms. Krohmer highlighted the comparable residential water reclamation rates for the cities previously mentioned and said only three (3) of the cities are lower than Norman. She said the expenditure assumptions for the Water Reclamation Fund include:

- South WRF Phase II Improvements will be ongoing;
- Major projects for FYE16:
  - South Digester boiler Replacement Project (\$600,000); and
  - Primary Sludge Thickener Replacement Project (\$460,000).
- Future projects:
  - Non-potable Effluent Reuse System Project (FYE19);
  - Class A Sludge Improvements Project (FYE19); and
  - WRF Phase 3 Improvements Project (FYE20).

### **Sewer Maintenance Fund**

Ms. Krohmer said the main source of revenues for the Sewer Maintenance Fund is from a \$5.00 per month sewer maintenance rate and the \$0.50 per month Capital Improvement Charge (CIC). She said major projects in FYE16 include \$2.5 million for replacement of sewer lines and reminded Council that all sewer maintenance rate projects must be on a pay-as-you-go basis.

### **New Development Excise Tax Fund**

The main source for the New Development Excise Tax Fund of revenues is from new construction building permits based on square footage. Ms. Krohmer highlighted the residential and commercial new development excise tax from FYE02 to FYE16, stating FYE16 is projected at \$1,700,000 (\$1,300,000 from residential projects and \$400,000 from commercial projects). She said the majority of the increase for the New Development Excise Tax Fund was due to multi-family housing projects from 2013 to 2015 and Staff is budgeting more conservatively for 2016. Ms. Krohmer said Phase II South WRF Improvement Project also continues.

Mayor Rosenthal asked the status of the excise tax and water connection fee study and when will it be presented to Council. Mr. Lewis provided background information and said approximately a little over one (1) year ago Council requested Staff look at the City's wastewater excise fees and more recently Council requested Staff look at the City's water connection fees. He said both projects were merged together and recently the City has been receiving Requests for Proposals (RFPs). Mr. Lewis said Mr. Terry Floyd, Development Coordinator, has been overseeing the project and requested he provide an update.

Mr. Floyd said the City received RFPs from five (5) national firms and they have been reviewed by Mr. Greg Burge, member of the Development Oversight Committee for TIF District No. 2, who has done extensive research on impact fees. He said Raftelis Consultants Inc., was determined to be the finalist and a contract will be listed as agenda item for Council consideration on May 12, 2015. If Council approves the contract, Raftelis Consultants, Inc., will have 90 days to complete the study.

Mayor Rosenthal wanted to clarify the budget does not include anything having to do with the wastewater excise fee and water connection fee study since we do not know the outcome.

**Sewer Sales Tax Fund**

Ms. Krohmer said a temporary one-half percent sales tax was implemented on October 1, 2001, and ended September 30, 2006. She said the Sewer Sales Tax was used to provide collection and treatment capacity improvements necessary to meet existing, approved, and obligated needs. She said it is estimated that all remaining funds from the Sewer Sales Tax will be spent down during FYE 2015 for the Phase II WRF Improvements project.

Ms. Krohmer highlighted a comparison of cities reflecting the total residential utility rates for each. She said the usage was based on 10,000 gallons of water including sewer and trash. She said some of the cities charge a storm water fee and light and/or bug spraying fee. Ms. Krohmer said out of the 15 cities, only two (2) were lower than Norman.

Ms. Joy Hampton, *The Norman Transcript*, asked whether the City is doing any on-going education on the curbside recycling program. Mr. Komiske said new customers receive an informational brochure with a recycling polycart stating what can and cannot be put in the polycart. He said on an annual basis Staff sends out a calendar to each customer letting them know their service date, as well as a list of items that can and cannot be collected.

Items submitted for the record

1. PowerPoint presentation entitled, "City Council Fiscal Year 2015-2016 Budget Study Session Enterprise Funds," dated April 21, 2015

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The meeting adjourned at 6:13 p.m.

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ATTEST:

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City Clerk

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Mayor