

CITY COUNCIL CONFERENCE MINUTES

September 23, 2014

The City Council of the City of Norman, Cleveland County, State of Oklahoma, met in a conference at 5:05 p.m. in the Municipal Building Conference Room on the 23rd day of September, 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 Castleberry, Heiple, Holman, Jungman, Lang, Miller, Quinn, Williams, and Mayor Rosenthal

ABSENT:

None

Item 1, being:

DISCUSSION REGARDING A POSSIBLE WATER RATE INCREASE.

Mayor Rosenthal said the City has not increased water rates for nine years. She said during a recent Finance Committee meeting, Staff presented rate options being explored in other communities, which included a multiplier factor based on the size of the water meter and a fire service charge. In an effort to keep a January election timeline, the Finance Committee instructed Staff to create options based on the current basic structure including connection fees.

Mr. Ken Komiske, Director of Utilities, said the last water rate increase was in 2006 and an election was held in 2010 for an increase, but did not get voter approval. He said items promised in 2006 were as follows:

- Arsenic Project – replace 15 wells for source of supply (mandated by the Environmental Protection Agency (EPA) and Oklahoma Department of Environmental Quality (ODEQ);
- Three projects from the Water Distribution Model (small part of a 2003 Engineering Study recommendations);
- Resurfacing elevated water storage tanks;
- Replacement of urban service area water lines;
- \$100,000 for five years – replacement of water lines with adverse soil conditions;
- Water Treatment Plant Project, Phase I (filter underdrains and media, emergency generator, new clarifier, and lime slakers);
- Taste and odor;
- Installation of a Meter Replacement Program (large commercial meters); and
- 2.5 miles of raw water line from Lake Thunderbird – increase volume for peak treatment capacity.

Mr. Komiske said all the above projects have been accomplished with the exception of taste and odor. He said in 2013, Carollo Engineers set up a pilot project to test water quality, taste, and ozone and the water was tested for seven months. Mr. Tom Crowley, P.E., Carollo Engineers (Carollo), presented the results of the pilot project in the January 28, 2014, City Council Conference and said taste and odor will be addressed in Phase II of the Water Treatment Plant Upgrade Project.

Mr. Komiske said the 2060 Strategic Water Supply Plan (SWSP) was recently completed and addresses how Norman will meet its long term water needs. He said today, local groundwater and surface water from Lake Thunderbird is marginally capable of meeting annual demands and seasonal peak demands. He said currently, Norman has exceeded its allocation from Lake Thunderbird and is purchasing a portion of Del City's allocation.

Mr. Komiske highlighted the SWSP's two portfolios that best meet Norman's criteria for water supply as follows:

Portfolio 13 - Regional Raw Water (co-owner with OKC): Local control over treatment but contingent on Oklahoma City (OKC) projects moving forward. It involves building a parallel pipeline from southeast Oklahoma to be treated at Norman's Water Treatment Facility (WTF). The capitals costs will be approximately \$340 million and operations and maintenance (O&M) will be approximately \$23 million per year.

Portfolio 14 - New Wells and Thunderbird Augmentation: Local control over sources; discharge permitting uncertainties; efficient use of water resources; and greater phasing potential - the City can phase in the construction of the wells. The capital costs will be approximately \$270 million and O&M will be approximately \$22 million per year.

Mr. Komiske said both portfolios are capable of meeting Norman's long term supply needs, but there was concern regarding potential risk of having a long pipeline providing a majority of the water supply so that was a slight factor in favor of Portfolio 14. He said Portfolio 14 makes full use of effluent from the WRF versus wasting a valuable resource by discharging it to the North Canadian River; it can be phased in with new wells and phased capacity for Lake Thunderbird augmentation; it has lower capital costs and slightly lower O&M costs; it meets environmental stewardship goals better by having local management; and it is more consistent with community values.

Mr. Komiske said Phase II will address the handling and disposing of residuals by developing a longer term plan as current low costs will not be available in the future. He said the WTP will soon run out of space for residuals so the City needs to look at alternatives for storing residuals and making them more solid. He said the existing lagoons are surrounded by floodway and alternatives could include pumping to a new lagoon site across the floodway to an area where there is no flooding or pumping to the Water Reclamation Facility (WRF).

Mr. Komiske said total costs for Phase II are \$30.1 million and will consist 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 said the next steps include design and construction; a longer term lower cost contract with Oklahoma City Water Utility Trust; conservation efforts; well blending; additional wells; well treatment; reuse regulations; and WRC reuse treatment. He said conservation efforts include a project to use effluent at the Compost Facility at a cost of \$100,000, which will save the City water during peak usage. He said due to State regulations, the number of active wells are diminishing. He said well treatment and reuse regulation go hand in hand and the City is waiting on ODEQ regulations. He said until the regulations are known, reuse cannot take place.

Mr. Komiske said the City will need additional annual funding of \$4 million for capital improvements and \$1.8 million for operational expenses for a total of \$5.8 million per year.

Mr. Komiske said the best way to look for sources of funding is to review what debt will be retired, but the only debt Norman will be retiring soon is the Lake Thunderbird mortgage. He said that debt is \$200,000 per year so it is not a huge income generator nor is it freeing up a lot of cash.

Mr. Komiske said Norman's residential water rate is 3% less than the average and if funds are to be garnered through customers, the following proposed rates based on usage would need to be charged:

	PRESENT	PROPOSED
BASE FEE	\$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

Mr. Komiske said the Water Division offers utility rates at 75% of the normal rate for customers who qualify as low income households based on federal guidelines.

Mr. Komiske said conservation style rates are being proposed for commercial customers based on their average winter consumption (AWC) during December, January, and February. He said proposed rates are as follows:

WINTER	PRESENT	PROPOSED
BASE FEE	\$5.50	\$7.50
Consumption Per 1,000 Gallons	\$2.10	\$3.80

SUMMER	PRESENT	PROPOSED
BASE FEE	\$5.50	\$7.50
Consumption Above AWC	\$2.10	\$4.20

Mr. Komiske said the proposed water rates will basically allow customers to control their water bills because the more water a customer uses, the more they pay.

Mr. Komiske said Norman almost has the lowest water rates compared to other communities in Oklahoma as well as communities in other States. He said this proposed rate increase is a big jump for Norman because rates have not been increased since 2006, and the capital needs are significant.

Mr. Komiske said additional considerations include an increase in new customer connection fees. He said the current connection fee is \$575 for water and \$275 for sewer for a total of \$850. He said connection fees are set by Council and do not require a vote of the people to be increased. He said Oklahoma City is planning to increase their connection fee to \$1,000 over the next three years. He said Norman has completed 19 operating wells from 2005 to 2012, with an average well cost of \$768,000. Each well's individual characteristics vary from depth of well, gallon output, water quality, and distance to distribution system. An average household connection fee would cost in the range of \$1,300 to pay for infrastructure. He said the City of Norman averages around 600 connections per year. Staff is proposing a \$250 per year increase over the next three years as follows:

2015	\$ 825
2016	\$1,075
2017	\$1,300

Mr. Komiske discussed the election timeline and said Council's consideration for an election and connection fee adjustment will be considered for First Reading on October 14th and Second Reading on October 28th. A Special Election would be held on January 13, 2015, with rates becoming effective on March 2, 2015. He said the Cleveland County Election Board requires a 60 day notice and that is why Council would need to take action in October to meet the election date in January.

Mr. Komiske said Norman's rates are 22% lower than the chart average on residential utility bills and 30% lower than the chart average on commercial utility bills. The proposed rates would place Norman 10% lower on residential utility bills and 14% lower on commercial utility bills.

Mr. Komiske said larger cities charge a fire service fee for commercial fire sprinkler systems and Norman does not have that. Some cities have a meter multiplier for potential to use water, e.g., a two inch meter can create a bigger demand so the base fee is higher and Norman does not have that. He said Oklahoma City charges a Housekeeping Service Fee in the amount of \$1.69 per unit for apartment houses because if the City has to hang door tags on doors due to service being cut off or disrupted for any reason, each unit has to be notified.

Councilmember Miller said many commercial customers already feel like they have to pay more than comparable cities even though the chart shows Norman's rates are the lowest. Mr. Komiske said he has not heard that from commercial customers, but he has been accused of only choosing cities that charge more than Norman for the chart comparisons; however, Staff has always used the same group of cities for comparison. Councilmember Miller thought part of the reason that perception may exist is because there are a number of fees imbedded in what the other cities charge that are not included in Norman's comparison and Mr. Komiske said that is true. He said OKC has a sprinkler charge and meter multiplier which Norman does not have. Councilmember Miller said she was thinking about overall perception when the City goes to voters saying this is what we need, how that looks to voters, and how the City makes its case. Mr. Komiske said it would be difficult to explain the meter multiplier and fire sprinkler fees to voters and the proposal could become complicated to them.

Councilmember Castleberry said when a City only increases their rates once a decade there will be 60% to 70% increases, but if broken down into annual rate increases it averages 6% per year. He said there are two components to Enterprise Funds, 1) Capital Improvements and 2) Maintenance and Operations. He suggested Norman look at OKC's model of pricing and incorporate some of those costs for long term capital and operating expenses. He said otherwise, every ten years the City will be asking voters for a huge rate increase. Councilmember Jungman asked if Councilmember Castleberry is saying the City should charge a flat base fee for capital improvements to each customer as opposed to working the fee into the per 1,000 gallon water rate structure and Councilmember Castleberry said yes, but the drawback to that is it would be regressive by nature. Mayor Rosenthal said a flat fee does not accurately reflect the demand for infrastructure that a small user places on the system compared to a larger user. She said not everyone's demand on the infrastructure is equivalent so she has a problem with charging a flat fee for capital improvements, but would be willing to look at long term capital infusions that may be required.

Councilmember Holman said OKC and Moore are raising their rates and asked if the comparison chart reflected those increases and Mr. Komiske said it did not.

Councilmember Williams asked if there is an aspect of the current usage fee that incorporates capital improvements or if customers paying for water only and Mr. Komiske said usage fees include debt servicing on the Water Treatment Plant as well as labor, chemicals, electricity, etc., but it is not enough to cover costs.

Councilmember Holman asked if the proposed residential rates would bring in the needed revenue and, if so, for how long and Mr. Komiske said if ODEQ regulations come into play sooner rather than later such as Chromium 6 the City could be looking at building an \$85 million Water Treatment Plant. He said there is no good answer to that question.

Councilmember Castleberry asked what the rate increase amounts were in the failed 2010 election and why does Staff think a 7% increase now would have a better chance of passing. Mr. Komiske said there are different components as the 2010 increase was a three step rate proposal that included a sanitation increase. He said at that time Staff knew something needed to be done in terms of a long term water supply so part of that proposal was to obtain \$10 million to purchase water rights or partner with OKC on acquiring water from Sardis Lake. He said the City now has the SWSP with clearer direction that eliminates the ambiguity that was the downfall of the last rate increase proposal. Mayor Rosenthal said there had been a lot of criticism that the \$10 million would obligate the

City to the Sardis Lake proposal that would include additional hundreds of millions of dollars so it was more about the issue than the rate.

Mayor Rosenthal said there seemed to be consensus on the residential rate proposal and asked for discussion on the concept of a commercial conservation rate. She said Staff is proposing a rate structure similar to what OKC has adopted and Councilmembers agreed conservation is always a good thing.

Mayor Rosenthal asked if the basic commercial rate proposal was appropriate and Councilmembers agreed it was.

Mayor Rosenthal asked Mr. Komiske if a connection fee had been factored into the residential and commercial rates and Mr. Komiske said no. He said it is not a secure revenue stream, but is a significant increase that would help offset some of the cost per 1,000 gallons. He said an additional \$500,000 in connection fees would drop the residential rates by ten cents. Councilmember Castleberry asked what the City's connection costs are to add a customer and Mr. Komiske said new customers add demand so if enough customers are added, a new well would have to be drilled, which would cost \$800,000. If you divide that by the number of customers serviced, it would cost approximately \$1,300 per customer. Councilmember Castleberry said without the connection fee, the proposed rates cover what is needed so the connection fee would be additional revenue and Mr. Komiske said correct.

Mayor Rosenthal asked if Councilmembers would like to see the numbers on connection fees including the overall dollars needed to complete all of the improvements and how that would affect the rates and Councilmember Miller said she would. Councilmember Heiple asked if there would be two items on the ballot if the City decided to go with GO or Revenue Bonds for capital improvements and Mr. Bryant, City Attorney, said yes it would require two items on the ballot.

Mayor Rosenthal asked about the consequences of delay and Mr. Anthony Francisco, Director of Finance, said as an example, if the City delayed a \$50 million project it would equate to \$150,000 per month. Mr. Komiske said if the rate increase does not pass, construction will have to stop. Mr. Francisco said the Water Treatment Plant Improvements Project was included in the budget so the project would need to be delayed to make ends meet.

Mayor Rosenthal asked about the potential for reprisal from ODEQ and Mr. Komiske said there is potential for a Consent Order if Phase II is stopped or delayed for an unforeseeable period of time. He said ODEQ would force the City to complete the regulatory items. Councilmember Miller asked how ODEQ would go about making the City continue the projects and Mayor Rosenthal said through fines.

Mayor Rosenthal said if the City does not act we will need to buy an increased amount of treated water from OKC. The City will lose a portion of its Lake Thunderbird supply due to reduced allocation and the City could lose groundwater wells when future ODEQ regulations kick in.

Items submitted for the record

1. PowerPoint presentation entitled, "031 Water Fund," dated September, 2014

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The meeting adjourned at 6:20 p.m.

ATTEST:

City Clerk

Mayor