

PUBLIC MEETING ON WASTEWATER RATE INCREASE

August 12, 2013

The City Council of the City of Norman, Cleveland County, State of Oklahoma, met in a public meeting at 6:00 p.m. in the Municipal Building Council Chambers on the 12th day of August, 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, Griffith, Heiple, Holman, Miller, Mayor Rosenthal
ABSENT:	Councilmembers Jungman, Kovach, and Williams

DISCUSSION REGARDING WASTEWATER RATE INCREASE.

Mayor Rosenthal said tonight's discussion will highlight four sewer rate increase options to gather public input for a specific option to be submitted for voter approval. She said there will be a question and comment time after Staff's presentation.

Mr. Ken Komiske, Director of Utilities, said tonight's agenda will cover the water reclamation fund; specifically, the source of funding; past projects and continuing projects; proposed construction, i.e., cost, timing, and components; and rates. He said the Water Reclamation Facility (WRF) is a 24/7 operation.

Funding Sources

The water reclamation (wastewater) funding sources created in 2001 are:

- Sewer Sales Tax: temporary one/half cent sales tax implemented October 1, 2001, and ended September 30, 2006;
- New Development Sewer Sales Excise Tax: main source of revenue is from new construction building permits based on square footage; and
- Sewer Maintenance Fee: \$5.00 per month fee for replacement of sewer lines on a pay as you go basis.

Mr. Komiske said another funding source is the commodity fee which is a user charge rate. He said current rates are 80% (residential) of the winter use during December, January, and February. He said the base rate is \$3.90 plus \$1.60 per 1,000 gallons of treated wastewater. He said the last rate increase was in 1996.

Past and Continuing Projects

Mr. Komiske said the City has been a very good steward of the funding sources and improvements that have been made to date at the WRF include:

- Upgrade to the West Side Lift Station in 2004 (\$2.5 million) and Headworks construction in 2005 (\$3.9 million). The total cost for both projects was \$6.4 million; however, the City received \$2.5 million in grant funding;
- Sludge Project in 2009 at a cost of \$6.5 million and the City received \$1.5 million in grant funding;
- Digester Boiler and Blower Variable Frequency Drive (VFD) replacement which was funded through a \$1 million Department of Energy (DOE) grant;
- Installation of larger sized sewer lines at Northern and Southern Interceptors; and
- Continued sewer main cleaning, raising manholes, root control, service calls, and blockages.

Mr. Komiske highlighted the Association of Central Oklahoma Governments (ACOG) Total Maximum Daily Load (TMDL) stating Norman's existing National Pollutant Discharge Elimination System (NPDES) permit (summer) limits are 5.0 parts per million (ppm) for Dissolved Oxygen (DO), e.g., the amount of oxygen that is being put into the stream; 13 ppm for Carbonaceous Biological Oxygen Demand (CBOD), e.g., sewage support regarding growth of less bacteria that uses up oxygen; and 4.1 ppm for Ammonia, e.g., the amount of nitrogen being put in the stream which causes algae growth and competes for oxygen with the fish. He said the proposed

WRF construction will increase the amount DO to 6.5 ppm, decrease the DBOD to 7.0 ppm, and decrease the Ammonia to 1.4 ppm.

Proposed Water Reclamation Plant Construction

Mr. Komiske said the proposed WRF Construction Project has three (3) components: regulatory driven improvements (consent order), operations and maintenance needs, and capacity upgrades. He said the project will be required to meet new NPDES permit limits and the TMDL will require additional DO in the receiving stream. The project will also replace/repair outdated equipment, some that have a risk of failure of key treatment units, and reduce the costs to maintain and repair equipment. The existing facility is currently at 92% capacity and many components are operating at or above rated capacity. He said the City is working with DEQ/OWRB in developing new water reuse regulations. The proposed water reclamation plant construction will provide a footprint and hydraulic path for future treatment. Mr. Komiske said Water Reclamation Facility Improvement Project will provide increased capacity; disinfection of effluent; increase dissolved oxygen in receiving stream; odor control; overall reduction in pollutants to receiving stream; emergency generators; and a more marketable effluent.

Phase 2A, currently under design contract with Garver Engineering, is a regulatory project and includes Ultra Violet (UV) disinfection; post aeration; new discharge outfall piping; solids handling; standby power; site electrical; and instrument and controls.

Phase 2B, also contracted with Garver Engineering, is capacity and replacement driven. Phase 2B includes headworks; effluent flow measurement and splitting; primary clarifier upgrades; aeration basin upgrades; secondary clarifier upgrades; odor control; standby power; site electrical; and instrument and controls.

In the past, the City has been fortunate to borrow money from the Oklahoma Water Resource Board (OWRB) State Revolving Fund (SRF), which provides low cost federal funding to municipalities on an as-needed basis. Mr. Komiske said the City of Norman is on a list to receive money; however, the City may not be able to finance the total bond for the Water Reclamation Improvement Project through OWRB due to limited available funding and may need to obtain funding using the bond market process.

The 2013 estimate for the Water Reclamation Improvement Project is \$63 million and the City is looking to borrow \$38 million, which would require a \$2.8 million annual payment based on 4% interest rate for 20 years. Mr. Komiske said the proposed estimated \$63 million Water Reclamation Facility Improvement Project includes the following components:

• Capacity (5 mgd at South plant)	\$30,900,000
• Renew/replace obsolete equipment	\$18,400,000
• Regulatory	\$ 9,100,000
• Odor Control	<u>\$ 4,700,000</u>
Total	\$63,100,000

Mr. Komiske highlighted the timeline as follows:

• Submit engineering report to DEQ	July, 2013
• Submit plans and specifications for construction environment for task A (DEQ required)	November, 2013 or 30 days from the review approval
• Begin construction	July, 2014
• Complete construction	January, 2017
• Compliance with Oklahoma Pollutant Discharge	July, 2017

Mr. Komiske highlighted Water Reclamation revenues and reserves in the Wastewater Excise Tax and Wastewater Sewer Sales Tax Funds. He said Council could consider using some or all of the available reserves

in the Wastewater Excise Tax Fund in order to “cash down” the bond note so the annual payments would be considerably less. He highlighted the following funding reserves and options:

<u>Total Project:</u>	<u>\$63,000,000</u>	<u>20 Year Annual Payment</u>
Wastewater Excise:	40.7% or \$25,641,000	\$1.9 million without reserve versus
	\$11 million available fund balance	\$1.3 million using reserve
Water Reclamation:	59.3% or \$37,359,000	\$2.8 million without reserve versus
	\$5.7 million available reserve in sales tax	\$2.4 million using reserve

Wastewater Rates

Mr. Komiske said if voter approval is achieved the rates for both residential and commercial customers will change and highlighted the water reclamation monthly rates for residential and commercial customers stating each are billed as follows:

- \$3.90 base fee;
- 80% of water used in December, January, and February - winter usage; Commercial Commodity rate is recalculated each month based on 80% of usage; both residential and commercial rate is \$1.60/1,000 gallons (commodity rate);
- \$5.00 maintenance fee;
- Residential Capital Improvement Charge (CIC) of \$0.50; and
- Commercial CIC = 60% of total bill.

Mr. Komiske said Staff researched base and cost per 1,000 gallon rates for several cities in the metro area as well as cities in Kansas and Texas. He said the average base rate is \$7.77 per month and the average cost per 1,000 gallons is \$3.06. Mr. Komiske said while Staff looks at other cities as a comparison, the rates should be based on what the City needs to pay for projects and/or recover costs for services provided. He said the cities researched appeared to have either a lower base charge/higher commodity or a higher base charge/lower commodity. Mr. Komiske said a higher commodity rate would help the City recover costs as well as encourage water conservation.

He said residential customers use an average of 3,000 gallons per month and commercial customers use an average of 4,000/gallons per month. Using those averages, he highlighted the following four (4) sewer rate increase options as follows:

	Option A-1 (Residential)	Option A-2 (Residential)
	Without \$5.7 Million Sewer Sales Tax	With \$5.7 Million Sewer Sales Tax
<u>Existing Rate:</u>	<u>New Rate:</u>	<u>New Rate:</u>
80% winter use	80% winter use	80% winter use
\$3.90 base	\$3.90 base	\$3.90 base
\$1.60/1,000 gallons	\$2.95/1,000 gallons	\$2.75/1,000 gallons
Total bill: \$13.24	Total bill: \$16.48 (\$3.24 increase)	Total bill: \$16.00 (\$2.76 increase)
	Option B-1 (Residential)	Option B-2 (Residential)
	Without \$5.7 Million Sewer Sales Tax	With \$5.7 Million Sewer Sales Tax
<u>Existing Rate:</u>	<u>New Rate:</u>	<u>New Rate:</u>
80% winter use	100% winter use	100% winter use
\$3.90 base	\$3.90 base	\$3.90 base
\$1.60/1,000 gallons	\$2.40/1,000 gallons	\$2.30/1,000 gallons
Total bill: \$13.24	Total bill: \$16.60 (\$3.36 increase)	Total bill: \$16.15 (\$2.91 increase)

Mr. Komiske shared an article that he received from the August 2013, Journal for American Water Works Association (AWWA) regarding water and wastewater rates being on the rise. He said the article states since 1996 annual median water and wastewater rates in the United States have increased by 4.9% and 5.2%, respectively. These rate increases, compared with the Consumer Price Index (CPI) increases of 2.5% per year, demonstrate the degree to which water and wastewater rate increases are outpacing inflation and driving customer bills to be a higher percentage of household income. Mr. Komiske said according to the above mentioned article, the CPI increased an average of 2.44% from 1996 to 2012; therefore, an average monthly water reclamation bill of 3,000/gallons should be \$20.29/month versus the current monthly fee of \$13.24. He also wanted to reiterate that the City is requesting an increase of \$2.76 - \$3.36 versus the \$7.05 CIP figure.

Participants in discussion

1. Mr. Ken Komiske, Director of Utilities
2. Mr. Mark Daniels, Utilities Engineer
3. Mr. Stephen Ellis, 633 Reed Avenue, asked if the City has done any work to figure out the costs for regulations regarding odor and/or maintenance without increasing capacity. *Mr. Komiske said yes, Garver Engineering has broken the work down into approximately 15 different pieces, looking at each to determine what percentage of the project was regulatory and/or capacity driven, and/or for odor control. He said Staff can provide the information.*
4. Mr. Harold Heiple, Attorney representing the Developers Council, stated it did not appear legitimate to send water back to Lake Thunderbird without increasing the capacity. *Mr Komiske said an argument would state that some of the water could be put back into Lake Thunderbird because it comes from that basin. He said the water rights regarding re-use (and who has the right to divert water from the stream that has been utilizing this water for so long) has not been decided yet. Mayor Rosenthal stated that discussions regarding the WRF construction will open up opportunities for re-use and additional capacity; however, the options may not be indirect potable re-use into Lake Thunderbird at this time.*
5. Ms. Jayne Crumpley, 423 Elm Avenue, asked whether the proposed WRF Project would include re-use opportunities and asked the pay-off date for the WRF Project. She asked how many years before the City will need to request an additional increase in order to “keep up” with the demand. *Mayor Rosenthal said the WRF Project is for regulatory driven improvements; operations and maintenance needs; and capacity upgrades; but will not include re-use structures. She said the City is working with DEQ/OWRB in developing new water re-use regulations and the project will provide a footprint and hydraulic path for future treatment. Mr. Komiske said if voter approval is achieved, the payoff date will be based on a 20 year bond. He said DEQ gives the City permit regulations every five (5) years; there could be significant changes in the permit or there could be minimal changes and the City will not know until permit regulations are received from DEQ.*
6. Mr. Mike Fowler, 4701 Cloudcroft Drive, asked how long the proposed WRF Project will take Norman into the future; what year, or at least 40 years? He wondered how long a capacity of 17 MGD will work for the City and felt the City needed to consider future growth because construction costs are cheaper today in comparison to future costs; therefore, it would be better/smarter to build bigger now than to add on to the structure later. *Mr. Komiske said when Norman has built out according to the 2025 Land Use Plan; the MGD is predicted to be 21.5 which is past the 20 year growth. Mayor Rosenthal said the 2025 Land Use Plan does not mean full build out to year 2025 and the re-use strategy will have a big play in the future capacity.*
7. Councilmember Castleberry felt the information presented today needed to also reflect the CPI increase average of 2.44% and requested Staff add another line item to the four proposed sewer rate increase options. He asked what will happen if the citizens do not vote to approve the proposed wastewater rate increase. *Staff agreed and said a CPI line item will be added to the presentation. Mr. Komiske said if the sewer rate increase is not approved the ramifications are dire; stating the City may face fines up to \$10,000 per day and/or the City may have to put a temporary freeze on growth. Councilmember Castleberry asked why*

Council did not consider a wastewater rate increase five (5) years ago and asked whether or not the City should consider changing the base rate. *Mayor Rosenthal said timing is very important when trying to achieve voter approval and stated over the past several years Council has considered and sent funding, rate increases, and bond proposals to the voters, i.e., new Norman Library, which was voted down; the Public Safety Sales Tax which achieved voter support; a couple of water rate increases, one voted against and one approved; and a recycling proposal which received voter support, etc. Mr. Komiske said the base rate has not changed since 1996, but if Council desires, the base rate can also be considered and adjusted.*

8. Mr. Edwin Kessler, 1570 Rosemont Drive, asked if the City has separated the portion of increase rates with the anticipated growth and population and, if so, what are those numbers? *Mr. Komiske said Staff looked at each piece, approximately 15 processes, and can show those figures. Mayor Rosenthal said \$31 million of the \$63 million is for new capacity and 41% of the total WRF Project will be paid for by the wastewater excise tax.*
9. Ms. Joy Hampton, The Norman Transcript, said if Council had the authority to annually raise rates according to the cost of living; would the City have enough money in reserves to do the WRF Project without borrowing the money? She asked who set the precedence whereas Council had to take rate increases to a public vote. *Mr. Komiske said the portion of the project shows that \$18.4 million is for renew and replacement of obsolete equipment and regular smaller rate increases would have been able to pay for these replacements. Mayor Rosenthal said the proposed rate increase regards the costs needed at this time for the WRF Project, not for future construction and/or replacement/maintenance costs in the next five or ten years.*
10. Mr. Sean Rieger, Attorney representing the Builders Association of South Central Oklahoma (BASCO), said the sewer sales tax in the amount of \$5.7 million should not be used and read an article from The Norman Transcript dated February 26, 2003, that supported his remark. *Mayor Rosenthal said the sewer sales tax is for any new capacity, not just for new capacity at the Northside Plant.*
11. Ms. Cynthia Rogers, 633 Reed Avenue, said the four options are a step in the right direction; however, the Northside Plant should be a part of the discussion.
12. Ms. Mary Francis, 850 C Cardinal Creek Condos, stated the plan to hold \$4 million of the \$11 million in reserve seems excessive and wondered why the City would not consider using the \$5.7 sewer sales tax.

Mayor Rosenthal thanked Staff for tonight's presentation and said Council will discuss the four sewer rate increase options at a Council conference scheduled for Tuesday, August 13, 2013. She said Council will take the different options into consideration i.e., commodity rates (80% or 100%) and whether or not to use the Sewer Sales Tax funds and the public input will assist Council going forward.

Items submitted for the record

1. PowerPoint presentation entitled, "Water Reclamation Fund," dated August 2013
2. Handout entitled "Discussion of Wastewater Rate Increase," dated August 12, 2013
3. Article entitled "Water and Wastewater Rates on the Rise," from Journal for American Water Works Association (AWWA), dated August 2013

The meeting adjourned at 7:25 p.m.

ATTEST:

City Clerk

Mayor