

CITY COUNCIL STUDY SESSION

April 29, 2014

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 Council Chambers on the 29th day of April, 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, Griffith, Heiple, Holman,
Jungman, Kovach, Miller, Williams, Mayor Rosenthal

ABSENT: None

Item 1, being:

DISCUSSION REGARDING THE FYE 2015 CITY OF NORMAN BUDGET – ENTERPRISE FUNDS.

Ms. Suzanne Krohmer, Budget Manager, said the City of Norman has three Enterprise Funds (EF); Water, Sanitation, and Water Reclamation. She said the Water Reclamation Fund has three sub-funds; Sewer Maintenance, New Development Excise, and Sewer Sales Tax. Ms. Krohmer said the 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 are 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 2015 are projected to be 2.5% higher than FYE 2014 budget figures. She said 2.5% of that is assumed customer growth.

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.

Ms. Krohmer highlighted Norman's water rates compared to other communities and said 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) and \$1,296,002 for raw water purchase from the Central Oklahoma Master Conservancy District (COMCD). She said the ending Fund Balance is estimated to be \$3,208,752. 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 \$10,546,000 short of the desired target.

Ms. Krohmer highlighted major carryover projects that include the Berry Road Water Line Replacement Project (\$4 million total project with \$515,000 in FYE 2015) and new elevated water storage tank (\$3.2 million total project with \$400,000 in FYE 2014). She said current major capital water projects include the Robinson Water Line Replacement Project under I-35 (\$2,297,600 in FYE 2014 and \$825,400 in FYE 2015), Gray Street Water Line Replacement Project (\$2,297,600), and Phase I Water Treatment Plant (WTP) Improvements (\$4,000,000). Future projects include the Phase II WTP Improvements in FYE 2016, arsenic related well modifications in FYE 2017, and other projects resulting from the Strategic Water Supply Plan update.

Water Fund, continued:

Councilmember Holman asked where the water storage tank will be located and Mr. Ken Komiske, Director of Utilities, said across the street from the existing WTP on East Robinson. Councilmember Heiple asked why water towers seem to be the same height no matter what city or state you are in and Mr. Komiske said the height of the tower determines the amount of water pressure needed. He said the standard height of 180 to 200 feet allows 40 to 50 pounds of water pressure, which is a good range for sufficient, consistent water pressure. He said some cities have ground storage tanks and use fire pumps and booster pumps that run continually to give the pressure they need.

Mayor Rosenthal asked about the arsenic well modifications and Mr. Komiske said this is mainly a place holder to allow for well water treatment that needs to be addressed in the future.

Councilmember Kovach said long range water solution scenarios require some type of huge cash infusion in FYE 2015, and asked if that was being contemplated in the budget. Mr. Komiske said Staff is waiting to see which scenario is chosen and cannot budget until that decision is made. He said all three options are expensive and all three have some type of phasing ability, which is important. Mayor Rosenthal asked when Council would be making that decision and Mr. Komiske said Staff is close to making a presentation to Council and are working on scheduling a date for that. Mayor Rosenthal said Council is looking at taking a water rate increase to the voters in FYE 2016.

Councilmember Griffith said \$400,000 has been consistently budgeted for purchasing water from OKC, but rainfall has been very low and the possibility of purchasing water from OKC is very high unless we get more rain. He said if the City budgeted an additional \$200,000 for emergency water and did not use it, would the money go back into the EF or the General Fund (GF) and Mr. Komiske said funds would roll back into the Water Fund since EF's do not compete with one another.

Councilmember Griffith asked what savings in daily water use was anticipated with the odd/even conservation and Mr. Komiske said the odd/even conservation was not necessarily enacted to save water, but to reduce peak water usage. Councilmember Castleberry asked if revenue would decrease due to the odd/even conservation and Mr. Komiske said Staff did not make that assumption since the conservation is really a distribution of water use not a decrease in water use. Councilmember Castleberry said it almost sounds as if conservation does not matter and Mr. Komiske said it matters because it helps during peak usage.

Councilmember Castleberry asked what the commercial water rate was and Mr. Komiske said the commercial rate is a flat rate of \$2.10 per thousand gallons.

Ms. Joy Hampton, The Norman Transcript, asked if the \$1,296,002 budgeted for COMCD raw water purchase includes Del City's unused allocated water the City of Norman has discussed purchasing, if needed, and Mr. Komiske said no, there is no money budgeted at this time to purchase Del City's unused allocated water from COMCD.

Councilmember Jungman asked about the \$10 million dollar projected target shortage and if the target goal is really of any use to the City and Mr. Anthony Francisco, Director of Finance, said the target goal is important from the standpoint that a big portion of that targeted reserve is related to capital expenditures. He said because expenditures in the Water Fund are so capital intensive, it would be nice if there were funds reserved to pay for those capital expenditures over time. Councilmember Castleberry asked for the beginning fund balance and Ms. Krohmer said \$6.9 million with a projected loss of \$3.7 million. Councilmember Castleberry asked what the loss was for last year and Ms. Krohmer replied \$1.5 million.

Water Fund, continued:

Councilmember Griffith asked when the City is bringing a rate increase to the voters and Mayor Rosenthal said in FYE 2016 because that is when the three options outlined in the Strategic Water Supply Plan assume a rate increase.

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 which includes a \$3 per month recycle charge and \$0.20 for the Oklahoma Solid Waste Management charge. She said a proposed \$1 increase beginning July 1, 2014, will be charged to customers who choose to have additional polycarts for a monthly cost of \$8. She highlighted sanitation rates in other communities and said Norman is one of the lowest.

Ms. Krohmer said services provided for the City's sanitation monthly charge include spring/fall cleanup; once a week solid waste collection; yard waste collection; three recycling drop off centers; free compost; and curbside recycling.

Ms. Krohmer said capital projects in FYE 2015 include an east Norman drop off recycling center, improvements to the Sanitation Office and Container Maintenance Facility, and fleet related replacement purchases (\$1,475,000 that includes \$550,000 for a compost tub grinder). She said there are no proposed increases to the landfill tipping fees from FYE 2014 (\$1,892,060). The ending fund balance is projected to be \$2,738,564.

Ms. Krohmer said a five year curbside recycling contract with Republic Services began in August 2013, which includes single stream curbside recycling pickup every other week using 95 gallon polycarts and more recyclable materials being accepted such as cardboard. Participation increased by 78% compared to a five year average of 41%. Collection each month increased to 430 tons compared to a five year average of 270 tons.

Councilmember Kovach asked if citizens can request an additional recycling polycart because some citizens are filling up their recycling polycarts faster than the solid waste polycart and Mr. Komiske said yes.

Councilmember Castleberry asked what the historical growth rate was and Ms. Krohmer said 3.5% growth in water has been the historical growth average and that is why Staff chose 2% for the other fund growth rates.

Mr. Fred Pope, interested citizen, asked why the City of Moore's sanitation rates are the lowest of all cities and Ms. Krohmer said Moore is a smaller city with less customers and they do not provide the same services Norman does such as curbside recycling. Mr. Komiske said the City of Norman services cover 180 square miles.

Councilmember Miller said she realized money is tight, but there is a big need for an east Norman drop off recycling center. Mr. Steve Lewis, City Manager, said the City may look at eliminating one of the current drop off centers because the amount of recycling taken to the drop off centers has decreased due to increased participation in curbside recycling. He said in the next six to eight months, the Finance Committee will discuss whether or not to have four drop off centers or move one current drop off center to east Norman. Councilmember Williams suggested making the drop off centers smaller and take some of those containers to east Norman and Mr. Komiske said it costs approximately \$160,000 to set up a new drop off center and there are labor costs associated with picking up containers and transporting them to the Materials Recycling Facility (MRF) in OKC.

Sanitation Fund, continued:

Mayor Rosenthal asked the status of commercial recycling and Mr. Komiske said the recycling company would be willing to do commercial recycling if the locations were clustered, such as several apartment complexes near one another. He said there would need to be enough apartment complexes in succession to fill a truck. He said one issue of apartment recycling is that each resident would be charged the \$3 recycling fee whether they recycle or not. Councilmember Holman said the more dense population of apartments are located on Constitution Street and Classen Boulevard around Highway 9.

Councilmember Castleberry asked if commercial recycling would be implemented by a citywide vote or a vote by commercial businesses only and Mr. Jeff Bryant, City Attorney, said commercial recycling would simply be added to the contract with Republic.

Councilmember Griffith asked if a pilot program could be implemented in a dense concentration of apartments to see how successful the program might be and Mr. Komiske said the City has done that before and it did not work out, but we could try it again.

Councilmember Castleberry asked the beginning fund balance and projected loss for FYE 2015 and Ms. Krohmer said the beginning fund balance is \$3.6 million with a projected loss of \$900,000.

WATER RECLAMATION FUND

Ms. Krohmer said residential wastewater service rates were increased in November 2013. Current residential rates include a base rate of \$5.00 plus \$2.70 per 1,000 gallons of treated wastewater. In October 2001, an additional \$5.00 fee was added for an expanded Sewer System Maintenance Program. User fee revenues for FYE 2015 are projected to be increased by 35% from last year due to a new rate structure increase. She said revenue bond proceeds supported by the newly-approved rate structure will be received in FYE 2014 to finance the Water Reclamation Facility expansion. She highlighted the rate structure for surrounding communities and said Norman is the lowest.

Ms. Krohmer said the Water Reclamation Facility expansion and improvements will be ongoing in FYE 2015, and \$140,000 in new Capital Projects are projected (part of the Non-potable Effluent Reuse System).

Councilmember Kovach said if the Department of Environmental Quality (DEQ) approved water reuse, what type of phasing in would be required on the Southside Water Reclamation Facility and Mr. Komiske said that would be part of the Strategic Water Supply Plan and implementation would have to be done on both the water side as well as reuse side. Councilmember Kovach asked if the Water Fund and Reclamation Fund would be one and the same and Mr. Komiske said there may be some revenues from water reclamation so the City will need to decide whether or not a sub-utility fund needs to be set up or if the Water Fund would be used. Mr. Komiske said on the water side, disinfection would need to be changed such as the City making its own chlorine instead of transporting large cylinders around town. He said there is a safety piece, a regulatory piece, and an outdated piece to reuse. Councilmember Kovach asked if increased capacity is being planned and Mr. Komiske increased capacity has been planned for and filters have been installed that can run at an increased rate. He said this does not mean the City will get more water from Lake Thunderbird, it just means the City can treat more water.

Councilmember Castleberry asked for the cost of a northside WTP and Mr. Mark Daniels, Utilities Engineer, said there are no final costs, but projected costs are around \$80 million range.

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 (CIC). She said major projects for FYE 2015 include replacement of sewer lines at a cost of \$8.3 million. All sewer maintenance rate projects must be on a pay-as-you-go basis.

Councilmember Griffith asked if residential and commercial customers pay the \$5.00 plus fifty cents per month CIC and Mr. Komiske said no, commercial customers pay a higher CIC. He said commercial customers pay 60% of their sewer bill's total.

NEW DEVELOPMENT EXCISE TAX FUND

The main source of revenues for the New Development Excise Tax Fund comes from new construction building permits based on square footage. Ms. Krohmer said projected revenues in FYE 2015 are \$1,600,000 and consist of \$1,200,000 from residential projects and \$400,000 from commercial projects. She said the Phase II South WRF Improvement Project continues.

SEWER SALES TAX FUND

Ms. Krohmer said the temporary one-half cent sales tax implemented in October 2001 and ending in September 2006 provided collection and treatment capacity improvements necessary to meet existing, approved, and obligated needs. She said it is estimated that all remaining funds from the tax will be spent in FYE 2015.

Ms. Krohmer highlighted total utility rates in other communities and said Norman is the lowest.

Items submitted for the record

1. PowerPoint presentation entitled, "City Council Fiscal Year 2014-2015 Budget Study Session Enterprise Funds," dated April 29, 2014

The meeting adjourned at 6:34 p.m.

ATTEST:

City Clerk

Mayor