

CITY COUNCIL CONFERENCE MINUTES

August 13, 2013

The City Council of the City of Norman, Cleveland County, State of Oklahoma, met in a conference at 5:35 p.m. in the Municipal Building Conference Room on the 13th 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, Kovach, Miller, Williams, and Mayor Rosenthal

ABSENT:

Councilmember Jungman

Item 1, being:

DISCUSSION REGARDING A WASTEWATER RATE INCREASE TO BE SUBMITTED FOR VOTER APPROVAL.

Mr. Ken Komiske, Director of Utilities, said Council discussed wastewater rates in a Conference on July 10, 2013, where Staff was asked to prepare ballot language for Options 1 and 2, with and without utilizing sewer sales tax reserves, to be presented at a Public Meeting on August 12, 2013.

Mr. Komiske said all proposed wastewater rate increases only reflect the required increase needed to pay off 20 year bonds on the Water Reclamation Facility upgrade. The upgrade includes regulatory driven improvements, increasing capacity, rehabilitating old and obsolete equipment, and odor control. He said projects not included in the proposed rate increase are the Class A Sludge Project and the Non-Potable Reuse Line Project. He said those projects were eliminated to help reduce the amount of the rate increase.

Mr. Komiske said regulatory improvements include meeting National Pollution Discharge Elimination Systems (NPDES) permit regulations and permit limits for Total Maximum Daily Loads (TMDL), which is what the City is allowed to discharge into the river. He said operations and maintenance include replacement of equipment that is very old and parts can no longer be found and the equipment is critical to the treatment process. He said the Water Reclamation Facility is currently at 92% capacity and many components are operating at or above rated capacity.

Mr. Komiske said Council could consider the following options to obtain the necessary revenues needed to fund the improvements:

- Begin billing residential customers a commodity rate of 100% instead of 80% which would increase revenues by \$650,000. He said Norman is the only metro city that utilizes the 80% formula and other cities bill customers based on 100% of the water usage during the specified winter months. Councilmember Miller asked why Norman uses this formula and Mr. Komiske said in the past, the City's theory was only 80% of residential water usage will "go down the drain" and ultimately be treated at the WWTP; therefore, 80% was used to calculate sewer rate.
- Increase the base fee from \$3.90 to \$5.00 or \$6.00, gaining an additional \$450,000 or \$870,000 respectively in revenues.
- Increase the commodity rate, currently at \$1.60 per 1,000 gallons to \$2.50, \$2.75, or \$3.00, gaining an additional \$1.5 million, \$1.9 million, or \$2.3 million respectively in revenues.

Mr. Komiske said it is good to look at other cities as a comparison, but 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 rate charge/higher commodity or a higher base charge/lower commodity.

Mr. Komiske highlighted options for residential wastewater rates as follows:

	Option A-1	Option A-2
<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	Total bill: \$16.00

OR

	Option B-1	Option B-2
<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	Total bill: \$16.15

Mr. Komiske said Option A-1 develops enough revenue to support the needed increase without using the \$5.7 million Sewer Sales Tax Funds (SSTF) for an increase of \$3.24 per month for the average customer. Option A-2 develops enough revenue to support the needed increase and uses the SSTF to reduce the amount borrowed for an increase of \$2.76 per month. He said Option B-1 develops enough revenue to support the needed increase without using the SSTF for an increase of \$3.36 per month. Option B-2 develops enough revenue to support the needed increase, is slightly lower, and uses the SSTF to reduce the amount borrowed for an increase of \$2.91 per month. Options B-1 and B-2 changes the calculation rate from 80% of the winter time water usage to 100%, keeps the base rate the same, and increases the commodity rate.

Mr. Komiske highlighted Commercial rates as follows:

	Option A-1	Option A-2
<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: \$22.43	Total bill: \$29.34	Total bill: \$28.32

Mr. Komiske said commercial customers are charged a higher Capital Improvement Charge (CIC) than residential customers. The commercial rate is 60% of their water usage each month. Councilmember Castleberry asked the rationale for commercial paying so much more CIC than residential and Mr. Komiske said commercial rates are higher than residential in just about any community you look at, but how that is divided up is different for each community. He said at the end of the day, cities need to recover the costs they need.

Mayor Rosenthal said the Finance Committee discussed increasing the base rate, but there was no support for that. She said one argument was that the base rate was the most regressive part of the plan since the smallest users get hit the hardest by a base rate increase. She asked if Council desired to increase the base rate. Councilmember Holman said he was concerned about funding the projects if the base rate is not increased and Councilmember Kovach agreed because the base rate is money that can be counted on and a small increase in the base rate could cover operating and maintenance costs. Councilmember Castleberry agreed and said the base rate has not been changed since 1996 and operating and maintenance costs have increased and not charging more for that is unrealistic. He said there needs to be some type of adjustment to the base rate if nothing other than from an inflation standpoint and reminded everyone water revenue is down from last year. Mr. Komiske said water revenues are significantly lower. Councilmember Heiple felt increasing the winter usage calculation from 80% to 100% is confusing and he supports increasing the base

rate slightly and the commodity rate so the more water a customer uses, the more they pay. Councilmember Miller said she would rather increase the commodity rate and leave the base rate as is. Mayor Rosenthal said if the calculation percentage, commodity, and base rate are increased the City will have to explain the rationale of those increases to customers and believes the 80% to 100% increase for calculating winter usage would be very hard to explain to people and it would begin to look and feel like the City is nickeling and diming people.

Councilmember Kovach asked Mr. Anthony Francisco, Director of Finance, how the bond rates might be affected if there is not a more certain increase in the base rate and what he would recommend. Mr. Francisco said the case that has to be made to potential bond investors is about the rate structure. The base rate does give the City more of a sure thing, but if you can make the case based on the \$3.90 base rate with a higher commodity rate the City can release scenarios to show the City will have the minimum funds to meet the debt service.

Councilmember Kovach asked what other communities base rates are like and Mr. Komiske said the cities researched appeared to have either a lower base charge/higher commodity or a higher base charge/lower commodity. He said cities should try to strike a balance and be moderate on both rates. He said when cities do a Cost of Service Study the goal is not to charge what other cities are charging, but to cover costs. He said Moore, Oklahoma, increased their base rate to \$8 to cover the new expansion of their Wastewater Treatment Plant (WTP). Councilmember Castleberry asked if \$3.90 covers Norman's costs and Mr. Komiske said it covers costs for meter reading, customer service, and billing services. Councilmember Castleberry asked why the Water and Wastewater Fund Balances are going down if Norman is covering all its costs and Mr. Komiske said because Norman operates on a fixed revenue stream and as chemical, power, labor, insurance, etc. increases, the revenue does not increase to meet those costs. Councilmember Castleberry said that is the reason the base rate needs to be increased.

Councilmember Kovach felt that if the City could achieve its purpose by properly setting commodity rates without having a negative effect on the bond rate then one simple storyline as to what the City is doing and why is much easier to convey to the public. He said he is going to back off asking for a base rate increase and go with an increase in the commodity. Councilmember Williams asked what would be a sufficient amount for the commodity increase and Councilmember Kovach said that would be up to the experts. Mayor Rosenthal said all the options are based on a fixed base rate with variations in the commodities and projected revenues with and without using the SSTF.

Councilmember Griffith said he would support Option B with winter use calculations of 100%. He said if the base rate is going to remain low then adjusting the commodity rates to cover expenses makes sense. He said increasing the base rate would encourage conservation, but at the same time if the City encourages conservation and the public conserves a lot then it will affect the City's ability to pay so it is a double edged sword. Councilmember Kovach liked the idea of increasing the winter use calculation to 100% because the City is already using the three lowest months of usage for rate calculations so calculating 100% winter usage would be fair and better reflect the actual usage of everyone. He felt it would be more accurate when distributing this cost.

Mayor Rosenthal asked if consensus is to remain with the \$3.90 base rate and increase the commodity rate and Councilmember Castleberry said the base rate has not been changed in 20 years and a 10% increase every 20 years is not bad. Councilmember Heiple asked Mr. Komiske how much more per month the customer would pay on a higher base rate and Mr. Komiske said it would depend on the amount of water they used. He said an increase in the base fee from \$3.90 to \$5.00 or \$6.00, would gain an additional \$450,000 or \$870,000 in revenues. Councilmember Kovach reminded everyone to not look at what makes the most financial sense or what is the clearest, cleanest option, but what can be communicated fast because if the City does not do a good job of communicating this need then the election will fail. He said it is hard to communicate trying to adjust three rates on one ballot and people tend to vote no on things they do not understand and Mayor Rosenthal agreed. Councilmember Griffith asked if increasing the commodity rate would get "the most bang for the buck" insuring a more robust revenue stream and Mr. Komiske said yes; however, if people conserve usage too much then the revenue is not realized. Councilmember Kovach felt winter conservation would be minimal.

Councilmember Miller said she understands the need to increase the base rate, but financially, it does not make a big difference. She said the City needs to have the best argument and best data to educate citizens as to why funding is needed. She said the goal is getting information to citizens and getting a rate increase passed and wanted to keep it as simple as possible. Mayor Rosenthal said explaining to citizens the City is going to use field based industry practice of 100% winter usage is pretty straight forward. Councilmember Holman felt the best option would be B-1.

Mayor Rosenthal felt Councilmember Jungman was correct when he stated during the Finance Committee that customers would feel they have more control over the commodity portion of their bill because all other rates are fixed and there is no control over those. Councilmember Kovach felt that was a fair point because a lot of people in the community are aware of the fact that their sewer rates are based on three months' worth of usage, but they do not go out of their way to make sure they are using less water in those three months to reduce the rates. The people that do tend to be the people that have to because they are on fixed income so the word "control" is a good descriptive. He said the conservation aspect would be minimal at best, but it becomes fairer when people who are watching their nickels and dimes have the opportunity to affect their rates for the better.

Councilmember Williams said the City can make it very complicated, but they can also make it very simple and a lot of simple points have been mentioned tonight. He said the City needs to meet its debt and people will understand and respect that so he would support a base rate increase. Councilmember Kovach asked if Councilmember Williams wanted to stay at 80% winter use or 100% and Councilmember Williams said 100%, but if he had to choose, he would prefer to stay with 80% winter use and increase the base rate.

Mayor Rosenthal said Mr. Komiske has stated there were a number of improvements needed that would go towards a north Wastewater Treatment Plant (WWPT) that has been accomplished. She asked how much of that was paid for by the SSTF and Mr. Komiske said approximately \$3 million was spent for the \$10 million projects that included the Lift Station D Headworks Project.

Councilmember Kovach said the City should ask for a reauthorization of the sewer sales tax as a separate ballot question. He said that lets citizens decide if they want to reduce their rate by moving that money or not. He said there is significant disagreement on the legality of that and the last thing the City wants to do while asking for an increase is to cloud the issue with legal arguments from different sides of the issue. Councilmember Castleberry said that election was done in 2003 and the sales tax was reauthorized. Mayor Rosenthal said the public expects the City to use all available resources and voters will focus on "what will this cost me personally" and vote no. She believes the public wants the City to use available resources which are legally appropriate for the current system. Councilmember Kovach agreed and said an election can be killed simply by raising the right questions. Councilmember Heiple said the City needs to do what is best for everyone and new development requires additional sewer, water, and stormwater and this issue needs to be finished and not be revisited again.

Councilmember Castleberry said the \$5.7 million in SSTF was garnered from the people's vote for a north side treatment plant. That is what they voted on, that is what they were promised, and that is what they expect. Mayor Rosenthal said the most important thing is to get the improvements to the south WWTP taken care of and she believes the City will garner a significant no vote if the \$5.7 million is left out of the equation. She felt a separate vote would be very confusing and felt people will vote yes to spend the \$5.7 million and vote no to a rate increase and the City will be no better off. She did believe it is time to get over this issue, get this job done, and then work on the next piece of how to finance a north side plant.

Councilmember Castleberry said if the Legal Department's opinion is wrong and Council misappropriates these funds, what will be the ramifications for Councilmembers. Mr. Bryant said Councilmembers are covered as long as they rely on the legal opinion from the City Attorney's Office and there would be no personal ramifications. Councilmember Castleberry said if one Councilmember openly states he/she does not agree with the legal opinion would that Councilmember still be covered and Mr. Bryant said yes.

Mayor Rosenthal said there does not appear to be sufficient consensus on the rate at this time to give Staff direction on preparation of an ordinance calling for an election. She said not everyone stated their preference and needs to do so.

The ordinance needs to be scheduled for First Reading on August 27th to keep with the timeline for a November 12th election. She said additional follow-up will be needed.

Items submitted for the record

1. Memorandum dated July 30, 2013, from Kenneth Komiske, Director of Utilities, to Steve Lewis, City Manager
2. PowerPoint entitled, "Discussion of Wastewater Rate Increase," dated August 12, 2013
3. PowerPoint presentation entitled, "Water Reclamation Fund," dated July, 2013
4. Memorandum dated July 17, 2013, from Norman Citizen's Wastewater Oversight Committee, Judith Wilkins, Chair, to Honorable Trustees of the Norman Utility Authority

The meeting adjourned at 7:25 p.m.

ATTEST:

City Clerk

Mayor