

CITY COUNCIL CONFERENCE MINUTES

July 10, 2013

The City Council of the City of Norman, Cleveland County, State of Oklahoma, met in a conference at 5:30 p.m. in the Municipal Building Conference Room on the 10th day of July, 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, Holman, Jungman, Miller, and Mayor Rosenthal

ABSENT:

Councilmembers Heiple, Kovach, and Williams

Item 1, being:

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

Mayor Rosenthal said the last wastewater rate increase was approved by voters in January 2001, and since that time the City has spent approximately \$80 million in investments from various sources for wastewater improvements throughout the system. She said the City has made substantial investments in the system and furthering the goals of the Wastewater Master Plan (WWMP), which consists of two (2) plants, a northside plant and a southside plant. The southside Wastewater Treatment Plant (WWTP) improvements are primarily driven by regulatory demands of the Department of Environmental Quality (DEQ), as well as capacity issues.

Mayor Rosenthal said tonight's focus will be on creating a rate proposal that will be submitted for voter approval and Council will need to provide guidance to Staff regarding how to calculate the rate to finance the improvements including the engineering work currently being done at the south WWTP. She said tonight's discussion is not a debate as to whether or not the City will have a north WWTP, but rather a discussion regarding how to finance the improvements at the south WWTP.

Mr. Ken Komiske, Director of Utilities, said the Water Reclamation Facility (WRF) is a 24/7 operation. He said the water reclamation 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.

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 having a cost of \$6.5 million and the City received \$1.5 million in grant funding; and
- Digester Boiler and Blower Variable Frequency Drive (VFD) replacement which was funded through a \$1 million Department of Energy (DOE) grant.

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Mr. Komiske said the proposed project has three (3) components: regulations (consent order), equipment replacement, and capacity. He 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

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.

Mr. Komiske said the 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.

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 include require a \$2.8 million annual payment based on 4% interest rate for 20 years. Mr. Komiske highlighted the timeline as follows:

• Submit engineering report to DEQ	July, 2013
• Submit plans and specifications for construction for task A (DEQ required)	November, 2013 or 30 days from the environment review approval
• Begin construction	July, 2014
• Complete construction	January, 2017
• Compliance with Oklahoma Pollutant Discharge Elimination System (OPDES) permit limits	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 order to “cash down” the bond note so the annual payments would be considerably less. He highlighted the following funding reserves and options:

Total Project:	\$63,000,000	20 Year Annual Payment
Water Reclamation:	59.3% or \$37,359,000	\$2.8 million without reserve versus
	\$5.7 million available reserve	\$2.4 million using reserve
Wastewater Excise:	40.7% or \$25,641,000	\$1.9 million without reserve versus
	\$11 million available fund balance	\$1.3 million using reserve
Sales Tax:	0.0%	

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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 usage; \$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 the following are options Council could consider 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. Councilmember Miller asked why the 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, only 80% should be billed.
- 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 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. Councilmember Miller asked if a higher commodity rate would encourage water conservation and Mr. Komiske said yes. Mayor Rosenthal said if increasing the commodity rate will help the City recover costs as well as encourage water conservation then that is the way to go.

Mr. Komiske said use for residential customers at 7,000 gallons per month would cover 85% of all the wastewater bills sent. He gave three (3) residential water reclamation scenarios as options for Council's consideration:

	Option 1	Option 2	Option 3
<u>Existing Rate:</u>	<u>New Rate:</u>	<u>New Rate:</u>	<u>New Rate:</u>
80% winter use	80% winter use	100% winter use	80% winter use
\$3.90 base	\$3.90 base	\$3.90 base	\$5.00 base
\$1.60/1,000 gallons	\$3.00/1,000 gallons	\$2.40/1,000 gallons	\$2.75/1,000 gallons
Total bill: \$18.36	Total bill: \$26.20	Total bill: \$26.20	Total bill: \$25.90

Mayor Rosenthal asked what all went into the base fee and Mr. Komiske said at one time the thought was for the base fee to help cover customer service costs, i.e., meter reader, collection of data, billing, and customer service personnel. He said research of other cities reflected their base fee also assisted with "fixed" costs, such as debt service, in order to help provide more stable rates during drought or very wet seasons. Mr. Komiske said Norman does not have a formula showing how much of the base rate is used for debt and how much is used for customer service, billing, personnel, etc.

Councilmember Miller asked if the increases would also apply to commercial customers and Mr. Komiske said yes; however, residential is the main focus since 75% of Norman's revenue is derived from residential customers. He said each option includes an approximate 40% sewer increase; however, customers will see a 20% increase to their overall bill (sewer and water). Mr. Komiske said the increase will generate approximately \$2.1 million, which is 75% of the \$2.8 million needed to pay the annual payment.

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Mr. Komiske highlighted the fund summary for the Water Reclamation Fund through FYE 2018 eliminating the Class A Sludge and Non-Potable Effluent Reuse Line Projects. Mayor Rosenthal asked if Staff ran the same three scenarios using the fund balance in the Wastewater Excise Sales Tax and the reserves in the Sewer Sales Tax (sales tax) to pay down the amount the City would borrow and Mr. Komiske said no, but Staff could provide that information.

Council discussed the other scenarios altering the base rate and commodity rate. The following options were calculated:

Option 1	Option 2	Option 3
80% winter use	100% winter use	100% winter use
\$3.90 base	\$3.90 base	\$5.00 base
\$2.75/1,000 gallons	\$2.25/1,000 gallons	\$2.75/1,000 gallons
Total bill: \$24.80	Total bill: \$25.15	Total bill: \$28.65

Option 1

Utilizing the Sewer Sales Tax Reserve to reduce the amount the City bonds and would allow the commodity rate to be reduced from \$3.00/1,000 gallons to \$2.75/1,000 gallons and decreases the total monthly bill from \$26.20 to \$24.80.

Option 2

Utilizing the Sewer Sales Tax Reserve to reduce the amount the City bonds and would allow the commodity rate to be reduced from \$2.40/1,000 gallons to \$2.25/1,000 gallons and decreases the total monthly bill from \$26.20 to \$25.15.

Option 3

Changing the percentage used to calculate the commodity rate from 80% to 100% increases the total monthly bill from \$25.90 to \$28.65.

Ms. Joy Hampton, The Norman Transcript, asked if the total bill figures are for the total utility bill and Mr. Komiske said no, the total bill figures are only for the sewer portion of the utility bill and do not include water or solid waste.

Councilmember Jungman felt the City needed to cover costs while giving citizens some control of their bill by increasing the commodity rate. Councilmember Castleberry said rates have not been raised since 1996 and felt the City needed to have a little cushion to assist with future/rising costs. He said the current Charter does not allow the City the flexibility to change rates without voter approval; therefore, it could possibly be another 15 plus years before another increase is approved and implemented. Mr. Komiske said Councilmember Castleberry makes a very good point and felt the City should not get into the position where facilities begin to suffer because of funding/financial issues. He said issues can then develop into costly repairs and/or expensive improvements which require a more substantial amount of money and rate increases to bring and/or keep facilities in compliance. Councilmember Jungman agreed it is nice to have a healthy fund balance, but felt the City should only request a rate increase for what is needed at this time in order to pay for improvements to the south plant. Councilmember Griffith felt the City should raise the commodity percentage to 100% as well as increase the base rate so the City can make repairs and improvements before they become expensive issues.

Mayor Rosenthal felt the focus needed to be on what increase option should be taken to a citizen vote so improvements can be made at the south plant and asked for Council input. She also requested Council's input regarding the elimination of the Class A Sludge and Non-Potable Effluent Reuse Line (reuse line) Projects.

Mayor Rosenthal felt the reuse line is a desirable project, but Councilmember Jungman raised a very good point and agreed the City needed to justify the bottom line target needed for the south plant improvements. She said each line item will need to tie into the use and merits.

Councilmember Miller asked how long the rate increase will sustain the City and Mr. Komiske said until 2019. Councilmember Castleberry suggested installing an interactive piece so citizens can calculate their own utility bill. Mr. Steve Lewis, City Manager, cautioned Council that the City did not want to send the wrong message where citizens think they will have a 35%-40% increase on their *total* utility bill as opposed to the wastewater/sewer portion of the utility bill. Councilmember Jungman suggested explaining to citizens that the proposed rate increase will increase their utility bill approximately \$7.00 to \$10.00 per month and Council agreed that would be better.

Councilmember Jungman asked how much the improvements to the south plant will cost and Mr. Komiske said it is estimated to cost \$63 million. Mr. Lewis said the estimated cost of the project is based on the engineer's estimate in today's

economy; however, DEQ approval is still needed so the estimate could change depending upon what DEQ actually approves, as well as any change(s) in the economy. He said the City cannot depend on OWRB SRF loans to fund the entire \$63 million and the City needs to be ready to request additional funding. Mr. Lewis said a concern is whether or not a vote should be taken to the citizens when 100% of the project is "ready to go," i.e., engineering done, DEQ approval received, etc., or when only 90% of the project has been completed, which provides an estimated cost and interest rate. He said the timing of getting this issue in front of the voters is key.

Ms. Cindy Rogers, 633 Reed Avenue, asked Council to consider increasing the excise tax too and Councilmember Jungman felt that was a fair point. Councilmember Jungman said the community rate should probably increase; however, on the other hand if the City does not request an increase on the sewer excise tax (one-time fee for new construction) he felt citizens might feel as though that is a little unfair.

Mayor Rosenthal requested Staff provide history regarding the establishment of the sewer excise tax and Mr. Anthony Francisco, Finance Director, said the Citizens Coalition for the Future Wastewater submitted a report to Council on April 9, 2001, outlining the imposition of a Wastewater System Expansion Excise Tax on new development to be served by the City's wastewater system; providing that the use of proceeds generated from the excise tax be used for future wastewater system expansion, as well as paying debt service on obligations issued to finance future improvements and expansion of the City's wastewater system. He said Ordinance No. O-0001-58 was confirmed by voter approval on June 12, 2001, which amended Chapter 8, of the City Code by adding Sec. 8-617 providing for the City to serve the common obligated customers that were already in place in 2000, as well obligated customers who had approved plats but did not have their home built yet. Mr. Francisco said it can be argued whether or not the 60/40 cost sharing solution is correct but it was based on good science in 2000; therefore, at this current rate the excise tax is paying and has been paying its fair share since the year 2000.

Mayor Rosenthal said she previously discussed researching and completing a thorough study of what it would cost to add new capacity going forward with the City Manager. She said she also requested a comparison of Norman's excise tax rate to communities in the metro area which determined that Norman's rate is approximately two times higher. Mr. Lewis said the setting of excise tax fees is a very complicated process and felt an evaluation process by an appropriate sub-committee could take a minimum of six months. He said research showed that communities complete the process very differently, i.e., the meter size, number of bathrooms in a home, and/or number of plumbing fixtures in a home, etc., and generally not only sewer rates, but water rates as well, are researched at the same time. Mr. Lewis said the total sewer fees for an average single family house having 1,800 square feet in Norman is approximately \$2,325.

Councilmember Castleberry felt capacity is not only increased by new users/customers and felt current users/customers can also add to Norman's sewer and water capacity, i.e., building additions to homes, having children, etc. Mayor Rosenthal felt under the scenario that was developed in 2001, growth is paying its way and share any new costs for the expansion to Norman's wastewater system. She felt considering an increase to the sewer sales excise tax at this time would not be a thoughtful process.

Mayor Rosenthal said she felt Option 1 would be the best choice and Councilmember Jungman agreed. She also felt it would be fiscally imprudent to sit on \$5.7 million that could be put to use to serve customers and improve the City's system. She suggested the \$5.7 million in the Sewer Sales Tax Fund be used to pay down the note, or at the very least, acknowledge if there are any overages to the \$63 million Water Reclamation Plant Construction Project, the \$5.7 million in reserve will be used first. Mr. Francisco said the sales tax reserve could not be used to pay off the bond(s) early; however, the reserve could be used for improvements at the Water Reclamation Plant.

Councilmember Holman felt increasing the commodity rate and not increasing the base rate would be the best option, but he is concerned there may not be enough money. Councilmember Castleberry asked the rationale behind the 80% calculation for the commodity rate. Councilmember Jungman felt Council will need to satisfy the voters as to what they expect and/or want. Councilmember Jungman said customers would be in more control of their bill if only the commodity rate is increased and the winter use rate is left at 80%.

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Councilmember Griffith liked Option 2 and felt the City should begin using the standard of 100% winter use for the commodity rate calculation. Councilmember Jungman felt Council needed to see the three options utilizing the sales tax reserve before deciding which option to bring forward.

Mayor Rosenthal recapped the discussion stating most has been focused on Option 1 and Option 2. She said the difference between Option 1 and Option 2, if applying the sewer sales tax, is the commodity rate and monthly fee. Option 1 would drop the commodity rate to \$2.75/1,000 gallons making the monthly fee \$24.80 and Option 2 would drop the commodity rate to \$2.25/1,000 gallons making the monthly fee \$25.15.

Councilmember Castleberry preferred Option 1 and likes the concept of incentivizing citizens to use less water; however, he felt the winter usage should be 100% instead of 80%. He said he would like to see scenarios calculated for commercial customers as well as what the City's cost is to treat wastewater and Mr. Komiske said Staff will provide that information to Council. Mayor Rosenthal said the City's costs should be factored when looking at proposed rate increases to determine whether the improvements as well as the costs are covered; however, at this point Council's focus is trying to determine how to finance the Water Reclamation Improvement Project. She said it could be a big rate increase, but felt it did not make sense to wait or complicate the issue. Councilmember Castleberry agreed that Council should move forward, but felt the information would be beneficial. He said knowing the average customer's usage would also help determine which option would be best and the City could let customers know the approximate dollar amount increase they can expect. Mr. Komiske said 85% of the customers will see a \$7.00 increase, or less, on their monthly utility bill. Staff said a customer using 3,500 gallons would have a \$4.90 increase on their monthly bill.

Councilmember Castleberry felt public input on the proposed options would be a good idea. Staff said this issue can be tentatively scheduled for a pre-conference on August 13, 2013, and the First Reading ordinance calling for the election would be scheduled as an agenda item for Council's consideration on August 27, 2013. Mayor Rosenthal asked Council's input regarding scheduling a public meeting on August 12, 2013, and Councilmember Castleberry felt a public meeting would be a good idea. Mayor Rosenthal requested Staff prepare language for Option 1 and Option 2 with and without utilizing sewer sales tax reserves for the Public Meeting. She felt citizens should be encouraged to bring their monthly utility bill reflecting the usage and stations could be set up to show citizens the amount of increase to expect using Option 1 and Option 2. Staff asked if the presentation should include the Class A Sludge and Non-Potable Effluent Reuse Line Projects and Mayor Rosenthal said not at this time.

Items submitted for the record

1. PowerPoint presentation entitled, "Water Reclamation Fund," dated July, 2013
2. Water Reclamation – Fund 32 Audited FYE 12 Figures

The meeting adjourned at 7:25 p.m.

ATTEST:

City Clerk

Mayor