

CITY COUNCIL STUDY SESSION MINUTES

October 16, 2018

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 Conference Room on the 16th day of October, 2018, 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 Bierman, Carter, Castleberry, Clark, Hickman, Holman, Scott, Wilson, Mayor Miller

ABSENT:

None

Item 1, being:

REVIEW OF WATER AND WASTEWATER CONNECTION FEES PER SECTION 21-207(b) OF THE CODE OF ORDINANCES OF THE CITY OF NORMAN.

Mayor Miller said water and wastewater connection fees need to be reviewed regularly by Council because it helps keep them informed about items in the Strategic Water Supply Plan (SWSP). She said tonight is simply a review of those fees and no action is needed.

Mr. Ken Komiske, Director of Utilities, said Section 21-107(b) of the Code of Ordinances lists the connections fees, but also mandates Council review the connection fees every two years. He said in 2016, Raftelis Financial Consultants, Inc., (Raftelis) prepared a Water and Wastewater Connection Charge Study to determine if the City was charging fees that were equitable and fair. He said the project objectives of the Raftelis study were to update the City's water and wastewater connection fees by industry standard methodologies and maximum allowed by Oklahoma law and develop water and wastewater capital financing plans featuring a mix of funding sources, including connection charges, rate revenues, external debt financing, and wastewater excise tax on new development.

Mr. Komiske said Raftelis also looked at growth-related items on the City's capital projects plan, which included reactivated arsenic wells and three (3) million gallon per day (MGD) groundwater treatment plant - \$19.0 million; additional connection to Oklahoma City (OKC) - \$14.4 million; water line enlargement - \$11.5 million; and two (2) new ground water wells and supply lines - \$2.7 million. Growth related costs total \$49.2 million out of a \$232 million total Capital Improvement Plan (CIP). He said 7.0 mgd in capacity needed to be added for new development, which would be equivalent to 18,366 new 3/4 inch connections to be served.

Mr. Komiske said Raftelis also estimated single-family water rate increases based on 4,000 gallons per month usage using hypothetical rate increases that included no increase in FYE 2016 through FYE 2017 - \$21.40 monthly; 22% increase in FYE 2018 through FYE 2019 - \$26.11 monthly; 22% increase in FYE 2020 through FYE 2021 - \$31.85 monthly; 10% increase in FYE 2022 through FYE 2023 - \$35.04 monthly; and 3% increase in FYE 2024 through FYE 2025 - \$36.09 monthly.

Mr. Komiske highlighted the connection fee history based on 3/4 inch service as follows:

- January 8, 1974 \$ 250
- August 1, 1984 \$ 350
- August 1, 1985 \$ 450
- August 1, 1986 \$ 550
- May 11, 2007 \$ 850
- August 1, 2015 \$1,075
- August 1, 2016 \$1,275

Mr. Komiske highlighted water rate increase voter approval history as follows:

- April 8, 1980, the increase passed by 67.5%
- September 12, 1995, the increase passed by 58.9%
- May 11, 1999, the increase passed by 51.4%
- March 7, 2006, the increase passed by 55.7%
- January 13, 2015, the increase passed by 67.0%.

The Raftelis report was of the opinion the City could charge the following for water connection fees:

Meter Size	Existing (Effective 8/1/16)	Maximum Allowed by Law
3/4 inch	\$ 1,000	\$ 3,275
1 inch	\$ 1,667	\$ 8,744
1.5 inch	\$ 3,333	\$ 10,906
2 inch	\$ 6,667	\$ 34,944
3 inch	\$14,667	\$ 69,944
4 inch	\$28,000	\$109,156
6 inch	\$57,667	\$218,344

Councilmember Holman said the maximum in the Raftelis Study does not mean that is how much it costs the City to provide the service and Mr. Komiske said Raftelis felt that based on their information on costs for new development starting from scratch, that maximum cost would be defensible in Court. Councilmember Holman asked if the City is really losing \$160,677 on a six-inch meter and Mr. Komiske said Raftelis based all meter sizes on a single-family dwelling and the water that goes through a six-inch meter could be equivalent to 200 or more single-family dwellings. Mayor said the maximum cost is basically what the City could legally charge and was not a recommendation to charge that amount.

Councilmember Bierman asked if the current connection fees accurately reflect the cost to fund the new water and wastewater capacity that is required for new development. Mr. Komiske said that is a bigger picture of all costs related to adding new people to the community, such as police service, fire service, etc., and is up to Council to make that decision, but it does cost more money to connect new development because additional water supply has to come from someplace to feed more customers, which could include drilling new wells. He said peak demand that really drives the rates has been less than in the past due to conservation efforts and constant reminders to customers to “make every drop count” as well as new requirements for irrigation systems to be turned off when raining or if there is a freeze.

Councilmember Bierman asked if the last water rate increase relieved pressure from the connection fees to the extent that it is covering up what it actually costs to provide services to all the new customers. Mr. Komiske said in any community it is a balance and communities will never be in a

position where their water rates never change because connection fees cover additional costs. He said new customers are good, connection fees are good, and from a business perspective money is good, and that is a balance Council has to look at. He said there are other avenues of revenue that could cover the fees, such as a fire fee. He said the City has a lot of fire hydrants for sprinkler systems the City does not charge a fee for so if a business has a four inch connection for a sprinkler system or a private fire hydrant in the back of their building that the public cannot use then they should pay a fee for that.

Mayor Miller said another important piece of the equation is how much money does the City need to fund the services the City is providing and are the fees being charged sufficient to do that. Mr. Komiske said in Norman, water rate increases require a vote of the people and Staff does a really good job of managing that money. He said there are not a lot of cities that go four to six years without a water rate increase. Councilmember Holman said because of the vote requirement, Norman's hands are basically tied while other cities have the ability to raise rates annually without a vote of the people.

Councilmember Castleberry asked if the connection fee revenues go into the General Fund and Mr. Komiske said no, revenues go into the Water Fund (Enterprise Fund) and all money collected from customers, whether they are connection fees or utility fees, stay within the Water Fund. He said that is also true of the Wastewater and Sanitation Funds and these funds cannot be co-mingled.

Councilmember Castleberry said if someone tore down a single-family home and rebuilt a multi-family dwelling unit, would he have to pay a connection fee and Mr. Komiske said fees are based on the meter size so if the meter size is upgraded, a fee for that size meter is charged; however, that customer would still receive a credit for what was paid up-front for the original meter. If the customer downgrades the meter size, no credit is given.

The Raftelis Study recommends the City review its connection fees every five to seven years, as the CIP may undergo significant changes during the ten year planning period as described in the Raftelis report. Mr. Komiske said the City went one step further and adopted Ordinance O-1415-18 which states, "City Council shall review the connection fees relative to their sufficiency to fund new capacity no later than November 1, 2016, and at least biennially thereafter, to determine the appropriateness of the fees in accordance with Oklahoma Statute, Title 62, Section 895." That State Statute states, "Connection fees should be related to the cost of capital improvements necessary to increase capacity to meet needs of new customers."

Mr. Komiske highlighted a comparison chart of existing single-family residential connection fees from 2016, that included Broken Arrow - \$745; Stillwater - \$977; Midwest City - \$992; Moore - \$1,300; Oklahoma City - \$1,625; Lawton - \$2,000; Edmond - \$2,700; Norman - \$2,975; Lawrence, Kansas - \$4,235; and Denton, Texas - \$11,595. He said proposed connection fees for Norman is \$4,235. He said the fees have not changed since 2016; however, Lawton recently removed their connection fees, which is odd and he does not know the reason behind that.

Councilmember Carter asked what Goldsby's connection fees are and Mr. Komiske said he did not know. Councilmember Carter said he thinks the connection fee is \$2,500 and suggested Goldsby and Newcastle be put on future comparison charts. Councilmember Castleberry agreed and said Council would like to know what Norman's neighboring communities charge.

Councilmember Hickman asked why the other communities' connection fees are less than Norman's and Mr. Komiske said it is a balancing act. He said the cities have to decide if they want the connection fees higher and water rates lower or maybe charge a fire connection fee or other fees. He

said that is a decision of the Authority or Trust in each community. Ms. Mary Rupp, Interim City Manager, said Stillwater has had the highest water rate in the State for many years.

Councilmember Holman said he is more interested in exactly what it costs to provide connection to a single-family home and if the City is charging enough to cover that cost. Mayor Miller said there is a political competition issue of whether or not Norman wants to be higher than other communities.

Councilmember Bierman said the City is adding capacity for new development to provide for 18,366 new customers and asked how much it is going to cost the City to add that capacity. Mr. Komiske said Staff recently reviewed how much water the City will need as part of the ten year plan and recently connections have been lower than in the past. When Raftelis reviewed the history they said the City averages 520 new households per year and in the last two years there have been less than that so that might decrease the amount of new infrastructure the City needs. The Raftelis report said about \$50 million out of \$232 million for capital growth equates to 22% of the capital need for growth and that has not changed. He said the capital growth for the next ten years is a little bit higher, but is staying pretty constant. He said part of the ten year plan was to look at the need for additional water supply because the City is adding customers, but that is part of the capital plan that included upgrading the Water Treatment Plant (WTP), meeting regulations from the Department of Environmental Quality (ODEQ), and building new water wells. He said some of the new wells will replace older wells that cannot be used due to the arsenic levels and some new wells will help supply new growth. He said the City will be opening bids for new wells on Thursday and will have a better idea of costs. The plan is to drill ten additional wells, but the City only has six locations at this time because it is not easy to buy or lease a couple of acres from property owners (especially in east Norman) because the property is generally in a trust making it more difficult to get everyone involved in the trust to agree to the location and price.

Mr. Komiske said cost is based on an amount per foot so costs will depend on the depth of the well and some wells could be 600 feet deep while others could be 450 feet deep. The cost also depends on how much water is acquired from the well as some wells produce 200 gallons per minute while others produce 150 gallons per minute. Staff can use the bid cost to make estimates or the well can be drilled and a more accurate cost could be obtained.

Councilmember Holman said these figures are based on 3/4 inch single-family households, but Norman is seeing more growth in apartments than any other city besides Oklahoma City and Mr. Komiske said growth has slowed down quite a bit the last couple of years.

Councilmember Carter said the Raftelis report numbers for the maximum is based on what it would take to reconstruct the water system from scratch, correct? Mr. Komiske said Raftelis based that amount on an estimated average of \$7,000 per well and \$200,000 to connect that well to the City's system, but that did not include water towers.

Councilmember Hickman asked what type of customer uses larger meters than 3/4 inch and Mr. Komiske said duplexes, apartments, restaurants, hotels, etc. Councilmember Hickman said if the Raftelis numbers are accurate the City may need to equalize the fee across the board for all customers and Mr. Komiske said that is an option Council can consider.

Mr. Komiske said Council is obligated to review the fees and if they want to change them they can, but personally he likes more certainty in developing rates so he would wait as much as a year or two after drilling a couple of wells. Another option is a horizontal well that will cost three times as much as a vertical well, but could obtain six times as much water so that would reduce the costs of new water on a per unit basis when compared to the maximum allowable.

Mr. Komiske said the City would be more successful in asking customers for a rate increase when the City can show the community that the projects they approved in the last rate increase have been successfully completed or are in development.

Councilmember Wilson asked for a brief tutorial on horizontal drilling because Ward Five residents fear the City is going to suck all the water out of the ground leaving their private wells dry. Mr. Komiske said most household wells are approximately 100 feet deep while City wells are 400 to 600 feet deep and there is a confined space between the two. He said there are different layers of the aquifer and the City makes sure surface wells are not being affected. The aquifer has sand and shale layers that help confine the aquifer from top to bottom and at the depth of 400 to 600 feet the sand layers are like a bucket of snakes, not nice horizontal lines. A vertical drill is done to find the first sand layer (20 feet thick) then they go back in at an angle and try to follow that sand layer for a couple of hundred feet and continue that pattern until they find an area that will produce the amount of water needed. Mayor Miller said no matter how efficiently the City is able to obtain water, there is a limit to the amount of water the City is allowed to remove from the aquifer.

Mayor Miller said in the next two years, Council will probably need to review a water rate increase and connection fee increase and Mr. Komiske said that is a possibility.

Councilmember Wilson said if the City undercharges on connection fees and asks for a rate increase, that is a balance Council needs to be mindful of and Mr. Komiske said that is correct.

Councilmember Hickman asked if utility fees can be used to address stormwater or other City operations and Mr. Komiske said no, but the Water Fund pays \$1.5 million annually to the General Fund (GF) in lieu of a franchise fee.

Councilmember Holman reminded everyone that as of May 2019, the City will only have had two water rate increases in the last 20 years, 2006 and 2015, so the City is doing a great job of managing the money. Mr. Komiske said that is great, but unfortunately when the City does have to ask for a rate increase it is usually a large increase due to the length between increases.

Items submitted for the record

1. PowerPoint presentation entitled, "Norman Utilities Authority Review of Water and Wastewater Connection Fees Per 21-207 (b)," dated October 16, 2018

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The meeting was adjourned at 6:15 p.m.

ATTEST:

City Clerk

Mayor