CITY COUNCIL STUDY SESSION MINUTES

December 7, 2021

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 Executive Conference Room on the 7th day of December, 2021, and notice and agenda of the meeting were posted at the Municipal Building at 201 West Gray 48 hours prior to the beginning of the meeting.

PRESENT:	Councilmembers Foreman, Hall, Holman, Lynn, Schueler, Tortorello, Mayor Clark
ABSENT:	Councilmembers Peacock and Studley

Item 1, being:

DISCUSSION REGARDING AN ELECTION FOR A WATER RATE INCREASE.

Mr. Chris Mattingly, Director of Utilities, said the City has been working with Raftelis to review current connection fees, especially since the City is working towards asking voters for a water rate increase in 2022. He said this was an opportunity to review everything regarding water and the rate increase is needed for Advanced Metering Infrastructure (AMI), disinfection, operations and maintenance, and pipe replacement. He said connection fees were previously discussed by Council on November 2, 2021, where Staff and Raftelis worked to refine the three options for a rate increase. He said the goal for tonight's meeting is to get direction on what to take to voters in April 2022.

Mr. Todd Cristiano with Raftelis said he is back today to focus on other aspect of financial planning for water and wastewater utilities. Connection fees were last updated and adopted in 2015, and water rates were last increased in 2015. He said in the November 2nd meeting, he presented information on connections fees and a financial plan. Tonight he will present information of a rate design.

<u>Connection Fees</u>

Mr. Cristiano said connection fees are a one-time charge for new customer demand only. The fee is required of all new customers for their share of capacity and for existing customers requesting increased capacity. The fee is based on the value of the utility's capacity and the amount of capacity need by the new customer. Connection fees can be used to pay for debt service; can help keep user rates low; balance equity between existing and new customers; and represent cost to reserve capacity in system backbone facilities, i.e., Water Treatment Plants, water wells, transmission mains, pump station, etc.

Item 1, continued:

Mr. Cristiano highlighted current connection fees as follows:

Meter Size	Connection Fee
5/8 and 3/4 inch	$ 1,000
1 inch	$ 1,670
1.5 inch	$ 3,330
2 inch	$10,670
3 inch	$21,330
4 inch	$33,330
6 inch	$66,670

Connection fee alternatives for funding future capacity infrastructure include

- Alternative One – begin Lake Thunderbird Augmentation for indirect potable reuse;
- Alternative Two – purchase additional wholesale water from Oklahoma City, and
- Alternative Three – drill/install wells at Garber-Wellington.

As a comparison, the current connection fee for a 3/4-inch meter is $1,000 and under Alternative One, it would be $3,180, under Alternative Two it would be $2,010, and under Alternative Three it would be $2,150.

Water utilities have two connection components, 1) water and 2) wastewater. He said Norman's wastewater utility includes a wastewater excise tax fee as well as the connection fee, making Norman's fees the fifth highest compared to San Antonio, Texas; Dallas, Texas; Colorado Springs, Colorado; Austin, Texas; Albuquerque, New Mexico; Fort Worth, Texas; Wichita, Kansas; Edmond, Oklahoma; Little Rock, Arkansas; Moore, Oklahoma; Arlington, Texas; Oklahoma City, Oklahoma; Mustang, Oklahoma; and Lubbock, Texas.

Water Financial Plan

The financial planning process looks at how much revenue is required to meet expenditures and the financial plan input includes customer accounts; billed consumption; revenues; operating expenses; capital plan; and beginning cash position. Capital Project funding can be a mix of cash vs. debt and debt covenants, annual cash flow, and fiscal policies and targets that include cash reserves and debt service coverage. Taking this into consideration, four financial scenarios were provided to Council that consisted of: Scenario One – Connection fees with existing fees; Scenario Two – Connection fees with augmentation; Scenario Three – Connection fees with Oklahoma City water; and Scenario Four – Connection fees with wells. Mr. Mattingly said Scenario One seems to be the best option.

The Water Utility Capital Improvement Program for FYE 2022 through FYE 2031, consists of $122.5 million in rate revenue and $124.4 million in State loans for a total of $246.9 million. Cash flow projections with no revenue increases depict inadequate debt service coverage, depletion of reserves, and reduced level of service. Cash flow projections with proposed revenue adjustments depict meeting debt service, maintaining adequate reserves, and maintaining level of service. Fund balance and reserve targets with proposed revenue adjustments depict meeting target reserves by end of study period. Mr. Cristiano said Raftelis built the financial plan around the Capital Improvement Program over the next ten years utilizing a combination of State loans and cash, allowing mitigation of huge spikes in rate increases, and helping to level the playing field in terms of expenditures being smooth across the study field.

Water Rate

Mr. Cristiano said the City has a monthly service charge regardless of how much water is used and a volume rate, where the more water used the higher the volume rate. He said water rate structures recover monthly service charges that include cost of billing, administration, meters, and customer service field services as well as a portion of capital costs, e.g., depreciation expense, debt service, etc. He said volume rates recover the cost to pump, treat, store, and distribute water to customers as well as providing fire protection costs.

In the proposed rate structure alternative, the two-component structure is being retained that consists of a monthly service charge and volume rates. He said the current residential rate structure has a fixed monthly charge, regardless of meter size, of $6.00 plus a $1.50 capital improvement charge (CIC) for a total fixed monthly charge of $7.50. The monthly charges also include a fixed block volumetric rate that consists of $3.35 for zero to 5,000 gallons per day, $4.10 for 5,001 to 15,000 gallons per day, $5.20 for 15,001 to 20,000 gallons per day, and $6.80 more than 20,000 gallons per day.

The current commercial/industrial rate structure has a fixed monthly charge, regardless of meter size, of $6.00 plus a percentage for CIC for total due. The monthly charges also include block thresholds that vary by customer that consists of $3.80 for zero gallons per day to Average Winter Consumption (AWC) and $4.20 for any amount above the AWC. This AWC structure would consist of the average usage between December to February and would be an individualized rate structure. Mr. Cristiano said commercial/industrial businesses have a wide variety of business types, i.e., Starbucks, car wash, etc., so their usage patterns are very different and by having a tiered structure customized to their business can help send an appropriate conservation message to use water wisely.

Mr. Cristiano said common pricing objectives to be achieved from rate structures include revenue stability; equity between classes; equity within classes; equity between existing and new customers; conservation pricing signal; demand management; essential use affordability; customer understanding; customer impact; and ease of administration/implementation. Universal objectives include revenue sufficiency for costs covered and maintaining financial health as well as defend-ability in order to be legally compliant and defensible in court. He said Norman's pricing objectives focused on revenue stability; conservation pricing signal; essential use affordability; equity between existing and new customers; customer impact; and ease of administration/implementation.

Mr. Cristiano highlighted alternative rate structures for residential customers that consist of 1) an across the board increase based on financial plan results, 2) retain same rate structure, but adjust rates and volume and increase service charge to obtain revenue stability, and 3) charge a higher fixed rate to increase revenue stability. He said a commercial rate structure alternative consist of a fixed charge based on which residential alternative is selected.

Mr. Cristiano said FYE 2023 rate revenue needs include recovering an additional $4.7 million starting in FYE 2023 to fund AMI Project and regulatory disinfection project as well as recovering $24.7 million in total rate revenue in FYE 2023 (residential portion - $19.9 million/commercial portion - $4.8 million). He said the $4.7 million will be recovered through a combination of the monthly service charge and volume rates.

A typical residential rate comparison would read as follows:

Water Usage 1,000 Gallons	2022 Current Rates	Alternative 1: Across the Board Increase	Alternative 2: Adjust Rates and Volume	Alternative 3: Higher Fixed Charge
0	$ 7.50	$ 9.30	$9.50	$11.50
1	$10.85	$13.50	$14.00	$15.60
2	$14.20	$17.70	$18.50	$19.70
3	$17.55	$21.90	$23.00	$23.80
4	$20.90	$26.10	$27.50	$27.90
5	$24.25	$30.30	$32.00	$32.00
10	$44.75	$56.05	$59.50	$57.00
15	$65.25	$81.80	$87.00	$82.00
20	$91.25	$114.30	$119.50	$111.50

A typical commercial rate comparison would read as follows:

Description	2022 Current Rates	Alternative 1: Across the Board Increase	Alternative 2: Adjust Rates and Volume	Alternative 3: Higher Fixed Charge
Monthly Service Charge, dollars per bill ** (**CIC = 60% of sewer dollar figure)				
All Customers	$6.00	$7.80	$8.00	$10.00
Volume Rates, dollars per 1,000 gallons				
Block 1	$3.80	$4.35	$5.25	$4.25
Block 2	$4.20	$4.80	$5.75	$4.70

The proposed service charges from the residential apply to commercial. The volume rate structure, price ratio, and number of tiers remain the same as the existing rates for all alternatives.

In regards to the commercial AWC, fast food restaurants use approximately 45,700 gallons per day in the winter and 111,500 gallons per day in the summer; a car wash uses approximately 190,300 gallons per day in the winter and 204,400 gallons per day in the summer; and convenience stores use approximately 27,800 gallons per day in the winter and 43,600 gallons per day in the summer.

Mr. Mattingly said Norman has 300 miles of iron pipe (rusted pipes main cause of line breaks) that need to be replaced at a cost of $100 to $200 million dollars over the next few years and the City does not have that kind of money without raising rates/connection fees. He said even a small increase would allow the City to begin making small steps toward pipe replacement. He said meter reading Staff is low and AMI would be very beneficial to the City in terms of obtaining efficient, accurate water consumption readings and improving Staffing issues (Staff shortages equal more estimations of water consumption versus actual water consumption).

Councilmembers said they understand the need for raising rates, but want to be conscious of the financial impact to customers. Councilmembers said they preferred Alternate One, an across the board rate structure. They said the public will need to be thoroughly educated to understand the need for an increase and the fact that Council is taking customer impact into consideration.

Items submitted for the record

1. PowerPoint entitled, "City of Norman Water Connection Fee and Financial Plan Update," dated December 7, 2021 by Raftelis

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The meeting was adjourned at 6:37 p.m.

ATTEST:

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City Clerk Mayor