



CITY OF NORMAN, OK CITY COUNCIL STUDY SESSION

Municipal Building, Executive Conference Room, 201 West Gray, Norman,
OK 73069

Tuesday, December 20, 2022 at 5:30 PM

MINUTES

Virtual meeting of the City Council, Norman Utilities Authority, Norman Municipal Authority, And Norman Tax Increment Finance Authority

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CALL TO ORDER

Mayor Heikkila called the Meeting to Order at 5:30 p.m.

ROLL CALL

Mayor Larry Heikkila
Councilmember Ward 1 Brandi Studley
Councilmember Ward 3 Kelly Lynn
Councilmember Ward 4 Helen Grant (arrived 5:40 p.m.)
Councilmember Ward 5 Rarchar Tortorello
Councilmember Ward 7 Stephen Holman

ABSENT

Councilmember Ward 2 Lauren Schueler
Councilmember Ward 6 Elizabeth Foreman
Councilmember Ward 8 Matthew Peacock

AGENDA ITEMS

1. UPDATE FROM RAFTELIS REGARDING COST OF SERVICES STUDY FOR UTILITY CONNECTION FEES AND RATES.

Mr. Chris Mattingly, Director of Utilities, said the Cost of Services Study was done in preparation of a water rate increase as well as a needed increase in wastewater rates.

He said Mr. Nathan Madenwald, Utilities Engineer, has done much of work along with Mr. Todd Cristiano and Mr. Toby Fedder with Raftelis.

Mr. Cristiano said Norman's rates and fees must fund operations; fund capital projects; maintain reserves; fund growth; and ensure cost recovery. In order to fund these things, the City will need a financial plan, cost of service, rate design, and connection fees. The financial plan helps determine how much money is needed while the cost of service makes sure everyone is paying their fair share and the rate design determines how the rates help ensure fairness.

Mr. Cristiano said in determining the revenue required to meet expenditures, the City needs to look at rate revenues, other operating costs, and loan proceeds as well as operating expenses, capital projects, and debt service. The City should also have financial policies for reserve levels and coverage ratios.

Wastewater Utility

Mr. Fedder said the Wastewater Utility financial plan assumptions include Financial Metrics – operating 8% of operations and maintenance (O&M), a one year depreciation expense in the capital reserve, and debt service coverage – 1.25x debt service required (1.4x desired); Financial Planning Scenarios – assumes 1.2% growth in accounts and flat Average Winter Consumption (AWC) volumes; and Capital Funding – initial plan to cash finance all capital projects and consider bond financing. He said scenarios are still under review and results presented today are subject to change.

Preliminary sewer financial plan findings show that annual revenue is slightly lower than annual O&M as well as capital and debt expenses. In the near term, funding capital with rate revenues is suggested and for the long term, existing debt maturity will free up financial capacity (FYE 2028/FYE 2029). A ten-year Water Reclamation Facility (WRF) Capital Improvement Program will cost approximately \$26.1 million - \$4.1 million in FYE 2024; \$1.6 million in FYE 2025; \$3.5 million in FYE 2026; \$2.8 million in FYE 2027 and FYE 2028; \$2.1 million in FYE 2029; and \$2.8 million in FYE 2030, FYE 2031, and FYE 2032. Mr. Fedder said the challenge over the next few years is going to be managing expected capital costs, which are expected to be entirely cash financed.

Mr. Fedder said the current state of the Wastewater Utility's revenues and expenditures as well as ending balance and target reserves remain stagnant through FYE 2032, but that is something that can be remedied through new policies and rate adjustments. He said the target state of revenues and expenditures is anticipated through proposed policy changes and increasing revenue growth by 10% through FYE 2032.

Water Utility

Mr. Cristiano said Water Utility financial plan assumptions include Financial Metrics – operating at 8% of O&M, one year depreciation expense in capital reserve, and debts service coverage of 1.25x debt service required (1.4%^x desired) and Capital Funding – cash finance all non-growth related projects, bond finance growth- related projects, and connection fee revenue funds growth-related projects (current connection fee is \$1,500 per 3/4 inch water meter). Financial planning scenarios include no growth, purchasing water from Oklahoma City (OKC), drill ten new wells, augmentation with \$1,500 per 3/4 inch connection fee, or augmentation with \$3,180 per 3/4 inch meter connection fee.

Water Utility, continued:

A ten-year Water Capital Improvement Program will cost approximately \$394.5 million- \$10 million in FYE 2023; \$4 million in FYE 2024; \$19 million in FYE 2025; \$12 million in FYE 2026; \$42 million in FYE 27; \$196 million in FYE 2028 (due to Chromium regulations); \$32 million in FYE 2029; \$37 million in FYE 2030; \$34 million in FYE 2031; and \$8 million in FYE 2032. Mr. Fedder said the challenge over the next few years is going to be managing expected capital costs, which are expected to be entirely cash financed. Mr. Madenwald said Chromium treatment has been on the City of Norman's radar for a long time and will NEED to be addressed in order to meet Environmental Protection Agency (EPA) regulations on the amount of Chromium allowed in drinking water.

Mr. Mattingly said in 2006, the City had to shut down 16 wells due to the level of arsenic in the water and currently the City is at 100 for Chromium and Staff is seeing signs the level of Chromium will need to be ten or less in the future. He said the EPA generally allows cities and towns to address this issue within five years of establishing a limit.

Preliminary water financial plan findings in the current state does not meet annual expenditures, does not meet annual debt service coverage requirements, and does not target operating and capital reserves.

Mr. Cristiano highlighted the Water Utility scenario summary that includes Scenario One – no growth with revenue adjustments of 28.5% in FYE 2024 and FYE 2027, \$0.00 total connection fee revenue, and \$370.5 million total rate revenue; Scenario Two – purchase water from OKC with revenue adjustments of 32.5% in FYE 2024 and FYE 2027, \$8.5 million in total connection fee revenue, and \$391.8 million in total rate revenue; Scenario Three – drill ten wells with revenue adjustments of 29% in FYE 2024 and 28% in FYE 2027, \$8.5 million in total connection fee revenue, and \$368.2 million in total rate revenue; Scenario Four – augmentation (\$1,500 per 3/4 inch meter) with revenue adjustments of 28.0% in FYE 2025 and 45% in FYE 2027, \$8.5 million in total connection fee revenue, and \$402.2 in total rate revenue; Scenario Five – augmentation (\$3,180 per 3/4 inch meter) with revenue adjustments of 25% in FYE 2024 and 45% in FYE 2027, \$17.3 million in total connection fee revenue, and \$392.7 million total rate revenue. He said the biggest influences on revenue adjustments include timing of project, project cost/design, and financing methods (cash, debt, and/or connection fees).

Cost of Service

Mr. Cristiano said the cost of service analysis assigns costs to customers based on their specific demand requirements to ensure everyone is paying their fair share. He said Raftelis looks at all expenses including meters, storage, treatment, pumping, System Optimization Services (SOS), and transmission and distribution to allocate costs.

Rate Design

Mr. Cristiano said incorporating community values in rate design pricing objectives includes revenue stability; cost recovery between classes; cost recovery within class; cost recovery between existing and new customers; efficient water use pricing signal; demand management; essential use pricing; citizen vote approval; customer impact; and ease of administration/implementation. He said from these objectives Raftelis can design a "fair share" rate structure.

Next steps include finalizing water and wastewater cash flow scenarios; completing cost of service analysis to equitably assign costs to customer classes; evaluating rate design alternatives; and meeting with City Council to present findings.

Councilmember Holman said the City of Norman has historically used more than its share of allocated water from Lake Thunderbird than Midwest City and Del City who share the Lake with Norman; however, Midwest City and Del City have recently began using their allotment and sometimes more. He said these cities have to be on board for the City of Norman to move forward with a pilot program for wastewater reuse, but they have shown little interest. He said the City of Norman has anticipated not being able to obtain more than its allotment from Lake Thunderbird for awhile and is using less water due to conservation and other water saving efforts. He said Midwest City and Del City have not had to deal with needing additional water resources, but that is changing and they are becoming more accepting of water reuse as they understand this is a way to fill the lake during times of drought. He said Council prefers treating the wastewater and allowing it to naturally flow into streams flowing into Lake Thunderbird versus trying to pipe wastewater directly into Lake Thunderbird.

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ADJOURNMENT

The meeting was adjourned at 7:10 p.m.

ATTEST:

City Clerk

Mayor