



CITY OF NORMAN, OK STAFF REPORT

MEETING DATE: 04/11/2023

REQUESTER: Chris Mattingly, Director of Utilities

PRESENTER: Chris Mattingly, Director of Utilities

ITEM TITLE: CONSIDERATION OF ADOPTION, REJECTION, AMENDMENT, AND/OR POSTPONEMENT OF ORDINANCE O-2223-36 UPON SECOND AND FINAL READING: AN ORDINANCE OF THE COUNCIL OF THE CITY OF NORMAN, OKLAHOMA AMENDING SECTION 21-113 OF THE CODE OF THE CITY OF NORMAN, TO BE RENUMBERED AS SECTION 34-214 EFFECTIVE MARCH 30, 2023, CONTINGENT ON VOTER APPROVAL OF ORDINANCE O-2223-37, INCREASING THE MONTHLY BASE FEE FOR RESIDENTIAL METERED USERS TO TEN DOLLARS AND NINETY CENTS (\$10.90); INCREASING THE MONTHLY WATER RATES FOR RESIDENTIAL METERED USERS TO THREE DOLLARS AND FORTY-SIX CENTS (\$3.46) PER 1,000 GALLONS FOR THE FIRST 5,000 GALLONS OF WATER USED, FOUR DOLLARS AND FIFTY CENTS (\$4.50) PER 1,000 GALLONS FOR 5,001 TO 15,000 GALLONS USED, SIX DOLLARS AND SEVENTY-FIVE CENTS (\$6.75) PER 1,000 GALLONS FOR 15,001 TO 20,000 GALLONS USED, AND NINE DOLLARS AND FIFTY-ONE CENTS (\$9.51) PER 1,000 GALLONS FOR WATER USED IN EXCESS OF 20,000 GALLONS; INCREASING THE MONTHLY BASE FEE FOR NON-RESIDENTIAL METERED USERS TO TEN DOLLARS AND NINETY CENTS (\$10.90); INCREASING THE MONTHLY WATER RATES FOR NON-RESIDENTIAL METERED USERS TO FOUR DOLLARS AND SIXTY-NINE CENTS (\$4.69) PER 1,000 GALLONS OF WATER USED UP TO SUCH CUSTOMER'S AVERAGE WINTER CONSUMPTION AS DEFINED HEREIN, AND SEVEN DOLLARS AND FOUR CENTS (\$7.04) PER 1,000 GALLONS OF WATER USED IN EXCESS OF SUCH CUSTOMER'S AVERAGE WINTER CONSUMPTION; PROVIDING AN EFFECTIVE DATE FOR SAID INCREASE SUBJECT TO VOTER APPROVAL; AND PROVIDING FOR THE SEVERABILITY THEREOF.

BACKGROUND:

The City of Norman / Norman Utilities Authority receives revenues from water customers through monthly billing based on approved water rates to fund staffing, operations and maintenance, capital improvement projects, and other associated fees and charges solely for the water system. No funds from the City of Norman General Fund or sales tax revenue is allocated to fund costs for the water system.

In accordance with the City Charter, utility rates can only be increased through a public vote. Since 2000, four water rate propositions were voted on with two propositions (2006 and 2015) being successful and two propositions (2010 and 2022) being unsuccessful. As such, water rates have only been increased two times within the past two decades. For most recent successful rate increase in 2015, funding was provided for the following projects which have been completed.

PROJECT	PROP. COST (\$, in millions)	ACTUAL COST (\$, in millions)	STATUS
Water Treatment Plant Phase II Improvements	31.0	36.2	Complete
Groundwater Blending	2.0	0	Complete
Additional Groundwater Supply of 2 Million Gallons per Day	9.0	11.0	Complete
Land Purchase	2.0	0.9	Complete
Water Line Replacements	3.0	15.8	Complete
TOTAL	47.0	63.0	

The unsuccessful rate proposition in 2022 proposed funding for four main items:

1. Groundwater System Disinfection;
2. Advanced Water Metering;
3. Water Line Replacement; and
4. Increased Operational Costs.

Regarding Advanced Water Metering, the City received a grant for the project in the amount of \$2 million from the Bureau of Reclamation under the Bipartisan Infrastructure Law for the project. This funding update was presented to Council on June 7, 2022 during a Council Study Session where staff was directed to proceed with full implementation of the Advanced Water Metering project due to obtaining the federal funding and the benefits of the new metering system. Below are key highlights from the project:

1. Improved customer satisfaction through accurate water bills;
2. Better water use management for customers;
3. Leak notifications;
4. Water conservation advances with the additional data;
5. More efficient use of City staff; and
6. Reduced energy from vehicles use and water pumping.

However, the loan from the Oklahoma Water Resources Board (OWRB) under the Clean Water State Revolving Fund program was for a loan period of 17 years instead of the 10 years originally planned due to the 2022 rate increase failure.

Cost-of-Service Study

Staff hired Raftelis in June 2022 to complete a cost-of-service study which fully evaluated the

revenues and expenses for the Water Fund and the Water Reclamation Fund to determine revenue requirements for the respective funds, allocate costs between rate classes for rate class equity, and develop rate alternatives to meet revenue requirements. Additionally, this study evaluated revenue requirements for various water supply options including a scenario where no further growth occurred. Pursuant to the study, additional annual revenue requirements for the Water Fund to meet projected operational and capital expenses for the next ten years is \$6.7 million even with the scenario where no further growth occurs. The cost-of-service study is completed and is available on the City website.

Information from the cost-of-service study was presented to City Council at three Council Study Sessions (open to the public). Below are the dates of the Council Study Sessions along with brief summaries of the information provided during the meetings:

1. December 20, 2022 – Revenue requirements for both Water and Water Reclamation Funds;
2. February 7, 2023 – Cost-of-service adjustments and two proposed rate alternatives with Alternative 1 increasing base and volume rates proportionately and Alternative 2 increasing base rate more than volume to better align with industry practices; and
3. March 7, 2023 – Additional rate Alternative 1a provided per Council request that was a middle option between Alternatives 1 and 2.

Council/NUA discussed the advantages/benefits of the different alternatives but ultimately determined that Alternative 2 was the best option to move forward.

2023 Rate Proposition Significant Projects and Cost Increases

1. *GROUNDWATER SYSTEM DISINFECTION*

The Norman water system is supplied by water from three sources: the water treatment plant which receives water from Lake Thunderbird, the groundwater well system, and the Oklahoma City wholesale connection. Water from the water treatment plant and the Oklahoma City wholesale connection are from surface water sources and therefore are required to have a disinfectant residual. Water from the groundwater system has not historically and does not currently have disinfection or a disinfectant residual since groundwater systems are not required to have a disinfectant residual. However, since Norman's system is a combined surface water and groundwater system, the Oklahoma Department of Environmental Quality is requiring that Norman begin adding a disinfectant to the groundwater system so that a chlorine residual of 1.0 parts per million (ppm) meeting Oklahoma Administrative Code 252:631-3-3 (d) (5) is maintained throughout the entire distribution system. To meet this mandate, a capital project is proposed to build a centralized facility to collect groundwater for required disinfection. It would also prepare the City/NUA for future treatment should regulations become more stringent. To reduce capital expenditures, this project will include the construction of a building, chemical storage and feed systems, and required piping to get the water to facility and will not include the previously planned storage tank and pump station at this time.

2. *WATER LINE REPLACEMENT*

The water system is comprised of over 640 miles of water lines with approximately 280 miles of these pipes made of cast or ductile iron. Due to soil conditions in Norman, these metal lines

have shown an increased rate of failure which impacts service to our customers. Repairs for failures in an emergency manner are also very cost-inefficient compared to replacement projects in advance of failures. Additional funds for this work will improve service reliability and reduce operating costs in the long-term financial outlook. The capital improvement plan used to develop revenue projections has approximately seven miles of pipe to be replaced annually within the next five-year period which is just over one percent of the system per year. This means that even with the rate increase, the water distribution system pipes will have to last well past their design life of 50 years.

3. LEAD AND COPPER RULE REVISIONS

The City water system has been fully compliant with the Lead and Copper Rule since its issuance in 1991. Staff continue to operate the Water Treatment Plant in a manner that produces water that reduces the potential for corrosion and lead in drinking water. However, due to events that occurred in other cities exposing users to increased levels of lead in drinking water, the United States Environmental Protection Agency (EPA) issued the Lead and Copper Rule Revisions (LCRR) in January 2021 requiring utilities to perform additional measures to protect the public. Compliance with the LCRR will be required in October 2024 and will require that systems complete additional efforts as follows:

- a. Completion of a lead service line inventory that is publicly available for both the public and private service lines;
- b. Increased customer outreach including point-of-use filter devices and sampling for service line disturbances;
- c. Mandatory sampling at elementary schools and daycares;
- d. Corrosion control treatment and modification based on sample results;
- e. Sampling site selection and collection modifications; and
- f. Modification to requirements for replacement of lead service lines.

Conservatively, service lines installed after 1991 are assumed to be non-lead which would be approximately half of the roughly 42,000 service connections within Norman. This means 21,000 locations would need some form of additional verification to determine service line material. Funding is proposed to complete field verifications for approximately 20 percent of these locations to improve the required inventory and better understand how many lead service lines exist within the water system and to also perform testing and provide point-of-use devices as required.

4. CHROMIUM REMOVAL FROM GROUNDWATER

Recently completed studies under consideration by the EPA are being used to develop new standards for hexavalent chromium in drinking water. Based on preliminary information, levels will be set such that new treatment systems will be required for the groundwater well system. Preliminary estimates for this installation are approximately \$150 million. This rate proposition will not fund this installation but it will put the Water Fund in a better financial position when the new rules come into effect.

5. INCREASED OPERATIONAL COSTS

Operating costs of power, gas, chemicals, and numerous other costs necessary for treating and pumping water and operating the water system continue to increase. There are also increased EPA requirements that will entail additional treatment and testing costs. Additional funds are required to operate the system in light of increasing costs.

DISCUSSION:

Ordinance O-2223-37 calls for an election to be held on June 13, 2023, for voters to approve or reject Ordinance O-2223-36. Ordinance O-2223-36 amends the water rate structure contingent on voter approval. The proposed rate increases for residential customers as outlined within Ordinance O- 2223-36 are briefly shown in the following table. Capital improvement charges are not proposed to change but are shown below for clarity.

Description	Existing Rates	Proposed Rates
Monthly Water Service Charge, \$ per bill		
All Customers		
- Base Fee	\$6.00	\$10.90
- Capital Improvement Charge	\$1.50	\$ 1.50
Volume Rates, \$ per 1,000 gallons		
Block 1 (0 - 5,000 gallons)	\$3.35	\$3.46
Block 2 (5,001 – 15,000)	\$4.10	\$4.50
Block 3 (15,001 – 20,000)	\$5.20	\$6.75
Block 4 (20,001 and more)	\$6.80	\$9.51

The proposed rate increases for non-residential customers as outlined within Ordinance O-2223-36 are briefly shown in the following table. Capital improvement charges are not proposed to change but are shown below for clarity.

Description	Existing Rates	Proposed Rates
Monthly Water Service Charge, \$ per bill		
All Customers		
- Base Fee	\$6.00	\$10.90
- Capital Improvement Charge	60% of sewer rate	60% of sewer rate
Volume Rates, \$ per 1,000 gallons		

Average Winter Consumption (AWC)	\$3.80	\$4.69
Above AWC	\$4.20	\$7.04

The next available election date is June 13, 2023. If the rates are adopted by the voters, they will go into effect September 1, 2023.

RECOMMENDATION:

The proposed rates in Ordinance O-2223-36 are the result of NUA/Council's discussion and represent rates designed to cover necessary capital and operation expenses associated with planned and mandated improvements. Ordinance O-2223-37 calls a Special Election for a public vote on these rates on June 13, 2023. Staff recommends approval of Ordinances O-2223-36 and O-2223-37 upon Second and Final Reading.