

## CITY COUNCIL STUDY SESSION MINUTES

November 2, 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 2nd day of November, 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, Peacock, Schueler, Studley, Tortorello, Mayor Clark
ABSENT:	None

Item 1, being:

### UPDATE TO THE RAFTELIS STUDY REGARDING CONNECTION FEES AND A FUTURE WATER RATE INCREASE.

Mr. Chris Mattingly, Director of Utilities, introduced Mr. Todd Cristiano with Raftelis who will make a presentation on connection fees. He 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.

Mr. Cristiano said he will be presenting information on connection fees as well as a financial plan. He said study goals and objectives include sustaining the water utility's financial health; funding operations; optimizing capital funding options; maintaining equity between existing and new customers; and meeting financial metrics and policy objectives while minimizing impact to customers.

Mr. Cristiano said water costs continue to increase locally and nationwide due to energy costs, maintenance/replacement of aging infrastructure, and increased regulatory requirements. As part of the analysis process, Raftelis used industry guidelines from American Water Works Association, Water Environment Federation, and Raftelis Financial Consultants.

Several projects from the City's 2015 Capital Plan have been completed and Staff has identified capital projects for future water supply. Connection fees were last updated and adopted in 2015, and water rates were last increased in 2015.

### Connection Fees

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

Item 1, continued:

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.

The fee industry best practices consist of compliance with State Statutes; being reasonably tied to impact of new development; being assessed in proportion to impact; may not be used to fund repairs; being based on actual system costs or reasonable cost estimates; being assessed in a non-discriminatory manner based on published fee schedule; and reviewed relative to their sufficiency to fund new capacity at least biennially to determine appropriateness of the fees in accordance with State Statutes.

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.

Mr. Cristiano said 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 Mr. Cristiano said 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

Item 1, continued:

scenarios have been prepared that consists 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.

Financial Plan capital cost drivers include AMI; disinfection and blending (Department of Environmental Quality requirement); water line replacement; and source of supply acquisition. Financial Plan assumptions for 2022 through 2031, includes incorporating proposed revenue adjustment of \$4 million anticipated for FYE 2023 implementation; annual customer account growth of 1.67%; operating reserve target – 30 days of operation and maintenance; Capital reserve target - \$15 million; debt service coverage requirement – 1.25 times annual debt service; revenue adjustments on three year intervals; and State loan terms – 20-year 3% annual interest rate and 2% issuance costs.

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 highlighted financial plan scenario results for a 3/4-inch meter with 5,000-gallon usage as follows:

Year	Scenario 1: Existing Fees	Scenario 2: Augmentation	Scenario 3: Oklahoma City Water	Scenario 4: Wells
2022	\$24.25	\$24.25	\$24.25	\$24.25
2023	\$27.81	\$27.81	\$27.81	\$27.81
2026	\$33.24	\$31.29	\$33.16	\$30.60
2029	\$39.72	\$35.05	\$37.96	\$33.66

Monthly utility bill changes would be as follows:

Year	Scenario 1: Existing Fees	Scenario 2: Augmentation	Scenario 3: Oklahoma City Water	Scenario 4: Wells
2023	\$3.56	\$3.56	\$3.56	\$3.56
2026	\$5.43	\$3.48	\$5.35	\$2.79
2029	\$6.48	\$3.76	\$4.80	\$3.06

Mr. Mattingly said he is proposing a \$7 rate increase across the board in 2022, but wanted Council to see what these utilities cost the City and how much an increase is needed in order to continue providing services for future growth, especially since the City cannot raise utility rates without a vote of the people.

Item 1, continued:

Councilmember Foreman said she would support developers paying more for connection fees in future development versus raising rates on customers, particularly those who are already struggling to pay monthly bills.

Councilmember Holman felt augmentation would be an important piece in obtaining additional water without having to purchase more from Oklahoma City. He is conflicted about charging more for connection fees, which are passed on to the home buyer. Does the City want growth so much that it does not want to charge what it actually costs to support the infrastructure or charge the full amount with the knowledge that Norman may be less attractive to developers?

Mr. Mattingly said the City recently drilled nine new wells for \$12 million and augmentation is anticipated to cost \$100 million for the first three million gallons of water. He just wanted Council to be aware of the cost for these projects.

Councilmember Lynn was concerned that raising connection fees would deter developers from building in Norman and Norman already has the lowest utility rates among comparable cities. He said Staff is proposing a minimal rate increase.

Mayor Clark said perception is everything, so a water rate increase needs to pass for the City to maintain a balanced approach.

Councilmember Schueler said more growth means more capacity and there should be a fee associated with both in rates and connection fees to ensure the City can continue providing quality service.

Councilmember Studley felt developers should pay more because infrastructure has a life span and the City has to maintain that infrastructure forever.

Councilmember Hall would like to find a balance because the City cannot keep waiting five or six years to increase rates.

Next steps include a utility rate increase proposal in December that includes an increase in connection fees for Council's input.

Items submitted for the record

1. PowerPoint entitled, "City of Norman Water Connection Fee and Financial Plan Update," dated November 2, 2021 by Raftelis

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Item 2, being:

**DISCUSSION REGARDING THE LEASE AND/OR SALE OF PROPERTY LOCATED AT 101, 112, 113, 115, 116, AND 118 WEST GRAY STREET.**

Mr. Darrel Pyle, City Manager, said Staff received a call from one of the principle owners of Factory Obscura (immersive art museum) in Oklahoma City to discuss building a Factory Obscura in Norman and the possibility of purchasing property owned by the City.

Ms. Kathryn Walker, City Attorney, said there has been interest expressed in purchasing/leasing City owned property on Gray Street. She said 101-through 115 West Gray Street was built in 1955 and has approximately 19,384 square feet of built out space with current zoning of Center City Form Based Code (CCFBC) Urban General and Legacy Zoning and C-2, General Commercial District. She said 112 through 118 West Gray Street is approximately 19,523 square feet with current zoning of Center City Form Based Code (CCFBC) Urban General and Legacy Zoning of C-2, General Commercial District. These properties were acquired by the City in 2011, “for municipal purposes” with funds obtained through pledging Capital Fund revenues. The purchase price was \$1,650,000 and potential future municipal uses included locations for Facilities Management Division, Municipal Court, central location for Development Services, storage, and expansion of municipal and public parking. Structures on the north side of Gray Street have been used for storage and Facilities Management, but much of the south side of Gray Street remains vacant.

The CCFBC Urban General District’s purpose is to develop multi-story buildings with three or more dwelling units within a single or attached structures and/or mixed-use placed directly at the sidewalk or behind small door walls. Ms. Walker said as long as the structures on the north side of Gray Street do not exceed 50% of the structure of the non-conforming structure, a developer could proceed under Legacy Zoning, which allows a wide variety of uses including artist studio, amusement enterprise, gift shop, and office business.

Ms. Walker said the City Charter allows the City to hold, lease, mortgage, convey, or otherwise dispose of any of its properties. State law states the City can convey any real or personal property owned by a municipality and make orders respecting the same as it may be conducive to the best interests of the municipality.

Ms. Walker said the City holds property in two distinct capacities:

- 1) Property purchased and held by municipal corporation for the use of the corporation as an entity and power of the municipal corporation to dispose of it is unquestioned and
- 2) Property purchased and held by the municipal corporation for the public use and benefit of its citizens, which means the municipal corporation can only dispose of the property when the public use has been abandoned, or the property has become unsuitable or inadequate for the purpose to which it was dedicated.

Ms. Walker said Staff was approached by Factory Obscura in Spring 2021, about creating a larger scale immersive art museum experience in Downtown Norman and Council discussed this potential economic development project in April 2021. Many buildings in Downtown Norman are

Item 2, continued:

of historical significance and could be more challenging to convert to this use. She said Factory Obscura believes City property on Gray Street could be converted to a museum and would tie in nicely with other upcoming projects, including the Two-Way Gray Street Project, James Garner Avenue Improvements Project, etc. Factory Obscura has been soliciting investments over the last number of months and have a number of investors. She said City concerns include ensuring adequate space, investing for a shorter term arrangement, low cost financing, etc.

Ms. Walker said performance standards should drive the decision in an economic development project and it is important to ensure a return on the City's investment, if any. She said job creation would be considered and a "quality job" would be a full time position paying at least \$41,916 annually and providing benefits. The City would need to work with Factory Obscura to determine how many quality jobs will be created and when they would be anticipated to come online. The City could also include standards related to the number of visitors and clawbacks if any standards are not met.

Ms. Walker said one option would be a long-term lease with a nominal lease rate to assist Factory Obscura in recouping their investment more quickly with a lease renewal negotiated at a current market rate. If Factory Obscura purchased the property, the City could negotiate a below market purchase price contingent upon performance standards, reversionary right for a period of time if standards are not met, and right of first refusal thereafter.

The City could also work with the Cleveland County Industrial Authority (Authority) to finance a portion of the improvements/rehabilitation/construction and pledge lease payments or a portion thereof to the Authority until the financing is paid off. There is a possibility this could be a lease to purchase arrangement as well. In any scenario, payments from Factory Obscura would be primarily made from admission and gift shop revenue.

Councilmembers had various views on whether or not to go with a long-term lease or sell the properties, but did like the idea of being able to have first right to purchase the property back. They liked the idea of having this type of venue on Gray Street, which has been languishing.

Items submitted for the record

1. PowerPoint entitled, "Possible Sale or Lease of Property (101, 112, 113, 115, 116, and 118 W. Gray)," dated November 2, 2021

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The meeting was adjourned at 7:20 p.m.

ATTEST:

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City Clerk

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Mayor