CITY COUNCIL CONFERENCE MINUTES

May 10, 2016

The City Council of the City of Norman, Cleveland County, State of Oklahoma, met in a conference at 5:07 p.m. in the Municipal Building Conference Room on the 10th day of May, 2016, 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 24 hours prior to the beginning of the meeting.

PRESENT:	Councilmembers Allison, Castleberry, Heiple, Holman, Jungman, Karjala, Lang, Miller, Mayor Rosenthal
ABSENT:	None

Mayor Rosenthal stated Item 2 would be discussed prior to Item 1.

Item 2, being:

DISCUSSION REGARDING CHANGE ORDER NO. ONE TO CONTRACT K-1516-80 BY AND BETWEEN THE NORMAN UTILITIES AUTHORITY AND CENTRAL CONTACTING SERVICES, INC., INCREASING THE CONTRACT AMOUNT BY $296,350 FOR A REVISED CONTRACT AMOUNT OF $1,767,030 AND ADDING 90 CALENDAR DAYS TO THE CONTRACT FOR THE BERRY ROAD WATER LINE REPLACEMENT PROJECT, PHASE 3.

On September 23 2016, the City of Norman and the Norman Utilities Authority (NUA) approved Contract K-1516-80 with Central Contracting Services, Inc., in the amount of $1,470,680 for construction of the Berry Road Water Line Replacement Project, Phase 3. Mr. Mark Daniels, Utilities Engineer, said Phase 3 consists of the replacement of 5,300 liner feet of 15-inch water lne from Main Street to Robinson Street and one lane of Berry Road. The cost of the roadway replacement will be split equally among the NUA, City of Norman, and University of Oklahoma (OU); however, the NUA will also replace a larger area of roadway north of Denison Drive that was previously damaged due to a water line break. Central Contracting will also replace approximately 5,300 liner feet of 15-inch water line for OU. The project is scheduled to begin May 2, 2016, and continue through October 29, 2016. Change Order No. One will add the replacement of approximately 1,800 feet of deteriorated 12-inch ductile iron pipe (DIP) water line with 16-inch Poly Vinyl Chloride (PVC) water line along the south side of Main Street between Berry Road and Flood Avenue and increases the contract time by 90 calendar days to allow completion of the additional work revising the completion date to December 27, 2016. He said the change order will be fully funded by the NUA.

Mr. Daniels said Central Contracting is limited to no construction on Main Street while school is in session. Mayor Rosenthal asked about OU Game Days and Mr. Daniels said no construction will take place on Berry Road from Friday at noon to Saturday midnight during home game days. Mayor Rosenthal asked if there will be access on Berry Road during game days or will it be closed to traffic and Mr. Daniels said lanes will be open, but the roadway surface may be rough.

Items submitted for the record

1. Text File K-1516-80, Change Order No. One, dated April 22, 2016, by Mark Daniels, Utilities Engineer
2. Change Order No. One to Contract K-1516-80

Item 1, being:

DISCUSSION REGARDING CHANGE ORDER NO. TWO TO CONTRACT K-1314-136 BY AND BETWEEN THE NORMAN UTILITIES AUTHORITY AND ARCHER WESTERN CONSTRUCTION, L.L.C., INCREASING THE CONTRACT AMOUNT BY $98,546.78 FOR A REVISED CONTRACT AMOUNT OF $48,921,096.78 AND EXTENDING THE CONTRACT BY 32 CALENDAR DAYS FOR THE WATER RECLAMATION FACILITY PHASE 2 IMPROVEMENTS.

Mr. Ken Komiske, Director of Utilities, said the Wastewater Master Plan (WWMP) adopted by the NUA in 2001, recommended additional facilities to treat an average daily design flow (ADF) of 21.5 million gallons per day (MGD) that would ultimately be needed to serve the area approved for urban development in the 2025 Land Use and Transportation Plan. The WWMP recommended expansion of the South Water Reclamation Facility (WRF) from 12 MGD to 17 MGD and construction of a new North WRF with an ultimate ADF of 4.5 MGD. More recently, Staff recommended the South WRF be rehabilitated and expanded and the North WRF be designed and constructed in the future when the capacity of the recently expanded Lift Station D was at capacity. Based on this premise, voters approved a rate increase in October 2013, in part for expanded treatment capacity of the South WRF.

Mr. Michael Graves, Garver Engineering, Inc., (Garver) said Norman's Oklahoma Pollutant Discharge Elimination System (OPDES) permit for the South WRF issued by the Oklahoma Department of Environmental Quality (DEQ) required construction of new disinfection facilities and compliance with final discharge limits by July 1, 2013. On September 12, 2014, the NUA and DEQ agreed to Consent Order 12-077 to include completion of construction of disinfection facilities by January 1, 2016; attaining compliance with final limits for Fecal Coliform by July 1, 2016; completion of construction of all facilities by January 1, 2017; and attaining compliance with final limits for Total Suspended Solids by July 1, 2017. On April 22, 2014, the NUA approved Amendment No. Two authorizing Garver to proceed with the construction phase including construction administration, full-time construction observation, preparation of operation and maintenance manuals, equipment start-up and staff training, and implementation of the supervisory control and data acquisition system.

On April 22, 2014, the NUA approved Contract K-1314-136 with Archer Western Construction, L.L.C., in the amount of $48,822,550 for WRF Phase 2 Improvements to add disinfection services, expand the average daily design flow from 12 MGD to 17 MGD, and rehabilitate many existing processes.

Change Order No. One was approved by NUA on September 8, 2015, to include several Contract Modification Requests (CMRs) and a time extension for final completion of 47 calendar days. Change Order No. Two will add owner directed CMRs to remedy maintenance situations or add needed improvements not originally included in the project scope, add contractor related CMRs to remedy unforeseen conditions that were not included in the original scope, and add contract time extensions for unforeseen weather conditions encountered during the project. *Owner directed CMRs* include the replacement of eight (8) hollow metal doors with durable fiberglass reinforced doors at UV Disinfection Facility, as well as one (1) door in the Solids Loading Bay, and one (1) window between the electrical room and blower room for a cost of $29,258.65; replacement of clarifier handrail to meet safety standards in the amount of $51,039.88; installation of additional site lighting around the UV-Disinfection Facility at a cost of $58,811.14; installation of heat trace thermostats in exposed sludge piping for $4,849.95; improving access to Outfall Facility with asphalt paving for $20,286.00; and adding odor control to primary splitter box for south plant for $2,495.50. *Contractor requested CMRs* include the installation of three (3) additional ceiling mount pipe supports for 36-inch diameter discharge piping in the basement of the RAS/WAS Pump Station for $22,220.53; relocation of electrical feed outside of classified area for $7,309.79; and modification to drain lines from new centrifuges for $9,824.16. The *contract time* will be extended by 32 calendar days from January 4, 2017, to February 5, 2017, due to the historic, abnormal rainfall in May and June 2015; however, the contractor agrees to be responsible for fines of up to $575 per day if levied by DEQ for failure to meet the January 1, 2017, Consent Order 12-077 deadline.

Item 1, continued:

Mr. Graves said it is important to note the disinfection facilities were substantially completed and placed into operation on October 29, 2015, prior to the DEQ deadline of January 1, 2016, and these facilities currently allow the NUA to meet proposed discharge limitations. He said it is a testament to the entire team that the project is 71% complete with only two (2) change orders added and the total sum of the change orders has only changed the cost of the project by 1.2%, which is pretty incredible considering the magnitude of the project.

Councilmember Castleberry asked why additional items were not anticipated in the original bid document and Mr. Graves said some items, such as handrails, were projected to be refurbished and put back into place; however, codes have been changed since the original parts were put into service and Garver felt this would be the best opportunity to bring those items up to current standards.

Items submitted for the record

1. Text File K-1314-136, Change Order No. Two, dated April 15, 2016, by Mark Daniels, Utilities Engineer
2. Change Order No. Two to Contract K-1314-136
3. PowerPoint presentation entitled, "Norman WRF Phase 2 Improvements Construction Changes Presentation," dated May 10, 2016

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Item 3, being:

PRESENTATION FROM RAFTELIS FINANCIAL CONSULTANTS, INC., OF THE CITY OF NORMAN WATER AND WASTEWATER CONNECTION CHARGE STUDY.

Mr. Steve Lewis, City Manager, introduced Mr. Rick Giardina, Executive Vice President of Raftelis Financial Consultants, Inc. Mr. Lewis said in November 2013, voters approved a wastewater rate increase that included $31 million to be used to increase capacity at the WRF. During discussions regarding the sewer rate increase, Council wanted to review wastewater connection fees and that was part of the reason for this study. He said in January 2015, Council submitted a water rate increase to voters that included $47 million for new capacity as well as improvements to existing service to customers. He said that project design is expected to be completed by the end of this year.

Mr. Lewis said the wastewater rate increase included a commitment to review connection sufficiency to fund new capacity no later than November 2016, so the City has made that commitment to look at the sufficiency of its connection fees and that is one of the reasons Staff is bringing forward this study tonight. As part of this process, Council felt it was important to find out what surrounding communities and other comparable cities in adjacent states are doing in terms of connection fees.

Mr. Lewis said the City convened two (2) stakeholder groups and representatives from the stakeholder community as well as interested citizens have met with Raftelis consultants as a part of Raftelis Study.

Mr. Giardina said tonight's Conference agenda includes project objectives, industry standard fee calculation methodologies, connection charge study results, and survey of comparable communities.

Item 3, continued:

Project Objectives

Mr. Giardina said the project objectives were to update water and wastewater connection charges following industry standards and the product of that is the maximum allowable fee consistent with Oklahoma Legislation, industry practices, and legal precedence around the country when it comes to connection fees. In his opinion, the fees being shared tonight are the maximum fees the City could adopt and defend. Other project objectives included developing water and wastewater capital financing plans featuring a mix of funding sources that could include connection charges, revenues, external debt financing, wastewater excise tax on new development, and surveying the connection charges of comparable communities.

Industry Standard Calculation Methods

Mr. Giardina said the Equity Buy-In Method is an approach to calculating connection fees typically used by utility systems with existing available capacity to meet the long-term demands imposed by new development. This method estimates the value of a unit of system capacity based upon customer equity in existing capacity-related assets. The resulting connection charge reflects the proportional cost of new customers' share of existing system capacity. The cost is generally estimated based on current replacement cost. The formula to calculate connection charges under the equity buy-in method is:

$$\text{Connection Charge} = \frac{\text{Replacement Cost of New System (\$)}}{\textit{Total System Capacity (\# of 3/4" Connections)}}$$

The Incremental Cost Method focuses on the cost of the additional capacity-related assets required to serve new customers. This method is most appropriate for utility systems that do not have existing available capacity to serve growth. The resulting connection charge reflects the proportional cost of each new customer's share of future system capacity. The incremental cost method is most appropriate used when a utility has a well-defined capital improvement program or utility master plan. The formula to calculate the incremental cost is:

$$\text{Connection Charge} = \frac{\text{Growth-Related Capital (\$) + Debt Interest (\$)}}{\textit{Incremental Capacity Additions (\# of 3/4" Connections)}}$$

In addition to the Equity Buy-In and Incremental Cost Methods, it is common for many water and wastewater utilities to use a combination of these two approaches. This combined "Hybrid" approach is often used when a utility has some existing system capacity to accommodate growth but will also be required to construct additional new capacity in the future. The formula for the Hybrid Method is:

$$\text{Connection Charge} = \frac{\text{Replacement Cost of New System (\$) + Growth-Related Capital (\$) + Debt Interest (\$)}}{\textit{Total System Capacity + Incremental Capacity Additions (\# of 3/4" Connections)}}$$

Raftelis recommends the incremental cost method for Norman because the City must add groundwater treatment capacity and groundwater wells to serve the demands of anticipated new development or future growth. It is appropriate to use the incremental approach to calculate water connection charges in situations of this type. The Water Utility will need 7 MGD of peak capacity to serve growth. The Wastewater Utility has 3.1 MGD available for growth at the existing WRF; however, significant improvements will need to be made in order to meet mandated regulations. He said costs should be proportionally shared between new and existing customers.

Item 3, continued:

WATER

Mr. Giardina said over the next five years, the City plans to invest $49.2 million in capital improvements to increase water capacity to support future growth of new customers. The City has a tremendous investment need in renewal and rehabilitation and plans to invest $183.2 million for the renewal and replacement of water system infrastructure that serves existing customers. Major planned growth related capital projects include water line replacements/enlargements (upsize or add capacity) - $11.5 million; well modifications for arsenic treatment - $1.6 million; 10 additional water wells and supply lines - $2.7 million; reactivation of arsenic wells and a 3 MGD Groundwater Treatment Plant - $19 million; and additional connection to the Oklahoma City Water System - $14.4 million. He said major capital projects for existing customers include 12 MGD Groundwater Treatment Plant - $71.7 million; Water Treatment Plant Improvements, Phase II - $26.2 million, and water tower maintenance/upgrades - $5.3 million.

Growth related capital projects will provide approximately 7 MGD in capacity needed for new development, which is equal to 18,366 new 3/4" equivalent connections to be served. Water connection charges may not be adequate to provide the cash necessary to fund these projects in their entirety and debt financing will likely be required. In addition to anticipated construction costs of $49.219,050, the water connection charge calculation must also include the present value of future debt interest costs. As part of the capital financing plan process, Raftelis has calculated the City will need to issue $47 million in debt in order to fund these system improvements and the present value of borrowing cost was calculated to be $10.922,957 for total costs of $60.142,007. When these costs are translated into a fee schedule, the 3/4" connection is the predominant connection in the field, but there are commercial, industrial, and irrigation needs that require larger meter sizes and those larger meter sizes put additional demands on the system. Meter sizes over 3/4" installed in a new building can draw a different demand on the distribution system. In order to account for these differences, Raftelis recommends using the flow equivalencies that are described in the American Water Works Association (AWWA) Manual of Water Supply Practices M6: Water Meters – Selection Installation Testing and Maintenance. These flow equivalencies are calculated based on the peak flow that can pass through a meter of that size. It is appropriate for those larger meter sizes to be charged a higher connection fee because of the potential and capacity to put that instantaneous demand on the system. He highlighted proposed maximum allowable water connections fees to be effective July 1, 2017, as follows:

Meter Size	Existing Connection Fee	Proposed Connection Fee
3/4"	$ 1,000	$ 3,275
1"	$ 1,667	$ 8,744
1.5"	$ 3,333	$ 10,906
2"	$ 6,667	$ 34,944
3"	$14,667	$ 69,856
4"	$28,000	$109,156
6"	$57,667	$218,344

Councilmember Miller asked for an example of a user of a 3" or 6" meter and Mr. Anthony Francisco, Finance Director, said one example is Johnson Controls. Mayor Rosenthal reminded Council that this is a one- time cost to new customers connecting to the system.

Ten Year Capital Financing Strategy

Mr. Giardina said the next major objective of the study was to incorporate the proposed water connection charge receipts or revenues into a hypothetical long-term (ten year) water capital financing plan that also includes user charge revenues and external debt financing. The purpose of the hypothetical capital financing plan is to inform

Item 3, continued:

WATER, continued:

stakeholders of the potential level of rate revenue increases and external debt financing required to fund the City's forecast water and wastewater CIP expenditures. The City's water utility finances its CIP expenditures using cash flows generated from four primary funding sources: 1) user charge revenues from the provision of water service, 2) connection charge receipts from new customers connecting to the water system, 3) external debt financing, and 4) various miscellaneous revenue sources.

Mr. Giardina said the medium customer in Norman uses 4,000 gallons of water, which currently produces an invoice of $21.20 and that invoice would increase to approximately $36 over the ten year period. The last water rate increase in Norman was effective March 2015, for an average increase of $7. Because CIP's for growth have elements that include non-growth related items, especially on the sewer side, connection fees are being looked at as a way to fund that as well as increasing rates. He said these move in tandem with each other and both are needed. Under the proposed capital financing plan, growth related projects would total $58 million with non-growth related projects totaling $210 million so a water rate increase is being recommended each year beginning in FYE 2018, and connection fees should be reviewed every five (5) to seven (7) years as growth, capital needs, regulatory requirements change, etc.

WASTEWATER

Mr. Giardina said regulatory upgrades associated with meeting biological nutrient removal (BNR) requirements at the facility are driving significant capital expenditures during the FYE 2016-FYE 2017 planning horizon. The portion of wastewater CIP expenditures assigned to growth by Staff totals approximately $13.8 million of a total $119.6 million. The City currently treats about 11 MGD; however, for the purpose of this report, 13.9 MGD of the 17 MGD design capacity is dedicated to current "obligated" customers. This gives the City 3.1 MGD available capacity for new customers in the existing wastewater system.

When a system has capacity available in its existing infrastructure, connection fees can be calculated using either the Equity Buy-In or Hybrid connection charge method. The Equity Buy-In Method requires that new development pay its share of the existing system. The City's wastewater excise tax on new development is currently collecting funds that are used to pay for the capacity within existing wastewater infrastructure. In essence, the excise tax is serving as the "buy-in" portion of the existing capacity that is available to new customers. The City's existing infrastructure cannot adequately handle future growth without additional investment. During the FYE 2016-FYE 2017 planning horizon, the City must make capital expenditures for treatment plant upgrades in order to comply with more stringent permit regulations. The portion of the regulatory compliance upgrades attributed or allocated to growth by City Staff is $13.8 million. In order to calculate the connection fee related to these future costs, Raftelis utilized the incremental method.

The City's existing wastewater excise tax on new development cannot be modified or repealed without voter approved; therefore, Raftelis assumes this tax will remain constant during the planning horizon and changes to the excise tax was recommended in this study.

Mr. Giardina said wastewater service in the northern portion of the City is limited by the capacity of Lift Station D. If the growth in the northern part of the City exceeds the capacity of this lift station a new wastewater treatment facility may be required in the future. The City has indicated the potential need for this facility beyond the FYE 2016-FYE 2025 planning horizon considered in this study. When this facility comes into the planning timeframe, the costs associated with the project can be paid for by the existing wastewater excise tax on new development or a

Item 3, continued:

WASTEWATER, continued:

revised wastewater connection charge which incorporates the cost of the project. Raftelis' calculation of $934 reflects the incremental unit cost of capacity for new connections on the City's wastewater system. This connection charge is in addition to the wastewater excise tax. If no wastewater excise tax was assessed, the connection charge would be to be recalculated in order to fully recover growth related costs.

Raftelis recommends using the flow equivalencies described in the American Water Works Association (AWWA) Manual of Water Supply Practices M6: Water Meters – Selection Installation Testing and Maintenance. These flow equivalencies are calculated based on the peak flow that can pass through a meter of that size.

Mr. Giardina highlighted proposed maximum wastewater connections fees effective July 1, 2017, as follows:

Meter Size	AWWA Flow Equivalency	Existing (effective 8/1/16)	Maximum (effective 7/1/17)
3/4"	1.00	$ 275	$ 934
1"	2.67	$ 550	$ 2,494
1.5"	3.33	$ 1,100	$ 3,110
2"	10.67	$ 1,925	$ 9,966
3"	21.33	$ 4,625	$19,922
4"	33.33	$ 7,988	$31,130
6"	66.67	$18,381	$62,270

Capital Financing Strategy

Mr. Giardina said the capital financing plan methodologies and assumptions used to develop the wastewater capital financing plan are similar to those used to develop the water capital financing plan. He said the amount of revenue can vary from year to year and, in theory, the wastewater excise tax is intended to be a significant contribution to growth related capital investment for wastewater. The ten year projection for revenue is $1.2 million per year based on historic growth patterns although it could be substantially more or substantially less. This revenue goes towards funding existing debt service identified for projects over the last decade in the wastewater system.

The assumed average winter consumption is 4,000 gallons of water and the average wastewater invoice is approximately $21, which will increase approximately $10 over the next ten years.

Mr. Giardina said water and wastewater connection fees on a combined basis would average approximately $42 per month, an increase of about $24 per month over the ten year period. He said these increases are necessary to deal with the capital infrastructure requirements of the City and these requirements are not new and are not specific to Norman, they are nationwide requirements to infrastructure. He said water and wastewater utilities are the most capital intensive of all utilities.

Raftelis analyzed the wastewater discharge characteristics of the City's customers to determine the number of 5/8" and 3/4" connections the 3.1 MGD capacity of the existing WRF can serve. The City assesses wastewater user charges based on average winter consumption, which is defined as metered water consumption in the months of December, January, and February. This is a common way that many utilities estimate indoor water usage and therefore, wastewater flows. The average wastewater flows for 5/8" and 3/4" meters was calculated to be 161 MGD so the plant would service approximately 19,255 3/4" equivalent users.

Item 3, continued:

WASTEWATER, continued:

The City plans to invest $13.8 million in BNR regulatory compliance costs assigned to growth related wastewater infrastructure. Wastewater connection charges may not be adequate to provide the cash necessary to fund these projects in their entirety and debt financing will likely be required so in addition to forecast construction costs of $13.8 million, the wastewater connection charge calculation also includes the present value of future interest costs. As part of the capital financing plan process, Raftelis has calculated the City will need to issue $15 million in debt in order to pay for these system expansions and improvements. The present value of borrowing these costs was calculated to be $4.2 million.

CONNECTION CHARGE SURVEY

Mr. John Wright, Raftelis Senior Consultant, said for virtually every consulting engagement of this type, the governing body and stakeholders are interested in knowing how the outcome of the study compares to other communities so Raftelis has included a survey comparison in this study. Other communities surveyed included Broken Arrow, Edmond, Lawton, Midwest City, Moore, Oklahoma City, and Stillwater in Oklahoma; Denton, Texas; and Lawrence, Kansas.

Mr. Wright said Raftelis not only wanted to compare connection charges, but costs developers faced in terms of meter installation and service line connections as well. The survey includes meter and installation costs, connection charges, and excise tax (not common in most cities). Raftelis looked at three land-use profiles for the study, 1) traditional single-family residential, 2) small multi-family, and 3) small commercial building.

Mr. Wright highlighted the combined fees of the ten (10) communities surveyed and said Norman currently ranks fourth in combined water and wastewater for single-family residential while Oklahoma City ranked fifth and Lawton sixth. When proposed connection fees for water and wastewater are incorporated, Norman ranks second. Assuming there are no other adjustments amongst the comparable communities, Norman would be become more expensive than other comparable communities.

Mr. Wright said it is difficult to draw definitive conclusions regarding the impact of water and wastewater connection charges on overall level of residential and commercial property development within a specific community, metropolitan area, or region. For each property type, Norman's current and proposed connection charges are among the highest for the communities surveyed. This does not necessarily indicate the City's past level of residential and commercial development has been negatively impacted by the level of water and wastewater connection charges nor does it necessarily indicate the City's future level of development will be negatively impacted.

The level of development of water and wastewater connection charges in any community also reflects the balance of cost recovery between water and wastewater user charge revenues and developer paid connection charges. Communities that have elected to recover the majority of their growth related infrastructure costs via water and wastewater user charge revenues will, by definition, have lower water and wastewater connection charges. Similarly, they may have water and wastewater rates far higher than other communities who have chosen to recover the majority of their water and wastewater growth related infrastructure costs via connection charges.

The cost of supplying water to customers can vary dramatically depending the source of supply so that can be a key factor in terms of different outcomes as it relates to connection charges. Communities, depending on what the governing body wants to achieve in terms of capital financing strategies, may go about financing their growth related

Item 3, continued:

WASTEWATER, continued:

capital in entirely different ways with an emphasis on connection charges or monthly recurring revenues from rate payers. Although these comparisons are informative, they are not necessarily apples to apples.

Councilmember Jungman said it is his impression that State law essentially puts a cap on what cities can charge in terms of connection fees and asked if there were costs Raftelis had to exclude because of that law. Mr. Wright said yes, Raftelis could only include growth related capital costs because non-growth capital and operating and maintenance costs cannot be recouped from connection fees. Councilmember Jungman asked if there were growth specific costs that had to be excluded from the connection fee because of the law and Mr. Wright said no.

Items submitted for the record

1. PowerPoint presentation entitled, "City of Norman, OK Water and Wastewater Connection Charge Study," City Council Meeting Presented by Raftelis Financial Consultants, Inc., dated May 10, 2016
2. City of Norman Planning and Development Draft Final Water and Wastewater Connection Charge Study dated April 22, 2016

The meeting adjourned at 6:20 p.m.

ATTEST:

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City Clerk Mayor