

FINANCE COMMITTEE MINUTES
September 11, 2014

The City Council Finance Committee of the City of Norman, Cleveland County, State of Oklahoma, met at 5:30 p.m. in the Municipal Building Study Session Room on the 11th day of September, 2014, and notice and agenda of the meeting were posted in 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: Members Castleberry, Heiple, Lang, and Chair Rosenthal

ABSENT: None

OTHERS PRESENT: Lynne Miller, Council Member
 Dan Quinn, Council Member
 Steve Lewis, City Manager
 Anthony Francisco, Finance Director
 Suzanne Krohmer, Budget Manager
 Ken Komiske, Utilities Director
 Mark Daniels, Utilities Engineer
 Jeff Bryant, City Attorney
 Kathryn Walker, Assistant City Attorney II
 Joy Hampton, Norman Transcript
 Matthew Holcomb, Citizen

Item 1, being:

PROPOSED WATER RATE STRUCTURE

Ken Komiske made presentation. Included in the report:

- There has not been an increase in water rates since 2006.
- Mandate from EPA/ODEQ – Water Utility closed 15 wells affected by arsenic and has been replacing them to ensure adequate current water supply.
- Resurfaced water storage tanks – cannot just paint tanks – must remove lead from the tanks which takes a long time.
- Line Maintenance replaced all small 4” water lines in urban service area.
- With the 2006 water rate increase, Water Treatment Plant (WTP) Phase 1 projects have been completed, including filter media, sludge disposal, emergency generator, pre-disinfection required by EPA/ODEQ, and lime slakers.
- The Water Utility didn’t do the taste and odor improvements that were anticipated in the 2006 bond improvement program, but did a 9-month Pilot Study regarding taste and odor testing and beyond to include ozone and pharmaceuticals.
- We replaced all meters for large commercial customers so we could measure water sold to the large commercial users more accurately – do more accurate meter reading with newer meters. Also laid 1.5 miles of raw water line from Lake Thunderbird toward the WTP.

- WTP Phase 2 projects are all part of Strategic Water Supply Plan and include the following projects:
 - WTP Phase 2 is estimated to cost \$31 million – it is at the preliminary design stage and next step is engineering report to DEQ;
 - new well piping changes to utilize four inactive wells and increase water productivity, estimated cost of \$2 million;
 - Water well field expansion by 8 – 10 new wells – would increase daily water production by 2 MGD, estimated cost of \$14 million. To drill new wells, City will have to get easements, test holes for water, etc.
 - WTP Phase 2 is at the preliminary design stage and next step is engineering report to DEQ;
 - Re-piping existing, closed water wells that have arsenic or other contaminant levels slightly above the parts per billion limits established by the U.S. Environmental Protection Agency to “blend” their water with water well supplies that are below EPA limits, to generate additional “blended” supplies that meet the EPA guidelines.
- Not included in the current capital plan is a Ground Water Treatment Facility and well piping, estimated to cost \$85 million.
- If there were no water supply concerns, the Water Utility would have to change our primary disinfection program. DEQ is requiring us to change our disinfection program, we would have to study water distribution network.
- Additional funding for capital - \$50 million at 4% for 20 years, plus a bond reserve requirement would equal about \$4 million needed annually for revenue bond debt service..
- New Operational expense items are:
 - \$500,000 additional estimated electric power budget required for ozone treatment (FYE 17); ozone is big power user.
 - \$1 million to purchase 2 MGD water from Oklahoma City Water Trust each year for several years beginning in FYE16; and
 - \$300,000 for annual operational inflation cost (\$9.6 mil annual operational costs adjusted by 3%).
- Total additional operational cost of \$1,800,000).
- Look at current debt and we do not have much debt.
- Lake Thunderbird will be paid off in 2017 and arsenic wells project paid off in 2027.
- Nothing freed up real soon to help with increase in debt.
- Residential and commercial water bill comparisons
 - We have different, unique needs – source of water, conservation efforts, etc.
 - Shows we could have significant rate increase without being the most expensive in the area

Mayor – Water Fund Revenues graph on page 7 does not include any new projects we have just discussed, is that right?

Ken Komiske – Additional considerations are, other cities are doing something about the situation and we are not. New customer connection fee could be considered, a meter multiplier program could be considered so the Water Utility would earn more for the bigger meters. We could also consider private customer sprinklers and private fire hydrants used only by the person owning the property and tiered (conservation) rates for commercial customers.

Lynne Miller – These charges are extra fees, right?

Kathryn Walker – Typically, they would be set administratively. Oklahoma City plans on increasing connection fee from \$100 to \$1,000. Oklahoma City has meter multiplier and we don't have. The larger the meter City should be able to charge more for base fee, cost of meter, flow usage, etc.

Mayor Rosenthal – size of meter affects flow and costs, drives your infrastructure costs.

Ken Komiske - For instance, Oklahoma City meter multiplier base fee is \$12. Sample showing Norman meter multiplier rate system with initial base of \$6.00. This makes customers think more about increasing size of meter they use. Page 10 there is an example of Oklahoma City's private fire service fees per line. Fire hydrants primarily service a single property and are 100' from the public road. There are approximately 400 "gated communities" with this type of fire service and they don't pay. There are approximately 900 buildings with sprinkler systems and they don't pay for service.

Castleberry – Isn't the initial fire hydrant cost usually paid by developer?

Komiske – Yes, but the ongoing maintenance and replacement cost is the Water Utility's responsibility.

Heiple – is in favor of rate increase since we have not had one since 2006 and is in agreement with recommendations from staff. We might need to discuss more.

Miller – concurs with Heiple that the City needs the increase and timing of vote is concern to her.

Mayor – A January ballot needs to have the first reading at end of this month or October. We will have "quality of life" initiative in April or spring. We should not put both items on same ballot. What are consequences of delay until June or July? Ward 8 Council position in spring election.

Castleberry – What about Charter provisions?

Mayor – Haven't scheduled yet – January or spring. Is concerned with delaying vote after "quality of life" issue.

Lang – Discussions concern "needs and wants" and water is definitely a need – City needs to take care of needs first.

Mayor – The quicker the better.

Castleberry – This is a new source of revenue – are we moving too fast?

Komiske – We're just looking at what others are doing. Our water rate is not tiered for commercial users – we are doing this for residential and sewer bills based on winter consumption. Oklahoma City, for example, right now is a flat rate for commercial.

Miller – What would happen if we wait – what are the consequences?

Komiske – Design and construction costs always increasing and take a lot of time to do. Need to do final design for ODEQ requirements – it's a 3-year project.

Francisco – I want to remind everyone of time value of money. If you assume a conservative inflation rate of 4% per year for construction costs, the cost of delay is over \$150,000 per month to build a \$50 million project. Cost of delay is great.

Mayor – We did take rate vote to voters in 2001 and it failed.

Lewis – We need to start field development in FYE 15.

Castleberry – What is the Fund Balance for the Water Fund - \$8 or \$9 million dollars?

Komiske – No, and next year it's projected to be minus \$1 million. We might have to defer capital needs just to make it next year.

Mayor – We need to move as quickly as possible. Have to have a conservation component and a connection fee increase, "we set pushback new customers aren't paying their share." Our rates need to go up, connection fees are below all others.

Lang – If we don't get an increase, then you don't get quality water. Citizens are watering concrete because rates are so cheap. It's cheaper than adjusting sprinkler heads.

Quinn – Asked about operational cost and income last year?

Komiske – Slide showed what we need for new and/or additional operational costs. We have \$11 million in expenses and \$16 million revenue – does not include debt.

Castleberry – Approximately \$4 million deficit is drawing down fund balance.

Quinn – We only do improvements every 5 to 10 years instead of annually and that puts it in a "crisis mode".

Mayor – Next step will be to have staff bring back specific proposal that does not include multiplier for now or fire service charges – include conservation and connection fees. Edmond's connect fees are double our and Oklahoma City's fees are going to be double ours and other cities are charging more than Norman does.

Castleberry – What is the cost of adding incremental customers?

Francisco – We did that when we went to \$5.75 eight or nine years ago but I don't think we have done an analysis since then.

Mayor – My recollection is that we were not recovering the cost with the \$5.75 rate.

Castleberry – What is our additional cost to turn a new customer on?

Komiske – To do it correctly you have to back up to what is our cost for 2,000,000 gallons of water, what we have to pay for the water, and how many new customers will it take to recover the cost.

Lewis – If we have an election in January, the first reading will have to be done before October 14th.

Castleberry – Are we going to have any public input on this or are we just going to say here is our plan.

Mayor – We will have a public hearing about the rate increase. The citizens will need to be educated about the need.

Castleberry – There is a difference between public education and public input. What is the best way to fund the need? Rates are going up, but what is the actual increase?

Mayor – It's been years since there has been an increase – will be “sticker shock?”

Komiske – Information will be out in October so businesses would know what new costs would be before the year is over.

Lang – If voter approves new rates in January election, they would be effective when?

Francisco – Effective with March billing cycle.

Mayor – Public meeting in conjunction with first reading? New service is not a new location, it is a new building.

Items submitted for the record:

1. 031 – Water Fund, PowerPoint Presentation prepared by the Utilities Department

Item 2, being:

DISCUSS OIL ROYALTIES

Anthony Francisco reported well is in production and will be approximately \$100,000 of new revenue annually.

Castleberry – we were projecting \$54,000 – this covers cost of oil & gas inspector.

Quinn – What is projected length of producing time?

Francisco – It would ramp down over time – probably 20 to 30 years production.

Items submitted for the record:

1. Memo to City Council Finance Committee from Anthony Francisco Finance Director, dated September 8, 2014

Item 3, being

2013-2014 ACTUAL FIGURES (UNAUDITED)

Anthony Francisco gave report. Sales tax collections are slightly below projections. “Other Revenue”:

- Line 10 - Campus Corner parking and convenience pay revenue;
- Line 12 - CNG public sales;
- Line 22 - capital outlay transfer; offset by Line 35 - revenue and expenditures offset – “money-in-money-out” – no impact on budget line;
- Line 31 – Salaries and Benefits expenditures – savings in category due to attrition, barely any savings last year. 1.5% below budget – approximately \$1.4 million. 2% reserve (included in line 33) - disaster cleanup;
- Line 57 - didn’t spend more than we brought in;
- Line 61 – encumbrance carry-over amount;
- 3% operational reserve met in FYE 14 – approximately \$968,000 surplus above requirement, some revenues were larger than we thought they would be;

Mayor – What is the Rainy Day Fund minimum we should be thinking about?

- Francisco - Last fiscal year balance of \$2.554 million - \$292,885 from PSST transfer;
- \$2.85 million; \$732,261 – in excess of minimum 3% target;
 - \$325,348 – short of targeted 4.5% target;
 - Should be appropriation from General Fund, other departments to make up the difference to bring it to its full targeted level.

Mayor – We should make mid-year appropriation from General Fund balance to bring Rainy Day Fund to its full targeted level.

Francisco – Council cannot appropriate Rainy Day Fund balance unless there is a:

- 1) Federally declared disaster in Cleveland County and/or Norman; or
- 2) A gubernatorial declared disaster; or
- 3) A disaster at the local level; for instance a lightning strike that would wipe out the City of Norman communications system; or
- 4) General Fund balance falls below 1% of expenditures.

Mayor – Really need to get total to 4.5%.

Items submitted for the record:

1. Fund 10 General Fund Summary (FYE 14 balance unaudited) and Fund 11 Net Revenue Stabilization Fund Summary (Rainy Day Fund) (FYE 14 balance unaudited) prepared by Finance Department dated September 8, 2014.

Item 4, being:

SUBMISSION OF THE REVENUE/EXPENDITURE REPORTS FOR AUGUST 2014

Francisco – There is slow growth in sales tax collections – very slow quarter. There was an article in the newspaper today talking about the impact in Moore. Consumer sentiment and confidence is low. We will continue to monitor.

Items submitted for the record:

2. Summary of Major Funds-General; Capital; Westwood; Water; Water Reclamation; Sewer Maintenance; New Development Excise; Sewer Sales Tax; and Sanitation Fund Revenue Sources vs. Budget, Financial Report as of August 31, 2014.

Item 5, being:

SUBMISSION OF THE REPORT ON OPEN POSITIONS

Lewis - Interviews are being held with candidates for Retail Recruiter – conducted one today and hopefully, we will hire soon.

Items submitted for the record:

1. Position Vacancy Report, dated September 4, 2014

Item 6, being:

MISCELLANEOUS DISCUSSION

Castleberry – Appropriation of Fund Balance, add a year-to-date running total.

Mayor – Look at calendar for a special meeting, September 23, 2014 is open Council Conference date to discuss water issues. Look at September 17th forward for an open date. Ken Komiske was asked to have something by the 17th.

Castleberry – Take money out of PSST Fund for ATVs so police to patrol the river and lake. Police and fire can also use the vehicles for rescue purposes.

Lewis – we have discussed this with Chief Humphrey regarding the expenses, delivery of services, and expectations and asked him to put something together. We've also worked with other law enforcement agencies. It was determined that additional signage was needed. This has been done and we're working with property owners. Game Wardens are also helping out.

Francisco - told the Committee that the Council agenda on the 23rd would have an item to close/transfer/appropriations for covering negatives in the FYE 14 Budget. These can usually be handled within the department budget but if not, Council will need to appropriate from fund balance to cover the negatives.

The meeting adjourned at 6:55 p.m.

ATTEST:



City Clerk



Mayor

