

## CITY COUNCIL STUDY SESSION MINUTES

April 27, 2010

The City Council of the City of Norman, Cleveland County, State of Oklahoma, met in study session at 5:30 p.m. in the Municipal Building Conference Room on the 27th day of April, 2010, 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: Councilmembers Atkins, Butler, Cubberley, Dillingham, Ezzell, Griffith, Kovach, Quinn, and Mayor Rosenthal

ABSENT: None

### DISCUSSION REGARDING THE FYE 2011 BUDGET – ENTERPRISE FUNDS.

Mr. Steve Lewis, City Manager, said the purpose of this study session is to give Council an opportunity to review in detail and ask Staff questions about the proposed FYE 2011 Budget, specifically the Enterprise Funds. He said the City's Enterprise Funds are the Water, Sewer, and Sanitation Utilities. He said Council may be familiar with some of the material, because the information was presented during the recent public water forums on the future water supply and water issues within the community.

Ms. Suzanne Krohmer, Budget Manager, presented an overview of the City's Enterprise Funds and said the Finance Committee (FC) began budget discussions on October 21, 2009, and Council had a Capital Budget work session on November 17, 2009. She said the FC discussed mid-year budget projections February 17, 2010, and Council discussed the General and Special Revenue Funds Budget at a Study Session on April 20, 2010. The Capital Budget Study Session is scheduled for May 4, 2010, and a public hearing on the FYE 2011 Budget will be held on May 25, 2010. Council will consider the FYE 2011 Budget for adoption at the June 8, 2010, City Council meeting.

Ms. Krohmer said Enterprise Funds should operate in a manner similar to a private business and the intent is that the costs of providing the goods or services to the general public is financed or recovered primarily through user charges or fees. She said Westwood is no longer an Enterprise Fund, stating Council decided it was more appropriate that it be a Special Revenue Fund in the FYE 2010 Budget.

Ms. Krohmer said the City's water production is over 4.5 billion gallons annually, has over 530 miles of water pipelines, and production runs 24 hours a day - 365 days per year. She said the Water Fund major revenue assumption for FYE 2011 is projected user fee revenues that are 6.5% higher than the FYE 2010 budget figures. She said this assumes a 3% customer growth and a 3.5% across the board rate increase. Ms. Krohmer provided water rate history and said the last water rate increase was in 1995; an inverted rate block was adopted for conservation in 1999, which affected approximately 25% of residential customers; and water rates were increased to the current level in 2006. She presented a comparative residential water rate chart and said 85% of Norman's residents use 10,000 gallons of water or less per month. The chart included surrounding cities, as well as cities in Kansas and Texas, and she said it is clear that Norman has the lowest water rate compared to the other cities.

Ms. Krohmer said the Water Fund expenditure assumptions for FYE 2011 include:

- Central Oklahoma Master Conservancy District (COMCD): \$1,235,783
- Fleet related replacement purchases: \$231,544
- Ending fund balance: \$5,676,118 with a targeted fund balance at \$8,514,802
  - ✓ Part of this reserve is 8% for Operating and a Capital reserve equal to the annual average of the next 5-year Capital Expenditure Plan

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- Increase of revenue: \$421,048 – as recommended by the Finance Committee - increase to the General Fund for Right-of-Way (ROW) usage from 2% to 5%
- Major Water Project: \$1,280,943
  - ✓ Water line replacements: \$1,280,943
  - ✓ Arsenic treatment/removal from wells: \$979,005
  - ✓ Water Tower Maintenance – Robinson Street: \$164,000
- Future Projects:
  - ✓ Southeast Oklahoma Solution
  - ✓ Water Storage

Councilmember Cubberley asked if the future water projects were budgeted in the 5-year Capital Improvements Plan and Ms. Krohmer said they were not. Mr. Ken Komiske, Director of Utilities, said there is a separate expenditure for the Southeast Oklahoma Solution to assist with the environmental study for the pipeline and the location of the water storage. Councilmember Kovach asked Staff if the COMCD expenditure included potential water purchases and Ms. Krohmer believed \$300,000 is included in that figure.

Ms. Krohmer said the Sanitation Fund revenues are estimated at a growth rate of 3%. She said user fees are \$11.50 per unit per month with an additional \$3.00 per month for curbside recycling fee. The last rate increase for basic service was July 1, 2004, and beginning July 1, 2010, a \$.50 increase is proposed for additional polycarts, bringing the fee to \$5.50 per month.

Ms. Krohmer presented a residential sanitation rate chart, similar to the water rate chart previously discussed, reflecting the same 15 cities. She said Norman is middle of the road as far as fees but provides a lot of extra free services other cities do not. She said some of the extra services include the spring and fall cleanups which costs the City approximately \$230,000 per year and the annual Household Hazardous Waste Event at approximately \$80,000 annually. Mr. Komiske said another example is the City's Compost Facility and said Norman is one of the few cities who offer this service to its residents free of charge.

Ms. Krohmer said the Sanitation Fund expenditure assumptions for FYE 2011 include:

- No Capital Projects
- Fleet related replacement purchases: \$842,861
- Landfill tipping fees: \$1,827,034
- Two vacant positions eliminated from budget
- Ending fund balance: \$121,055 with a targeted fund balance at \$2,380,807

Ms. Krohmer also noted the Residential Route Optimization Study (RROS) was completed in FYE 2010 and Mayor Rosenthal asked Staff if they have had the opportunity to analyze the study and whether the City should expect any savings. Mr. Komiske said a draft report is currently being written which will include recommendations. The study shows the routes to be in pretty good shape, but suggests the City not utilize alley pick up. He said the study also revealed the City should be more strict with the rules and educate the citizens to be more user friendly, i.e., teach them to place polycarts at the curb properly so the sanitation employees will not have to get out of the trucks to re-adjust the polycarts or move them away from mailboxes, vehicles, and/or fire hydrants. Councilmember Cubberley asked how many trucks are expected to be purchased in FYE 2011 and whether they would be Compressed Natural Gas (CNG) vehicles and Mr. Komiske said the budget will allow for the purchase of two large refuse trucks and two transport trailers and until the orders are placed it is unclear whether or not the vehicles will be CNG. Councilmember Kovach asked Staff if the City will have a future contract proposal with Waste Management for curbside recycling and Mr. Komiske said the current contract with Waste Management was a five year contract and will not expire for another three years.

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Mayor Rosenthal asked if Staff has re-evaluated picking up yard waste during the winter months, since the winter months may not support weekly pick up. She wondered if there could be a possibility for savings and whether the City was locked into weekly yard waste pick ups. Mr. Komiske said the current ordinance states the fee to be charged for the services, to include the weekly yard waste pick up, and the spring, and fall cleanups are not listed in the ordinance. He said the RROS will include suggestions related to the weekly yard waste pick up. Mr. Steve Lewis, City Manager, asked Staff to speak about the spring and fall clean ups and the possibility of continuing the services at a reduced rate with the purchase of a new piece of equipment. Mr. Komiske said the Sanitation Division has been researching the purchase of a knuckle-boom truck which has a large container and an "elbow" arm to pick up debris. He said some cities use this type of equipment as an alternative to spring and fall clean up and the City could hire one full time employee to operate the truck year round. He said each residence could request two free pick ups per year, scheduling them at their convenience, versus having a city wide spring and fall clean ups. Mr. Komiske said the City would be divided into quadrants and the truck would be scheduled in each quadrant, allowing more flexibility to the residents. He felt purchasing a knuckle-boom truck and hiring a full time employee to operate it would save the City a significant amount over time. Mr. Lewis said this option should be discussed in more detail in the RROS and Councilmember Kovach asked if the RROS would be analyzed in time for this budget process. Mr. Lewis said it should be received in approximately two weeks and presented to Council. Councilmember Cubberley asked Staff how many customers in the spring clean up are serviced during the four-week period, five consecutive Saturdays, and Mr. Komiske said approximately 15,000 households. Councilmember Cubberley felt that was a lot of residents to be served in the course of a year for only one full time employee and Mr. Komiske said the full time employee's position would be a five-day per week service versus the five consecutive Saturdays. He said Staff and Council would need to analyze and determine what the best course of action will be for the City. Councilmember Dillingham felt the timing of the spring and fall clean ups are important and a lot of items are collected because of the college residents moving in and out of the City. She said another issue to consider is the reduction of illegal dumping.

Ms. Krohmer highlighted the major revenue assumptions for the Wastewater Fund to include:

- Rates have not been raised in over 14 years and current rates are \$3.90 base + \$1.60 per 1,000 gallons of treated wastewater
- October 2001, an additional \$5.00 fee was added for sewer maintenance
- User fees for FYE 2011 are budgeted at a projected 2% increase over last year's budget

Ms. Krohmer provided a Wastewater Rates Chart and said the City of Edmond is the only City that charges lower fees than Norman, charging \$0.95 less. Ms. Krohmer said the Wastewater Fund expenditure assumptions include:

- Eliminating two vacant positions; one at the Lab and one at Wastewater Treatment Plant (WWTP)
- Proposed budget amendment to increase transfer to General Fund for Right-of-Way usage from 2% to 5% beginning FYE 2011, increase of \$228,048
- Major FYE 2011 Projects
  - ✓ WWTP effluent re-use at compost facility \$108,000
  - ✓ WWTP North secondary digester cover replacement \$775,000

Councilmember Cubberley asked Staff if the \$108,000 figure for the WWTP effluent re-use at the compost facility was a cost or savings and Mr. Komiske said the project would cost approximately \$108,000 but over time there would be a savings to the City.

Ms. Krohmer said the Sewer Maintenance Fund accounts for the \$5.00 monthly sewer maintenance rate and the \$.50 monthly Capital Improvement Charge. She said Staff is proposing eliminating four vacant positions from

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the Sewer Maintenance Fund, FYE 2011 Budget. The major projects include the replacement of sewer lines at a cost of \$1,692,265 and all sewer maintenance rate projects must be on a pay-as-you-go basis.

Ms. Krohmer said the New Development Excise Tax Fund's main source of revenue is from new construction project building permits based on square footage. She provided a chart reflecting actual revenues collected from FYE 2002 through FYE 2010. She said there was a significant increase in FYE 2006, and then collections tapered off slightly in FYE 2007, FYE 2008, and FYE 2009, and then slightly increased in FYE 2010. The FYE 2011 projected revenues are \$2,000,000, with \$1,600,000 for residential projects and \$400,000 from commercial projects. She said the South Canadian WWTP Expansion design is planned for FYE 2011 and the construction is planned for FYE 2012. Mayor Rosenthal asked what portion of the two projects is from the Excise Tax Fund and Mr. Mark Daniels, Utilities Engineer, said the sales tax is approximately \$4.5 million of the \$20 million project. Ms. Krohmer said the sewer sales tax fund was a temporary half percent sales tax implemented on October 1, 2001, and ended September 30, 2006 and a WWTP Improvement Project of \$4,154,000 is budgeted for FYE 2011.

Mr. Lewis asked Mr. Komiske to provide an update to Council regarding the renewal of State/Federal WWTP permits and any implications they may have on the adoption of the FYE 2011 Budget. Mr. Komiske said the City must renew their permit with the Department of Environmental Quality (DEQ) every five years and it is now up for renewal. He said this year DEQ is a lot more particular, significantly increasing the City's standards. He said Staff knew additional standards were approaching but felt they would have more time to implement them, bringing the WWTP upgrade earlier than previously anticipated. Another DEQ requirement will be more frequent monitoring at the WWTP which would require an additional employee to be hired at the WWTP. Mr. Lewis asked when a new DEQ permit will be obtained and Mr. Daniels said a final DEQ permit should be expected in approximately three months. Mr. Daniels said DEQ will give the City three years from the issuance of the permit to get the disinfection process installed. Councilmember Cubberley asked if the disinfection standard is because of the Total Maximum Daily Load (TMDL) Study on the South Canadian River or is the State simply requiring more monitoring and a better product. Mr. Komiske said the conclusion is the State wants a better product.

Mr. Lewis said the City may need to construct an off-site road in order to get to a sampling site and Mr. Komiske said data is already collected where the effluent leaves the WWTP and now DEQ would like a sample to be collected at the end site of the River which is approximately 1 to 1 ½ miles from the WWTP. He said this would require the City to construct an off-site road enabling an employee to drive and monitor the effluent at the end site location. Mayor Rosenthal asked if the cost of constructing an off-site road and other contingencies have been factored into the FYE 2011 Budget and Mr. Komiske said no, only the WWTP improvements. Councilmember Dillingham asked when Staff would have better details and answers regarding the new permit requirements so Council could determine the actual needs and Mr. Komiske said Staff has proposed eliminating six total vacant positions to allow the budget to be as tight as possible but still provide the services to the citizens. He said laws and permit requirements change from time to time which require the need for additional position(s). Councilmember Quinn asked how long the positions targeted for elimination have been vacant and Mr. Komiske said two of the three sewer maintenance positions have been vacant for a while and the two WWTP positions have also been vacant for a number of years. He said the WWTP positions have been reduced and/or vacant due to good monitoring results in years past thus reducing monitoring requirements, better equipment, and improved efficiencies.

Councilmember Griffith asked if Staff continued to monitor the effluent leaving the WWTP and gathered good results, what standard has to be maintained in order to avoid having to construct an off-site road 1 ½ mile down to the end site of the River and Mr. Komiske said the future DEQ permit requirement will change from five parts per million for dissolved oxygen to six or higher. He said the next phase of the WWTP expansion program will include an additional aeration facility for the effluent.

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Councilmember Kovach asked if Staff would use existing facilities or expand the facilities for the proposed arsenic treatment/removal from City water wells. Mr. Komiske said approximately \$200,000 of the budgeted \$979,005, includes constructing a new building for Well 31 and the remaining money will be used to connect two of the existing wells into a new technology to remove arsenic. Councilmember Kovach asked if Staff had additional information whether re-use will be an issue if the arsenic will be taken to the sewer and Mr. Komiske said the arsenic is low and will not register by the time it mixes with Lake Thunderbird and it is surface water going to the WWTP, which automatically removes arsenic and heavy metals. Councilmember Kovach asked if there would be any taste and odor component and Mr. Komiske said that will be in the next phase of the Water Treatment Plant (WTP) expansion for FYE 2011. He said the next step is the WTP design scheduled for FYE 2012 and Mr. Chris Mattingly, Utilities Superintendent, said there is money in the budget now to bring a design forward by July. Mr. Mattingly said Staff is currently negotiating the next phase of design for the WTP.

Councilmember Quinn said the ending fund balance for the Sanitation Fund is really negligible at the \$121,055 balance with a targeted fund balance of \$2.4 million. Mr. Komiske said all the fund balances are getting smaller and for a \$10 million plus budget, just a small degree off target can devastate the budget. He said although sanitation rates give the City \$121,055 variance, if the City has to replacement a sanitation truck etc., the balance can be utilized quickly. He said Staff has proposed buying fewer trucks for FYE 2011, but either a rate increase will be needed or the services which are now provided to the residents will need to change. Mr. Komiske said similarly, the Water Fund has a 3% built-in customer growth, which he feels is a little generous, as well as a 3.5% rate increase, both of which are not enough to carry the City forward. He said the City has been too long without a rate increase and will probably need a large rate increase up front and follow with some smaller increases to overcome the budget shortfall. Councilmember Cubberley asked in relation to the Wastewater Fund, whether the State disinfection requirement would be built into a rate increase and taken to the citizens for a vote and Mr. Komiske said yes, the City will need funding in order to abide with the State requirement. Mayor Rosenthal asked why there was a difference between the 2% Wastewater increase while Water is a 3% increase and Mr. Anthony Francisco, Finance Director, said those figures are based on the historic Water growth rate, which is driven by weather while the Wastewater growth rate is more gradual.

Mayor Rosenthal reminded Council the next Study Session is scheduled for May 4, 2010, and the discussion will be the Capital Fund.

Items submitted for the record

1. Powerpoint presentation entitled "*City Council Fiscal Year 2010-2011 Budget Study Session Enterprise Funds*," dated April 27, 2010, submitted by Ms. Suzanne Krohmer, Budget Manager

The meeting adjourned at 6:09 p.m.

ATTEST:

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City Clerk

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Mayor