



# CITY OF NORMAN, OK CITY COUNCIL STUDY SESSION

Municipal Building, Executive Conference Room, 201 West Gray, Norman,  
OK 73069

Tuesday, December 20, 2022 at 5:30 PM

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## AGENDA

### City Council, Norman Utilities Authority, Norman Municipal Authority, And Norman Tax Increment Finance Authority

*It is the policy of the City of Norman that no person or groups of persons shall on the grounds of race, color, religion, ancestry, national origin, age, place of birth, sex, sexual orientation, gender identity or expression, familial status, marital status, including marriage to a person of the same sex, disability, retaliation, or genetic information, be excluded from participation in, be denied the benefits of, or otherwise subjected to discrimination in employment activities or in all programs, services, or activities administered by the City, its recipients, sub-recipients, and contractors. In the event of any comments, complaints, modifications, accommodations, alternative formats, and auxiliary aids and services regarding accessibility or inclusion, please contact the ADA Technician at 405-366-5424, Relay Service: 711. To better serve you, five (5) business days' advance notice is preferred.*

### CALL TO ORDER

### AGENDA ITEMS

1. UPDATE FROM RAFTELIS REGARDING COST OF SERVICES STUDY FOR UTILITY CONNECTION FEES AND RATES.

### ADJOURNMENT

# City of Norman

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## 2022 Water and Wastewater Cost of Service Study

December 20, 2022



# Norman's rates and fees must:



# How we'll get there



**Fund Operations**



**Fund Capital Projects**



**Maintain Reserves and DSC**



**Fund Growth**



**Ensure Cost Recovery**



**Financial Plan**



**Cost of Service**

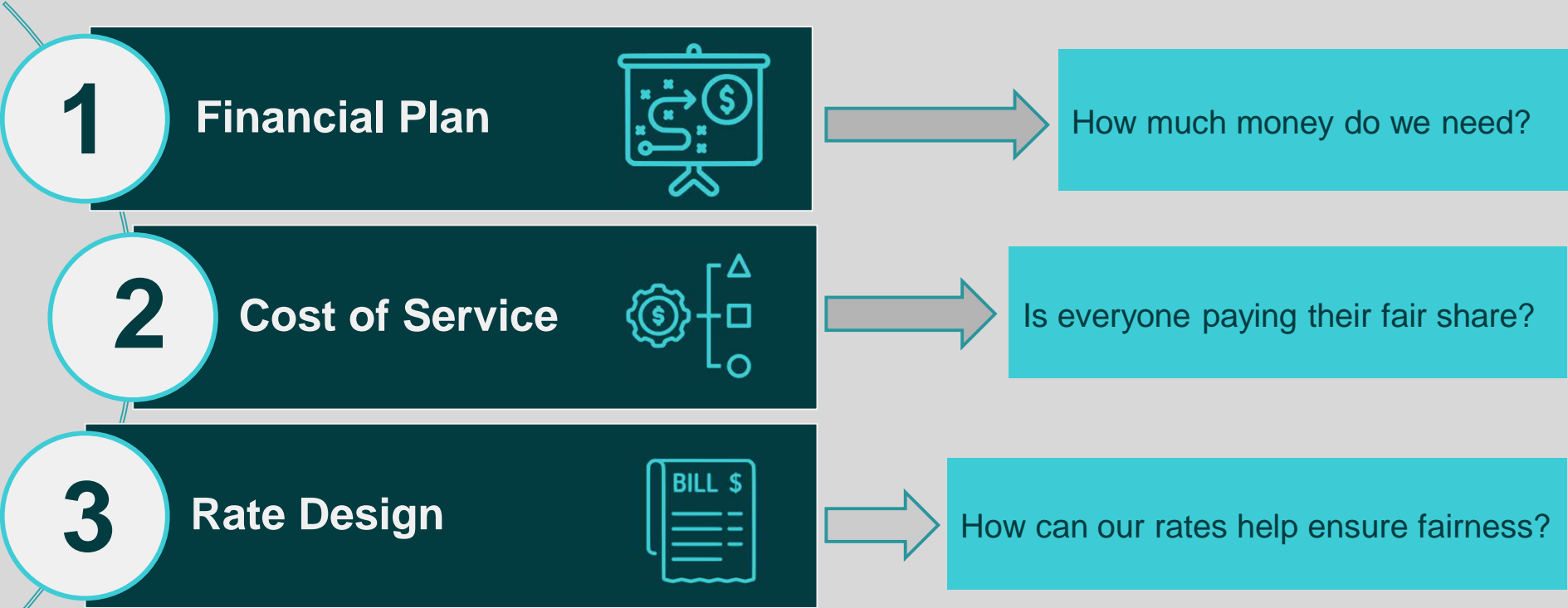


**Rate Design**



**Connection fees**

# Rate study process



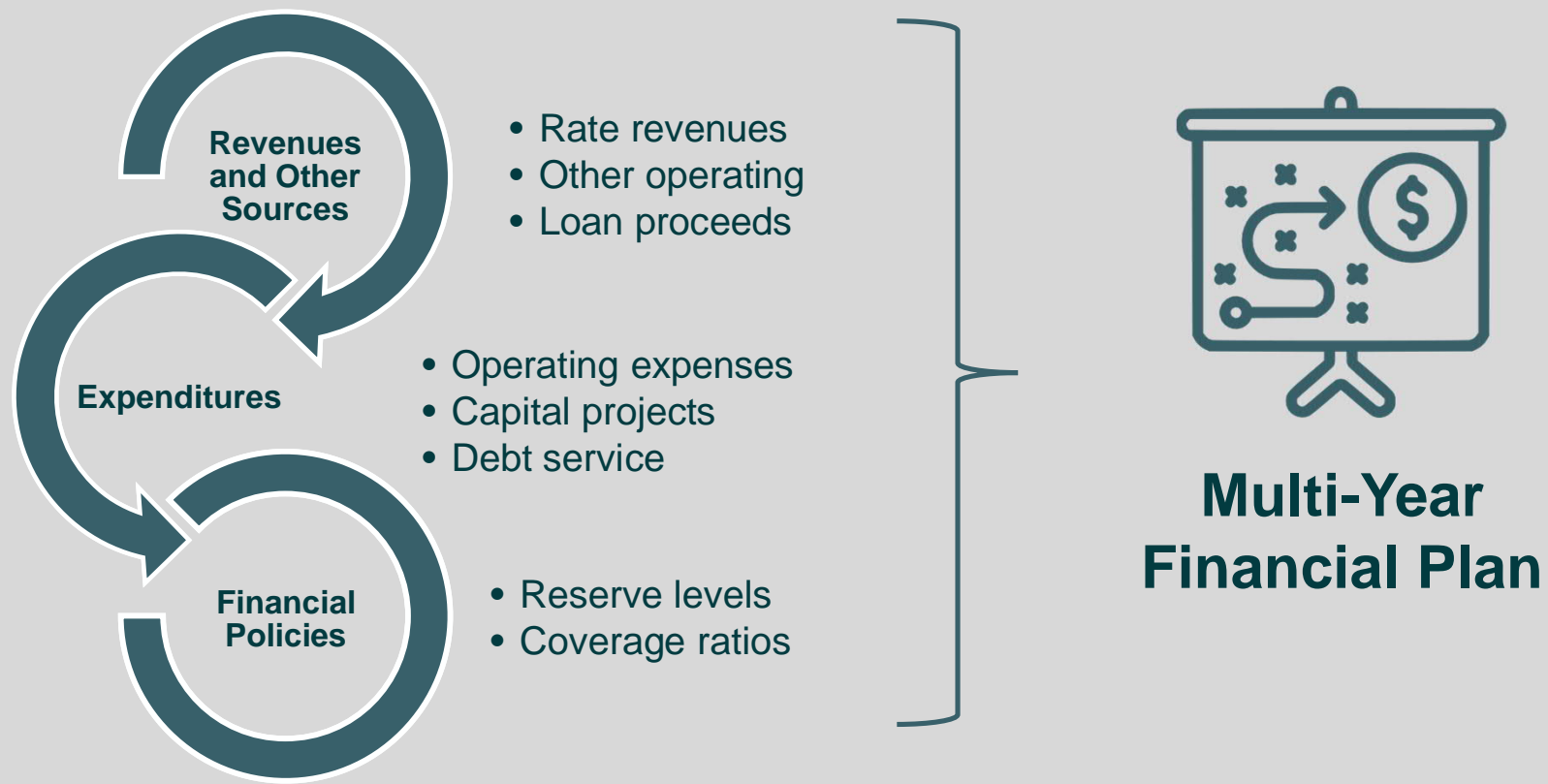
# Financial Plan





# The financial planning process

*What is the revenue required to meet expenditures?*



# Wastewater Utility





# Wastewater utility financial plan assumptions

## Financial metrics

- Operating: 8% of O&M
- Capital reserve: 1-year depreciation expense
- Debt service coverage: 1.25x debt service required; 1.4x desired

## Financial planning scenarios

- Assumes 1.2% growth in accounts
- Assumes flat AWC volumes

## Capital funding

- Initial plan to Cash-finance all capital projects
- Consider Bond financing



- Scenarios are still under review and results presented today are subject to change

# Preliminary sewer financial plan findings

## Current state



- Annual revenue slightly lower than annual O&M, capital and debt expenses

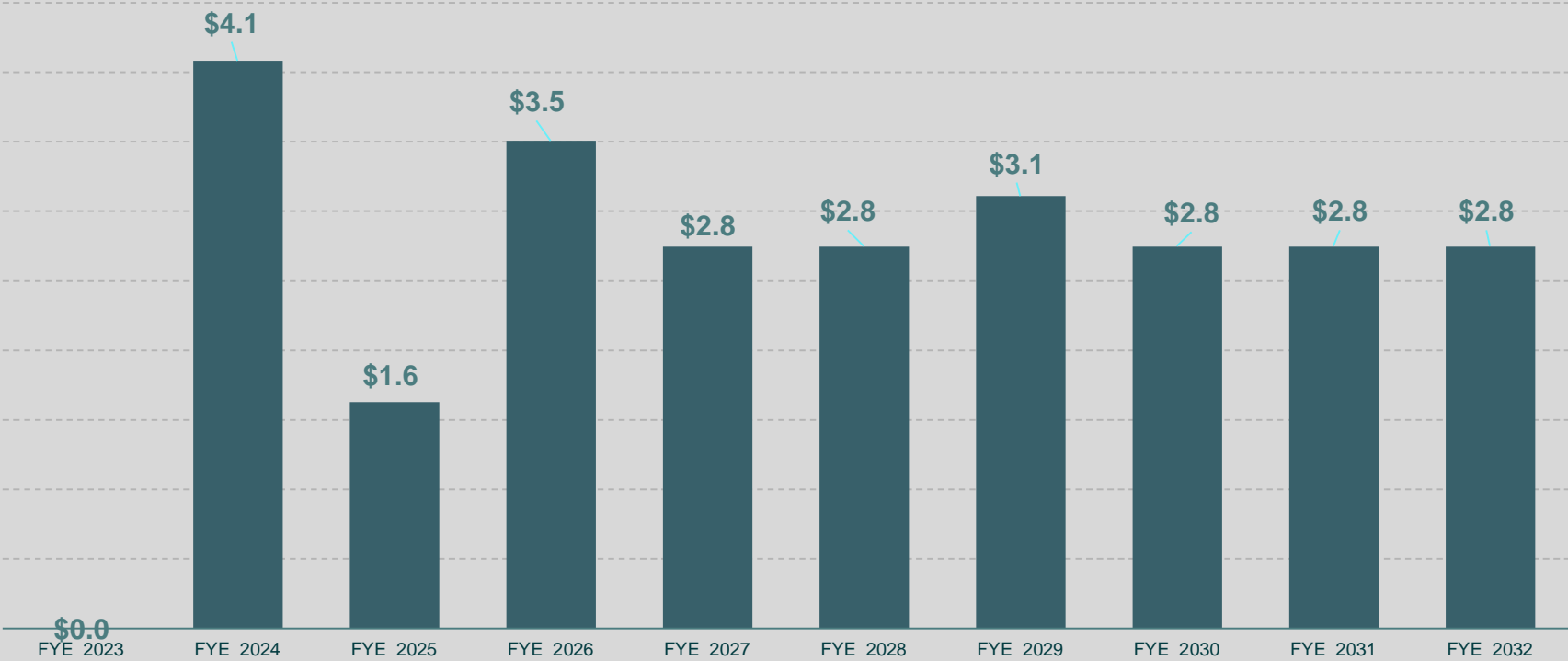


- Near-term: Funding capital with rate revenues



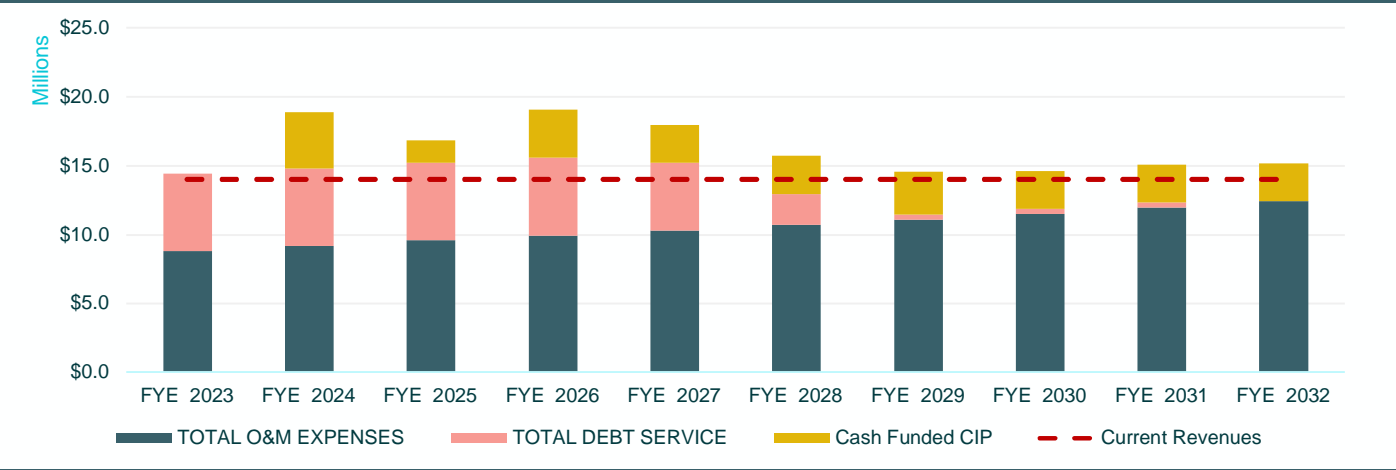
- Longer-term: existing debt maturity will free up financial capacity

# 10-year WRF capital improvement program \$26.1 million

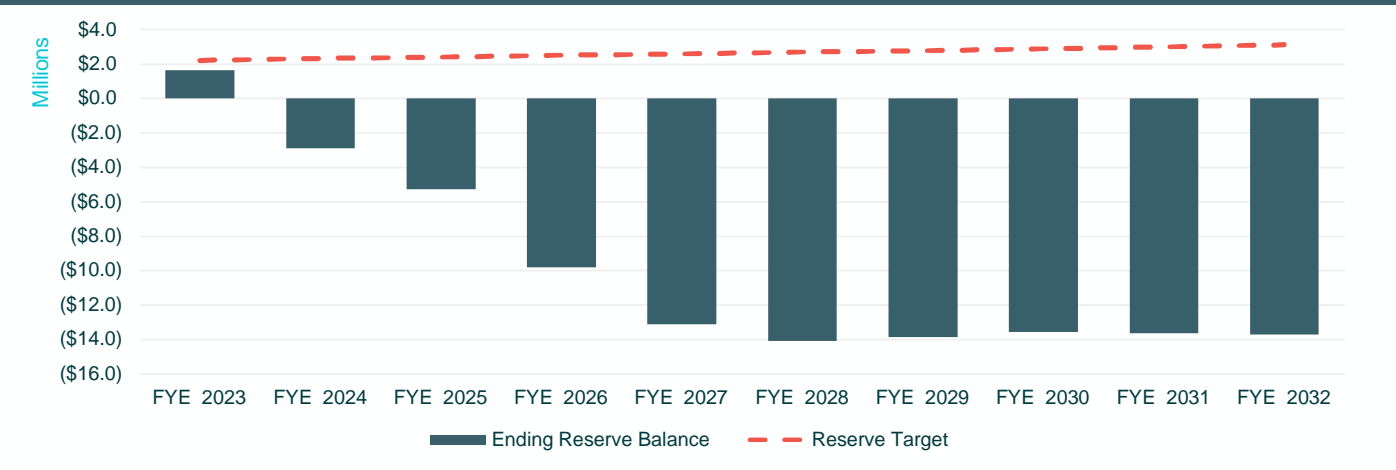


# Wastewater utility – current state

## Revenues and Expenditures

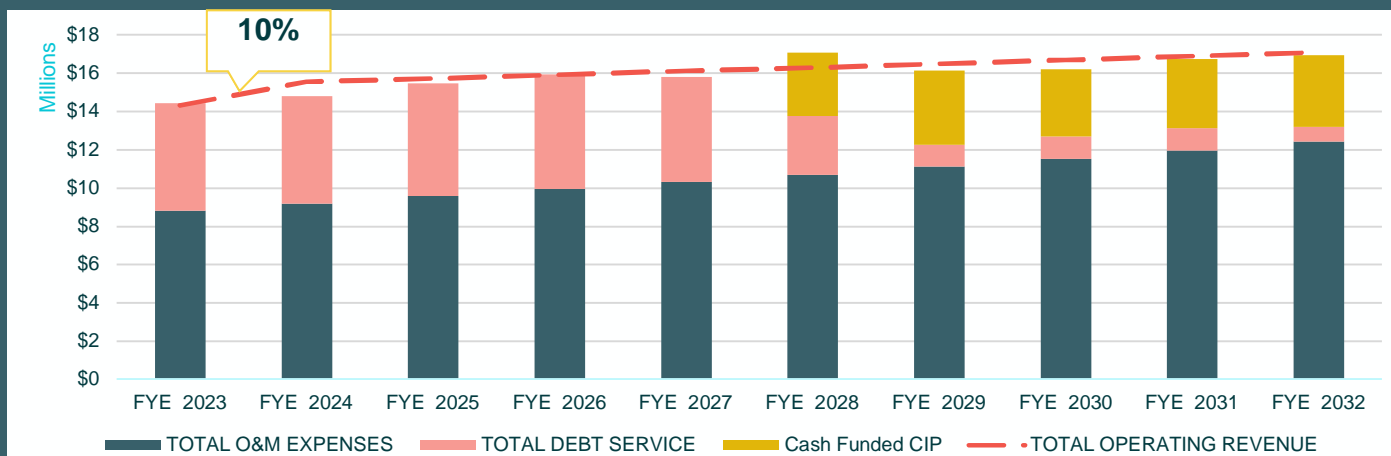


## Ending Balance and Target Reserves

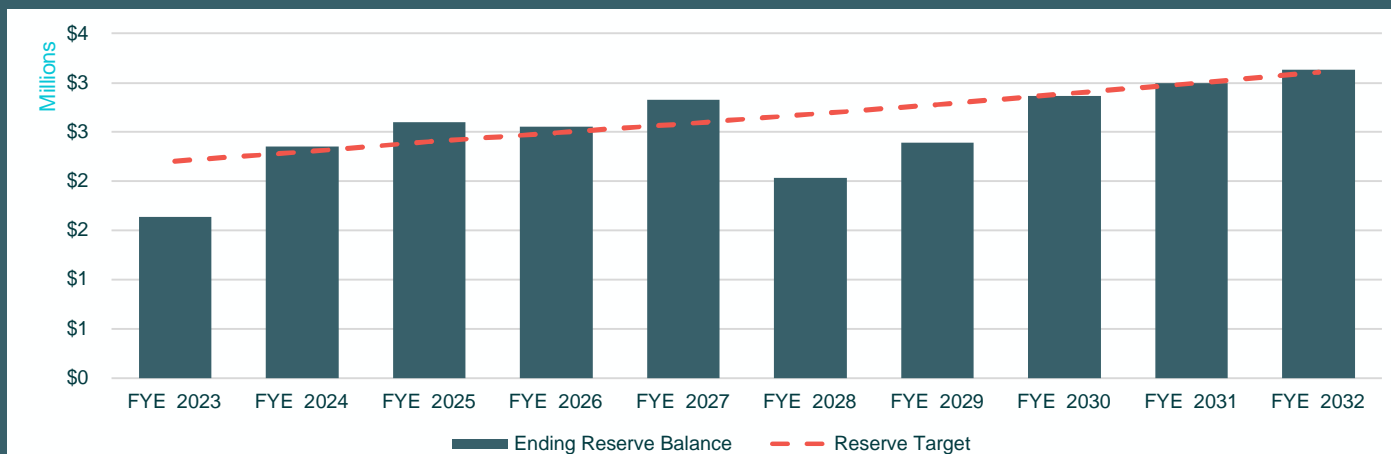


# Wastewater utility – target state

## Revenues and Expenditures



## Ending Balance and Target Reserves



# Water Utility



# Water utility financial plan assumptions

## Financial metrics

- Operating: 8% of O&M
- Capital reserve: 1-year depreciation expense
- Debt service coverage: 1.25x debt service required; 1.4x desired

## Capital funding

- Cash-finance all non-growth related capital projects
- Bond finance growth-related projects
- Connection fee revenue funds growth-related projects
  - Current connection fee is \$1,500 per ¾" water meter

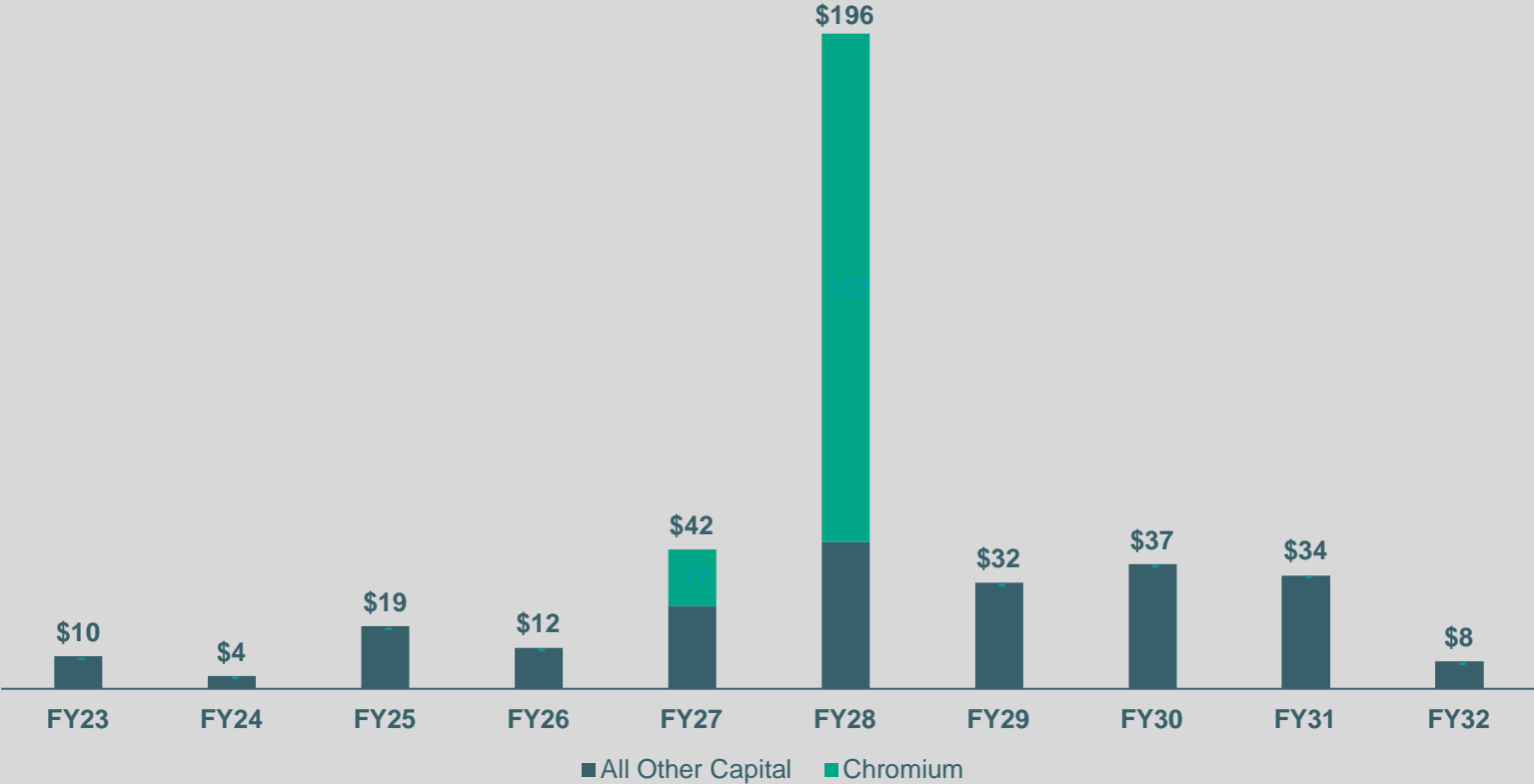
## Financial planning scenarios

- No growth
- Purchase OKC water
- 10 Wells
- Augmentation with \$1,500 per ¾" meter connection fee
- Augmentation with \$3,100 per ¾" meter connection fee1



- Scenarios are still under review and result presented today are subject to change

# 10-year water capital improvement program \$394.5 million





# Preliminary water financial plan findings

## Current state



- Annual revenue does not meet annual expenditures



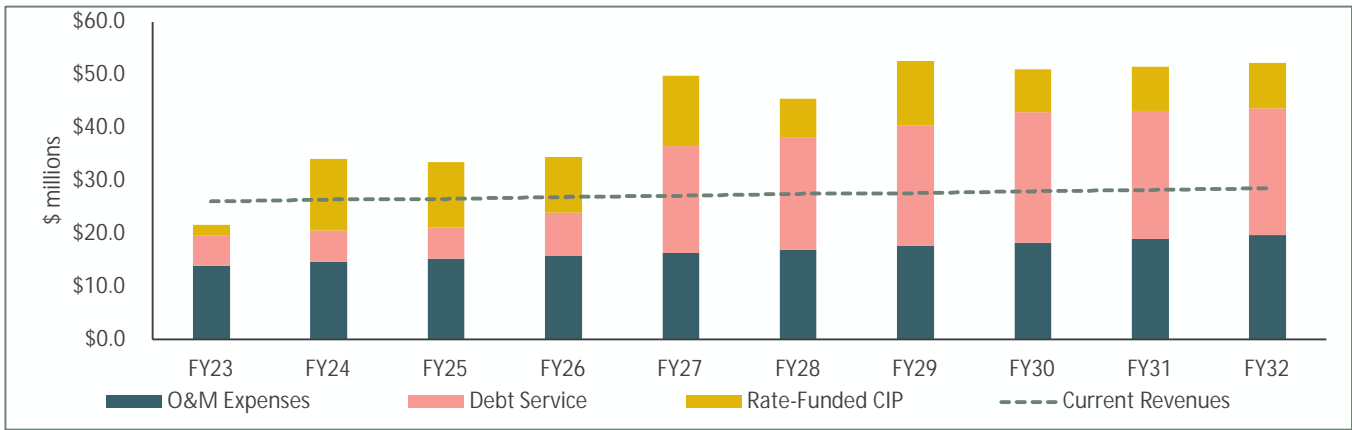
- Does not meet annual debt service coverage requirements



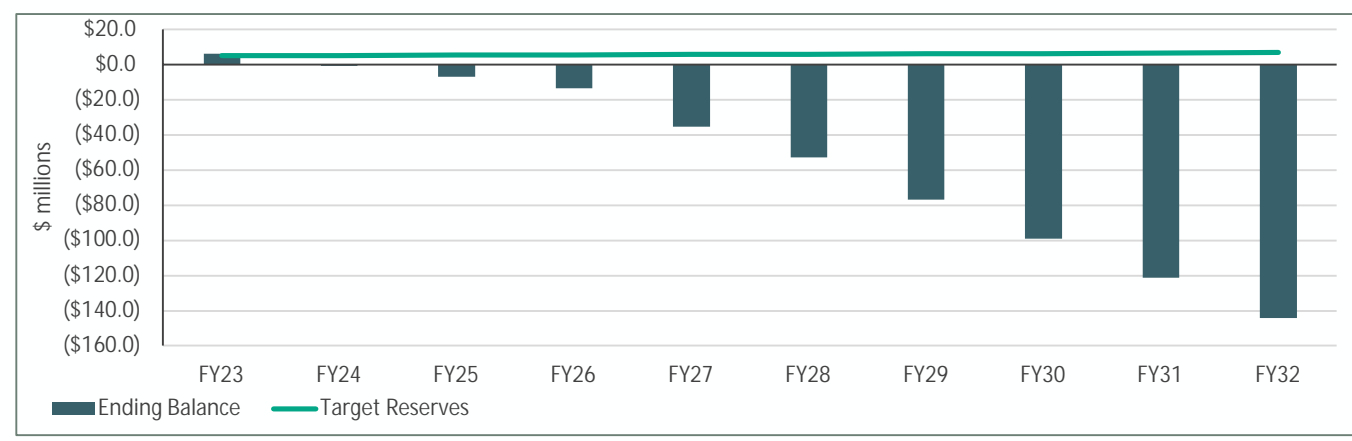
- Does not target operating and capital reserves

# Water utility – current state

## Revenues and Expenditures



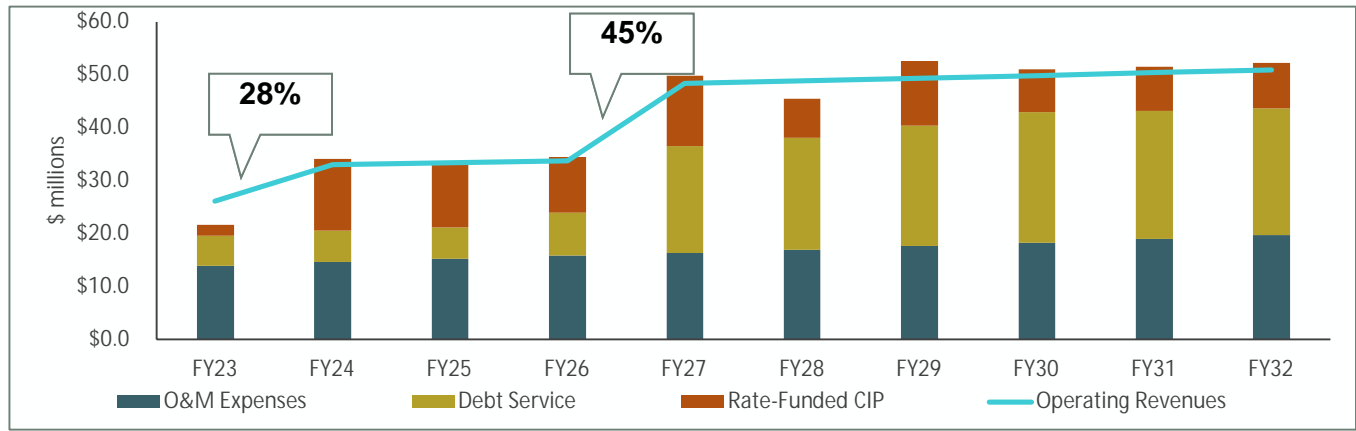
## Ending Balance and Target Reserves



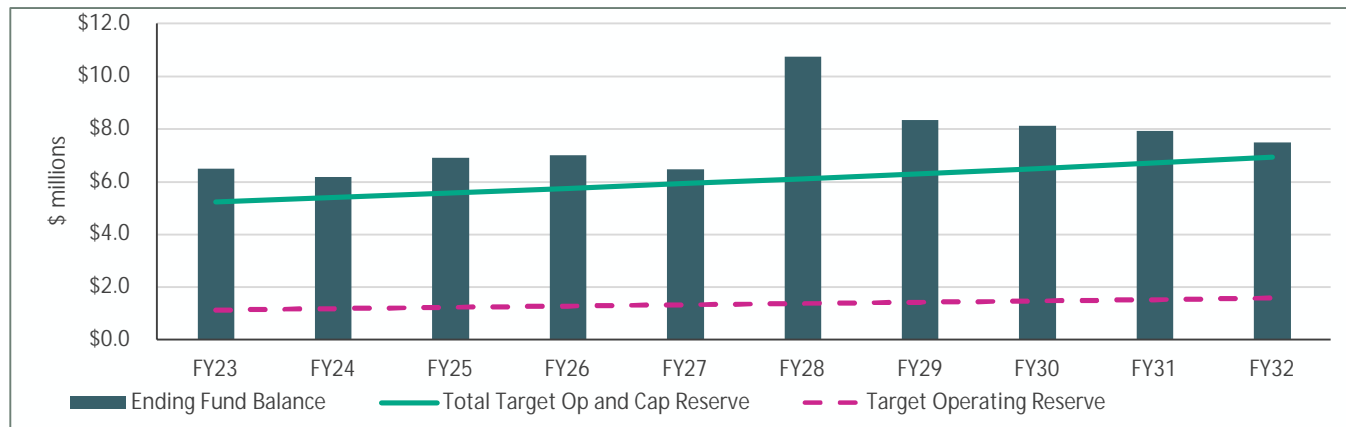
# Scenario 4 target state – Augmentation

Example

## Revenues and Expenditures



## Ending Balance and Target Reserves



# Water utility scenario summary

Scenario*	Revenue Adjustments		Total Connection Fee Revenue	Total Rate Revenue
	FY24	FY27	\$ millions	\$ millions
1: No Growth	28.5%	28.5%	\$0.0	\$370.5
2: OKC	32.5%	32.5%	\$8.5	\$391.8
3: 10 Wells	29.0%	28.0%	\$8.5	\$368.2
4: Augmentation	28.0%	45.0%	\$8.5	\$402.2
5: Augmentation w/\$3,180 connection fee	25.0%	45.0%	\$17.3	\$392.7

\*Scenarios 1 - 4 assume a connection fee of \$1,500 per 3/4" meter

- Biggest influences on revenue adjustments
  - > Timing of project
  - > Project cost and duration
  - > Financing methods (cash, debt, and/or connection fees)

# Cost of Service



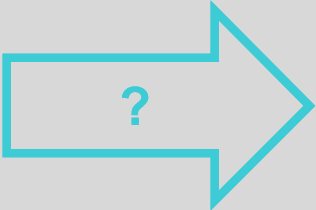


# Step 2: Cost of Service Analysis

*Is everyone paying their proportionate share?*



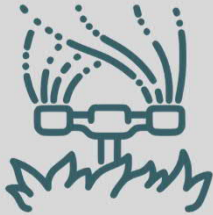
Revenue Requirement



Residential



Commercial

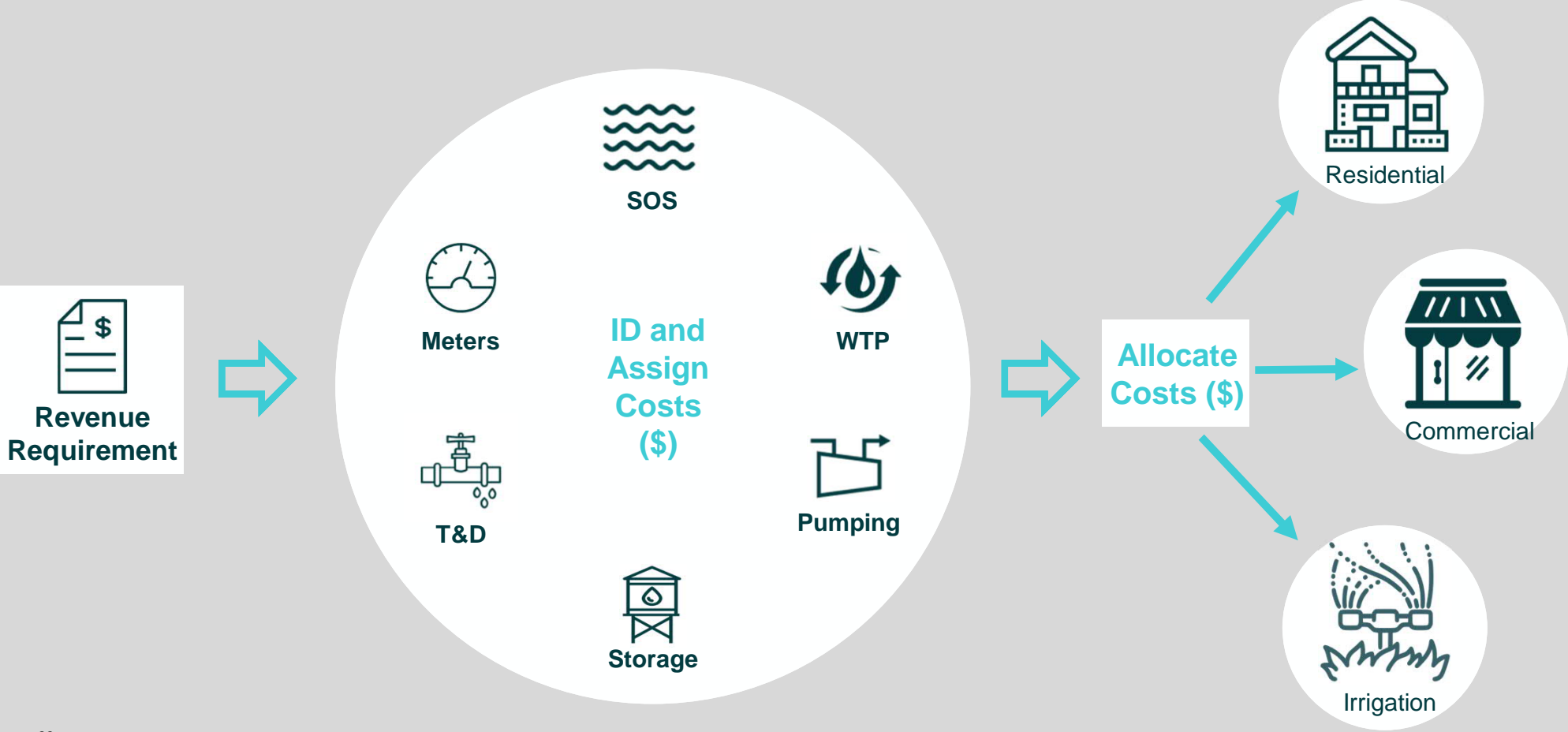


Irrigation



# Step 2: Cost of Service Analysis

*Assign costs to customers based on their specific demand requirements?*



# Rate Design





## Step 3: Incorporating community values in rate design

### *Pricing objectives*



**Revenue stability**



**Cost recovery between classes**



**Cost recovery within a class**



**Cost recovery between existing and new customers**



**Efficient water use pricing signal**



**Demand management**



**Essential use pricing**



**Citizen vote approval**



**Customer impact**



**Ease of administration/implementation**

# Moving forward

**January**

- Finalize water and wastewater cash flow scenarios

**Jan - Feb**

- Complete cost of service analysis to equitable assign costs to customer classes

**February**

- Evaluate rate design alternatives

**February**

- Meeting with City Council to present findings

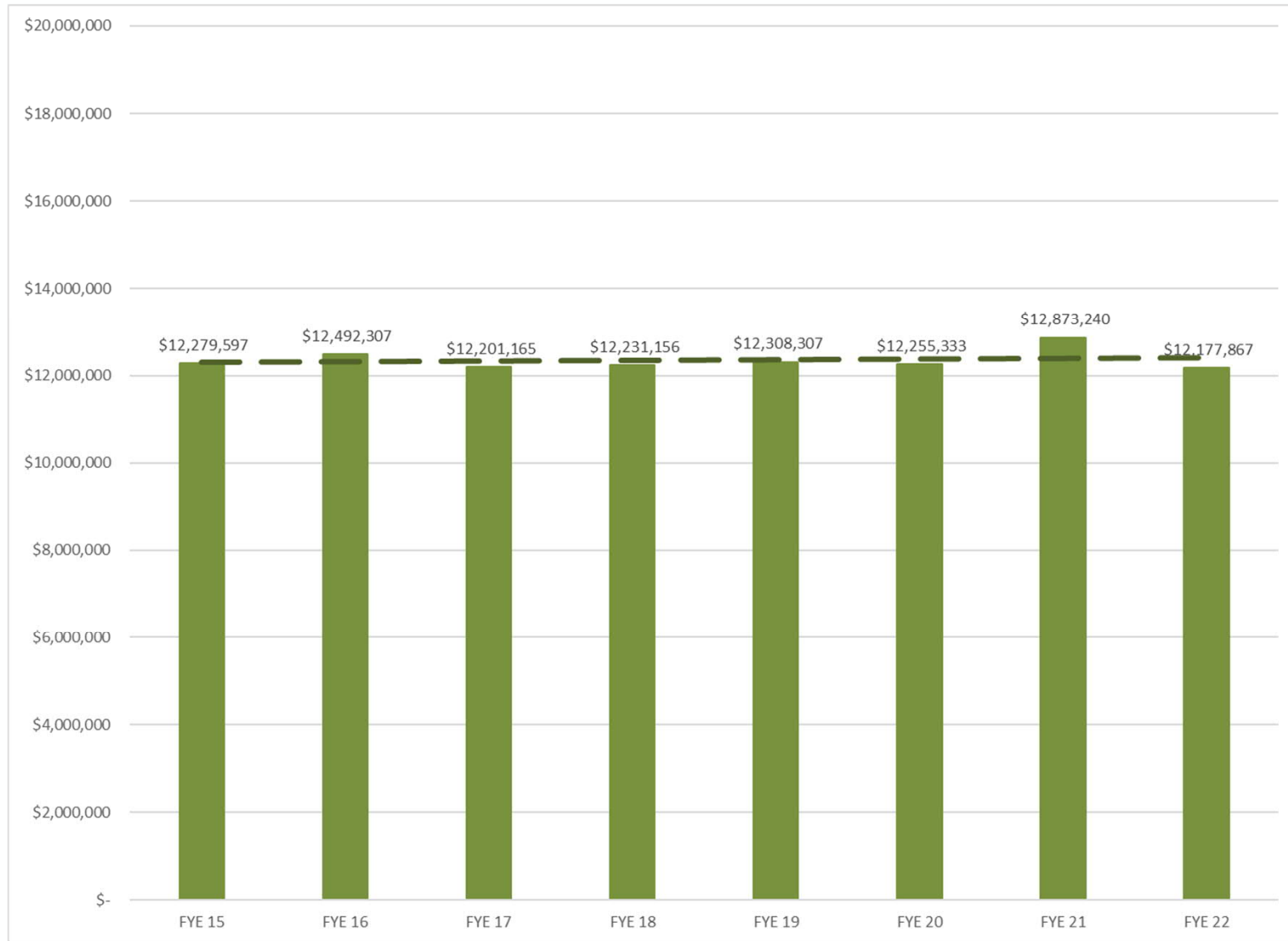


# Thank you!

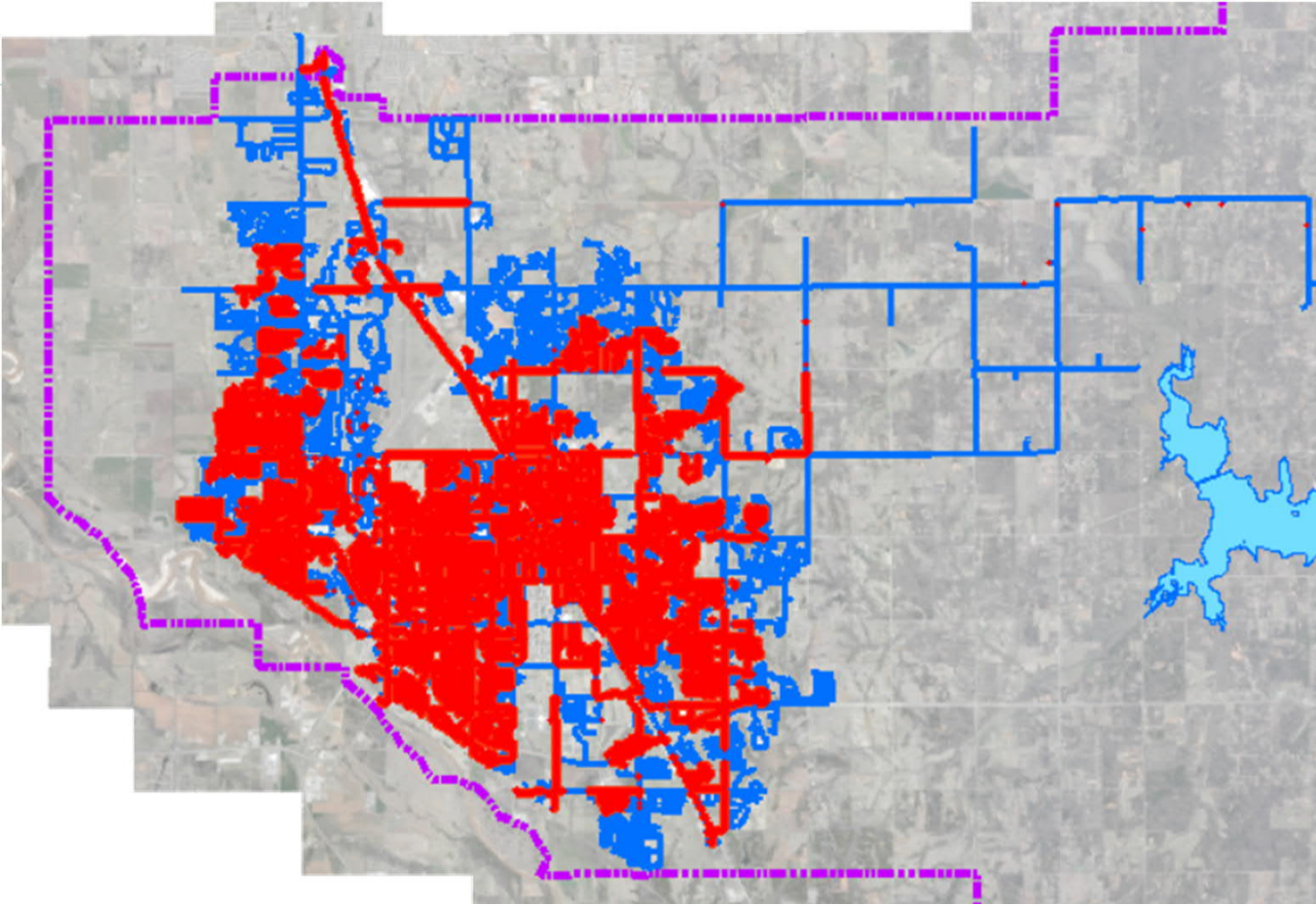
**Contact:**

Todd Cristiano, *Senior Manager*  
303 916 3151 / [tcristiano@raftelis.com](mailto:tcristiano@raftelis.com)

# WRF Revenue



# Water Line Replacement



Total Water System

640 miles

Metal Lines

300 miles

Replacement  
Cost per Mile

~~\$750,000~~  
**\$1.05M**



# Water Fund and Revenue Sources (031)

- Initial/One-Time Charges

- › Meter Installation Fee

← Administratively Updated as Needed – Not Part of COS

- › Connection Fee

← Updated as Part of 2021 Fee Evaluation – Not Part of COS

- Ongoing Charges

- › Base Fee

- › Volumetric Charge (Increasing Block)

← Main Focus of COS

- › Capital Improvement Charge

- Other Miscellaneous Revenues

(Flush Meters, Grants, Cell Contracts, Etc.)

← Not Part of COS

# Wastewater Funds and Revenue Sources

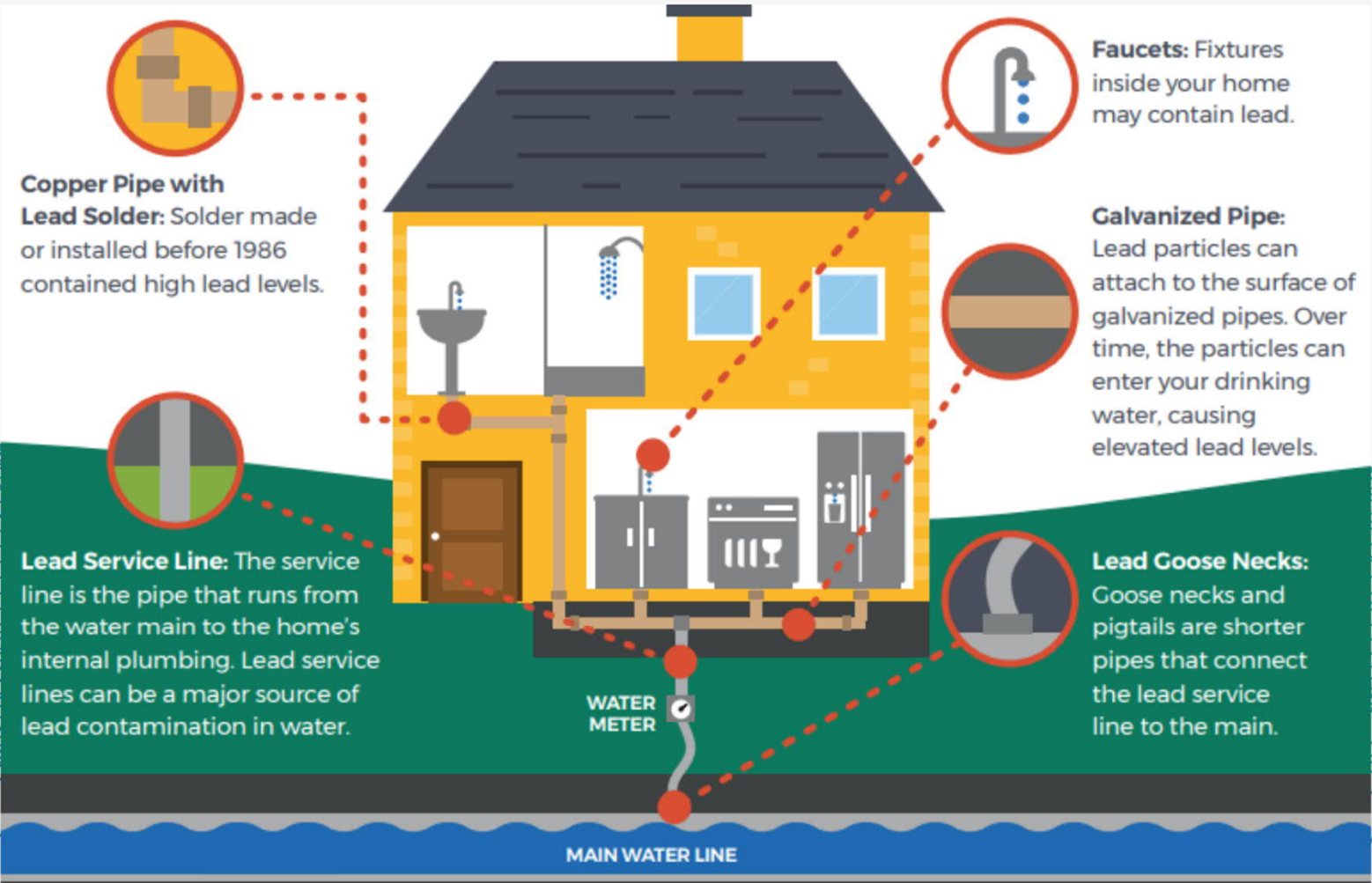
- Water Reclamation Fund (032)
  - › Initial/One-Time Charges
    - Connection Fee ← Updated as Part of 2021 Fee Evaluation – Not Part of COS
  - › Ongoing Charges
 

- Base Fee ← Main Focus of COS
    - Volumetric Charge
    - Capital Improvement Charge

    - Lift Station Fees (as appropriate) ← Service Area Specific Updated for Inflation– Not Part of COS
- Sewer Maintenance Fund (321) – Fixed Monthly Charge ← Not Part of COS
- Sewer New Development Fund (322) – Excise Tax ← Updated as Part of 2021 Fee Evaluation – Not Part of COS



# Sources of Lead in Drinking Water





# Groundwater Treatment Plant



# Water Usage

