



May 10, 2018

Honorable Mayor and City Council:

I am pleased to transmit to the City Council the operating & capital improvement budgets, along with the work plans and priorities for Fiscal Year 2019 (July 1, 2018 to June 30, 2019). The proposed spending plans reflect the continued pledge of providing our community with quality public services and amenities; while preserving our long-term financial sustainability.

The City Council & Broken Arrow Municipal Authority (BAMA) are scheduled to review the proposed budget at a special meeting on May 22nd. Correspondingly, a public hearing is scheduled for the regular meeting on June 4th, with adoption of the Budget planned for June 18th.

The Municipal Budget has been prepared in accordance with all approved City ordinances and pertinent policies. Moreover, the budget message concisely provides the governing body details of the proposed Fiscal Year Plan.

Budget Overview

The budget has a total of 27 funds. Two years ago, we increased the number of funds by 3 by adding: Special Revenue Funds: Street Sales Tax (Fund 043), Police Sales Tax (Fund 044) and Fire Sales Tax (Fund 045).

Just to reiterate, these funds were created pursuant to the passage of the Vision renewal tax approved by voters on November 10, 2015, that provided for a total of fifty-five hundredths of a penny sales tax (0.55%) which allocated twenty-five hundredths (0.25%) to Streets and thirty hundredths (0.30%) to be split equally between Police and Fire. As noted in last year's budget message, all activities of the Police and Fire Departments have been removed from the General Fund and incorporated within these funds. The breakdown of all our funds include:

- The General Fund.
- 3 Enterprise Funds (the Broken Arrow Municipal Authority, the Broken Arrow Economic Development Authority and Battle Creek Golf Course).
- 5 Capital Improvement Funds (the Sales Tax Capital Improvement Fund and the General Obligation Issue Funds of 1994, 2008, 2011 and 2014).
- The Debt Service Fund.
- 2 Internal Services Funds (Employee Group Health Care and Workers Compensation).
- 15 Special Revenue Funds that have a specific revenue source and rules that govern expenditures related to each fund. Included in the category are the funds

created by the Vision 2025 Repurpose tax: street sales tax, police sales tax, and fire sales tax

City Policies

The City Council has established budgetary policies that provide direction for the City Administration to follow as the budget is prepared and administered through the fiscal year. They include:

Resolution Number 421 approved January 9, 2006, designates an Emergency Reserve Fund Balance policy for the City's General Fund. The Resolution specifies that the target Emergency Reserve Fund Balance for the General Fund will be ten (10) percent of operating revenues.

Resolution Number 422 adopted January 9, 2006, regarding an Emergency Reserve Fund Balance that sets a prudent reserve level in BAMA to be funded by water, sanitary sewer, storm water and sanitation. The total BAMA Emergency Reserve Fund Balance was amended in late 2016 to be 90 days, on a combined utility basis, as 90 days would be sufficient and align with industry best practices.

Budget Considerations and Concerns

As I have mentioned previously, Oklahoma is the last state that depends on sales tax revenue as its major source of funding for General Fund operational expenses. Consequently, each year the Administration must try and predict how sales tax will increase/decrease and we do this based on previous tax collections.

Without question, it is enormously challenging for city leaders to precisely estimate revenues in such an unpredictable system. Because our state continues to use this archaic business model, we spend an excessive amount of time chasing sales tax type businesses. When sales tax and other revenues that fluctuate under-perform, this leads to missed projections; and missed projections lead to reductions in operational expenditures that ultimately affect the level and breadth of services we provide the community. Therefore, we must continue to advocate for a better municipal funding model to the Oklahoma Legislature and Governor.

On a positive note, last year the State of Oklahoma entered into a compact with Amazon where it will remit use tax for purchases made on internet sales. However, we still don't have a completely level playing field with all internet sales and this hurts our "brick and mortar" businesses. We will continue to advocate with our federal legislators on the approval of some type of "e-fairness" Bill. Until such time, local stores will be at a competitive disadvantage.

Last April, we had a rating call with Moody's Investor's Service in connection with issuance of voter approved GOBs. In summary, Moody's maintained the City's rating with an Aa3 credit rating. The summary of the credit opinion said:

The City's credit profile benefits from its large and growing tax base, favorable wealth indices and manageable debt profile. Recent operating performance has strengthened the fund balance. However, the city's financial position is weakened by low cash levels which are not expected to improve until the end of FY 2018. The credit profile is further

challenged by high dependence on economically sensitive sales tax revenues. The rating summary goes on to state the following:

Credit Strengths:

- Large tax base benefiting from the close proximity to Tulsa.
- Favorable wealth indices.

Credit Challenges:

- Below average reserves and liquidity.
- Reliance on economically sensitive revenues (i.e. sales tax).
- Slightly elevated, though manageable, debt profile with exposure to variable rate debt.
- Rising pension liability due to inadequate funding of state plans.

The City's revenue streams are largely influenced by overall economic conditions in the region. The gradual national recovery continues to improve, but our dependence on sales tax and its volatility affects our ability to meet on-going expenses.

Based on completing my third municipal budget in Broken Arrow, my top two concerns are the on-going cost of public safety sector (police and fire departments) and implementing a sustainable operating plan for the utility department in BAMA. With regard to public safety, each department currently receives a dedicated portion of all available general fund revenues. Based on current expenses and the anticipated cost of collective bargaining, we will eventually need to find another dedicated funding source for public safety or alter current operational priorities.

Noteworthy is the fact that the concept of a public safety district has been debated in the Oklahoma State Legislature the last two sessions, but has not become law so our citizens can consider the creation of the district. Doing so would allow us to ask voters to create the district and if approved, generate funding for operations and capital for our police and fire departments. Our City, along with all OK cities and the Oklahoma Municipal League, need to lobby hard for passage into law the ability to ask our voters to create such a district.

Concerning the utility department we are currently implementing a 5-year rate model and long-term capital reinvestment plan. The other direction from the Authority was to rebuild our reserve fund balance for unexpected expenses or extraordinary changes in customer usage. Moreover, we still need to incorporate an additional approximately \$50 million in capital projects, which we are currently analyzing the potential impact on rates. Finally, we are watching transfer to the general fund closely. All this has to be done to insure adequate revenues are available to meet daily operations. We are meeting these challenges head-on and are confident we will continue to provide both thorough and efficient utility services, along with outstanding customer service.

Despite these legitimate concerns, there are a number of encouraging signs at the national, state, and local levels to include: improving home sales, modest improvements in job growth, and slightly improved growth at the state level. More specifically, we are estimating that there will be over 500 new single-family housing starts. Plus, growth in our retail & commercial sectors is expected. Likewise, we continue to aggressively focus on job retention and recruitment in our manufacturing and high-tech sectors. All this

translates into more jobs and opportunities in our community. Healthy gains in the stock market indicate the recovery is behind us to a certain extent. Finally, the tax cuts approved by Congress and the President should help stimulate the economy.

Proposed FY 2019 Municipal Budget

The proposed Municipal Budget includes planned expenditures of \$254,116,194; an increase of \$4,664,027 or 1.9% over the Fiscal Year 2017-18 originally budgeted expenditures of \$249,452,167. As noted below and on the following page, this includes:

- Operational Expenses -- \$110,804,102– Increase of \$2,505,400 or 2.31%
- Capital Outlay -- \$114,393,492 – Decrease of \$630,873 or 0.5%
- Debt Service -- \$28,918,600– Increase of \$2,800,100 or 10.7%

The decrease in capital outlay is due primarily to decreased budgeted expenditures for the General Obligation Bond Funds created by a vote of the citizens of Broken Arrow in 2011 and 2014. The anticipated sale from the 2014 GOB authorization will be \$11,385,000 which is a decrease of \$7,370,000 from the Fiscal Year 2018 GOB sale of \$18,755,000. Additionally, the budgeted expenditures reflect the assumption all projects funded through the bond sales will be substantially completed during FY 2018.

I. General Fund

1. Revenues and Expenditures

Again this year, we spent considerable time reviewing each department's previous years and proposed operating expenditures. Likewise, each director spent a considerable amount of time explaining their requests and justifying them based on the actual average usage over a 3-year period.

The total proposed budget for the General Fund, which includes expenditures, transfers out and budgeted ending Reserved and Unreserved Fund balances is \$86,527,373.

Proposed expenditures, including transfers is \$74,091,457, an increase of \$1,915,057 or 2.65% over the FY 2018 Budget. As a point of interest, in addition to the new Public Safety Sales Tax passed in November 2015, the Council adopted an ordinance dedicating at least 36.7% and 30.7% of General Fund revenues to the Police and Fire Sales Tax Funds respectively. The projected increase in General Fund revenue resulted in an amount to be transferred to these funds \$1,113,300 greater than the FY 2018 budgeted transfers for Police and Fire.

With regards to General Fund operating revenues, we did realize an overall increase over the FY 2018 Budget. While sales tax collections are projected to increase 1.0% over FY 2018 collections, Finance estimates that overall revenues for the upcoming year will increase 1.7% or \$957,743 over last year.

In terms of estimating future revenue growth, the Finance Department utilizes historical data. The proposed FY 2019 Budget includes sales and use tax growth at 1.0%; tobacco and franchise tax growth at 3.14% and the remaining revenues at 3.6%.

Based on the above-referenced action items and other steps taken throughout Fiscal Year 2018, the City anticipates the Emergency Reserve Fund Balance will meet the required balance.

2. General Fund - Personnel Considerations

Currently in FY 2018, the City has 798 full-time employees City-wide. In our Governmental Funds we have 550.

Based on my continuous observations of day-to-day operations, it is clear that additional employees are needed in certain departments to maintain (and in certain instances enhance) operations and services we provide to the community. The on-going challenges are having sustainable funding to pay for current and any new positions. The FY 2019 Financial Plan calls for increasing the number of new positions in Governmental Funds by 9 1/2 new positions, which will bring the total number of employees in the Governmental Funds to 664 including part-time and seasonal. Below is more detailed information for the additional positions.

Personnel expenses make up 71.24% of the General Fund, 88.3% of the Police Sales Tax Fund, 90.2% of the Fire Sales Tax Fund and 62.7% of the total City budget, excluding capital outlay, debt service and operating transfers out. Also noteworthy, is the fact that public safety consumes 108% of all available sales tax. In essence, this means all other general fund services have to be paid for with other funding sources.

A. Operational and Administrative Departments Personnel

In an on-going effort to address our staffing challenges to serve our citizens, my budget proposes that as of October 1, 2018, the creation of 4 1/2 new full-time positions in the General Fund. The proposed new positions include:

- Parks and Recreation Department.
Two (2) new full-time positions. An Irrigation Technician to assist the Parks Department with the irrigation maintenance of the parks, which will include the new dog park and Rose District Phase V and an Events Assistant to help accommodate the increase in the number of events scheduled in the city.
- Legal Department.
A new full-time Assistant City Attorney. The current work-load of the department and organization necessitates this addition.
- Human Resources Department.

A new position of Organizational Recruiter. In order to implement our new model of hiring for values, enthusiasm, and experience, a dedicated staff member is needed.

- Municipal Court.

Funding for a part-time Court Marshall to provide security have been included in the proposed budget.

B. Police and Fire Departments Funds

In November 2015, Broken Arrow voters overwhelmingly approved perpetually repurposing a portion of the Vision 2025 sales tax to add 20 new police officers and 20 firefighters over a 5-year period. The City began receiving the repurposed sales tax in March 2017. Part and parcel to the repurposing the sales tax was the passage of City Council Ordinance 3360 that dedicates a certain percentage of current General Fund Revenues (\$58,904,600) to separate funds set up for police and fire. The percentages are 36.7% \$21,617,988 for police and 30.7% (\$18,083,712) for fire. Any balances remaining from annual expenditures must stay in the respective funds.

Thanks to two federal safer grants, all 20 new firefighters have been hired and started working. Five new police officers are included in the FY 2019 budget. This will bring the number of officers hired from the repurposed tax to 15.

C. Salary Increases

In terms of a salary increase, last year, non-union employees received a 2% general wage adjustment. Additionally, those that were eligible received a 2.5% salary step increase; provided they received a satisfactory performance review.

For FY 2019, we will implement the results of the recently completed Compensation and Classification study. The detailed study revealed that overall, the non-union pay structure slightly lags the market. Here are the highlights of how I plan to implement the recommendations:

- ✓ To remain competitive, adjustments to the pay structure and applicable positions will be made to more accurately reflect the market.
- ✓ HR will implement a move away from the traditional step plan and transition all non-union employees and their respective grades into salary ranges for each position.
- ✓ The next aspect of implementing the plan will be the employee's eligibility for a step-like adjustment for meeting performance expectations. The unions have steps and we want non-union employees to have something similar. So, as a result, if an employee meets expectations, on their anniversary date they will receive a 3% adjustment; provided funds are available.

- ✓ And finally, I have determined that we have sufficient growth and departmental budget savings and overall revenues to support a 2% salary adjustment.

Regarding our unionized employees (police and fire), any increase in wages and compensation will be agreed to vis-à-vis collective bargaining negotiations, which are currently underway.

3. FY 2019 Work Plan Highlights

Continuing to set long-term strategic goals is one of our most important responsibility we have as city leaders. In addition to the day-to-day operations, some of the most significant areas of focus include: communications and transparency, planning, economic development, public safety, infrastructure, and enhancements of current services. The following are some highlights for the upcoming Fiscal Year:

A. Communications and Transparency.

One of the most important responsibilities we have as city leaders is keeping our citizens informed of what is happening in City Hall and around the community. While we do a great job of transparency, we will undertake the following initiatives:

1. Annual Financial City-wide Newsletter and Annual Report – The Financial edition of our newsletter goes out around Labor Day and the Annual report is distributed in the first quarter of the calendar year. In this edition, we provides our citizens with a plethora of information on revenues, expenditures, comparison of tax rates, utility costs, and work plans.

2. New Communication Initiatives for FY 2019.

Last year, in order to keep our community informed, the Administration implemented the following new initiatives: a new monthly segment from the City Manager's Office with operational and community updates called "BA in Motion" and a spin-off of BA in Motion called "BA in Motion Take 5". We also increased the number of videos spotlighting the activities of the various city departments. Finally, we added the Next-Door App to our social media platform.

In FY 2019 we will add a highlight show spotlighting individual city council member and then delve into the realm of Instagram. These two initiatives will continue to provide our citizens with more information about their elected officials, public policy development, municipal operations, and community events.

B. Economic Development.

In my opinion, our most essential non-public safety and capital improvement functions is economic development (ED) administration

– recruitment, retention, and development opportunities. I like to say ED success provides the fuel the government engine needs that, in turn, delivers the critical services we provide the community on a daily basis.

I need to start by acknowledging our partnership with the Economic Development Corporation EDC. By way of two contracts, this entity leads our city-wide ED activities; all the while working very closely with our ED Coordinator, Norm Stephens. Who, by the way, also does an outstanding job for our organization! Through this model many exciting undertakings have and are happening in our community. Here are some highlights for FY 2019:

1. Rose District Improvements.

a. New/additional Retail and Commercial.

New businesses are opening each month. Plus, the City has two agreements in place with developers on the following projects:

1. Redevelopment of our property on North Main (Former Assembly of God Church). Last year, we entered into an agreement with Milestone/Cowan Construction to lease the property and build a 131,000 +/- SF multi-use project that will bring additional retail/commercial to our downtown and City; along with much needed new housing. Construction is scheduled to begin in the first quarter of FY 2019 and should take about 18 months to 2-years to complete. We will complete various infrastructure improvements around the site as part of our obligation.
2. Redevelopment of the Former Presbyterian Church on North Main. The developer has informed us that the former facility will be converted to a restaurant and office space (8,000 SF). The City has committed to assist the developer with upgrading of the water line and add on-street parking.

b. Downtown Public Improvements.

1. Phase V of the Downtown Streetscape Project will start in the early fall of 2018 and will include one-additional block of redevelopment. This public project is part of the Economic Development Agreement reached with Milestone/Cowan Construction in connection with their mixed-use project between Detroit and Elgin.
2. We will complete various road repairs throughout the downtown. Specific highlights include the repaving of Ash from Dallas St. to Detroit St. and 1st Street from Dallas St. to College St. Funds will come from 2011/2014 General Obligation Bonds and Vision Funds.
3. Complete various waterline upgrades and parking improvements in connection with the Former Presbyterian Church project.

c. Rose District/Downtown Residential.

In the fall of 2016, we embarked upon a public process to attract new and revitalized housing stock in the downtown area. The main goals are two-fold: (1) create new workable set of guidelines for development; and (2) increase the residential density to support the retail and commercial investments. The consulting firm of ADG was hired to assist the City with implementation of this comprehensive initiative.

In December 2017, the City Council approved the Downtown Residential Overlay District providing the guidelines the initiative needs to chaperon development. This initiative will certainly take time and a comprehensive effort, but in the next 10-years I believe we can anticipate that our downtown residential area will see a significant transformation.

Two points for Council's consideration: First, I believe we should use some of our available capital funds to incentive/stimulate downtown housing initiatives. I intend to present a plan for your consideration in the early part of FY 2019. Secondly, I have included in the proposed budget the use of \$197,190 remaining from the 1994 GOB Package for an initiative in the downtown area. The Council must formally approve the use of these funds. Several possible projects are current under consideration.

2. Proposed Innovation District

The City announced last year plans to proceed with the creation of the new District that will be a partnership between local government, education, and the private sector. The goal is to create a "hub" of innovation in our city that will attract high paying jobs to help sustain our economy. This is a long-term initiative that could take up to 10-years to complete.

This initiative dates back over 3 years and originated out of visioning sessions between the City, Chamber of Commerce, and EDC. The City has committed \$100,000 to hire a consulting firm to assist us in the technical assistance phase of this endeavor. Visioning, partnership-structure, and developing cost estimates for the district's infrastructure will be the consultant's priority. Once this phase is complete, I recommend that the City apply for grant fund from EDA. Submitting the grant will require a local match and that is why we have included \$6 million in the proposed 2018 GOB package for voter approval.

3. Redevelopment of New Orleans and Elm Place

As part of our efforts to promote development in the south part of our community, the Council awarded a contract to study and develop recommendations for revitalizing the shopping area at New

Orleans Elm. Public meetings will be held with recommendations available by the end of Fiscal Year.

- C. Vision 2025 Renewal - New Street Maintenance Program
The City is now collecting the repurposed Vision 2025 funds for street and road maintenance work. It is estimated that the tax will generate \$3.6 million annually. City Council accepted the Pavement Condition Index Report (PCI) in December 2016. Please recall that the report states that we will need around \$6.0 million annually to keep our PCI number above the optimal goal of 70.

This Fiscal Year our Streets and Stormwater Department will begin implementing a detailed work-plan for use of the funds. In short, I am recommending a plan that includes both internal work and contracts for services (primarily street maintenance and repairs) to maximize available funding. Let me explain.

Internally, approximately \$1 million would be used for: in-house work (i.e. materials for small paving projects, sidewalk & curb repairs, contract for road stripping, and traffic signal maintenance, etc.). The remaining \$2.6 million would be used to complete street maintenance, primarily in our neighborhoods. This will be done by awarding contracts to the private sector for both asphalt and concrete repairs & maintenance. I am endorsing, as part of this plan, that we issue revenue bonds in 5-year increments and use the dedicated funding source for debt-service payments. For example, using this approach and anticipating that \$2.6 million will be available each year, over a 5-year period we would have a total of \$13 million available for debt service. I am recommending we issue \$12,000,000 in revenue notes. The Streets and Stormwater Department would then have a worth-while funding source to implement our PCI Report. Moreover, this approach would allow our department to spend more time working on maintenance activities; especially stormwater work.

The final element is the \$25 million included in the 2018 GOB Package. Each year we issue bonds from this line-item, and we will add the bond funding to the account to continue implementing the PCI program. More information on the proposed plan will be provided to the budget session and first quarter of the fiscal year.

- D. Completion of the 2011 and 2014 General Obligation Bond Projects
We will continue working towards completion of the remaining voter approved projects in these two packages. We have \$11,385,000 left to sell from the 2014 package and will sell this amount in the fall of 2018. A few of the projects that will completed/started in FY 2019 include:

1. 9th Street (Lynn Lane) – The widening of 9th Street from 2 lanes to 5 lanes from El Paso Street to Elgin Street began in

April 2018. This work will continue through the end of the calendar year and may actually roll over to early 2019. A few of the private utility companies such as Oklahoma Natural Gas has been very slow to respond to the City and has caused a few delays. The cost of the roadway construction is around \$3.4 million.

2. 23rd Street (County Line Road) – The widening of 23rd Street from 2 lanes to 5 lanes from Kenosha Street to Houston Street including a new bridge over the Broken Arrow Expressway is in progress. This project has federal funds through the Surface Transportation Program (STP). This is an excellent opportunity for our community. The Program grants 75% federal funds with only a 25% local funds match. The only challenge is the entire design, environmental clearance procedure, and right of way acquisition processes must follow federal criteria as administered by the state. It adds a significant amount of time to an already long process. Right of way acquisition is nearing completion. We expect that utility relocation will begin in the summer and the actual construction of the bridge and road to begin spring 2019. This construction cost of this project including the bridge is on the order of \$12 million.
3. Washington Street (91st Street South) – The widening of Washington Street from 4 lanes to 5 lanes from Garnett Road to Olive Avenue (129th E. Ave.) including a pedestrian trail along the north side is expected to begin this upcoming year. The design is complete and the right of way is pending. We have applied for an STP grant, which will greatly help in the overall cost of the project that is on the order of \$5 million. However, if successful, the construction schedule will be greatly impacted due to the federal requirements and processes.
4. Florence Street (111th Street South) – The widening of Florence Street from Olive Avenue (129th E. Ave.) to Aspen Avenue (145th E. Ave.) from 2 lanes to 5 lanes along the east half mile and 3 lanes along the west half mile is expected to be in construction by spring 2019. The design is nearing completion and right of acquisition is in progress. Utility relocation is expected to begin the fall of 2018 with construction to follow shortly thereafter. The cost of construction is about \$3.6 million.
5. Arrow Acres and Arrow Springs Residential Streets – Both the design of Arrow Acres and Arrow Springs residential asphalt street rehabilitation projects are nearing completion. Construction is expected to begin late summer or early fall 2018. The cost of construction is about \$500,000.
6. Wolf Creek Residential Streets - The design of Wolf Creek Subdivision's concrete street rehabilitation project is nearing completion. Construction is expected to begin late fall 2018. The cost of construction is around \$1.8 million.

7. Adult Softball Complex – The design of the Adult Softball Complex and Miracle Field is in progress. It is expected to be completed late summer. Construction is anticipated to begin in early 2019. The project construction costs are around \$5 million. This complex is located at the Chisolm South Events Park.
8. Southwest Park – The City is scheduled to acquire land in the southwest quadrant of the city by the end of the calendar year. This acquisition will allow for us to design and construct a park along Florence Street near Aspen Creek Elementary School. This park will serve the entire southwestern portion of the community. Land acquisition is valued at \$2 million.

E. 2018 General Obligation Bond (GOB) Package

Work on the Package is in full swing! The City Council has set a date for the election (August 28th) and has approved the projects in the package. There are 90 projects totaling \$210,525,000 for voter consideration. The public education phase of the initiative will kick-off shortly after the 4th of July and run up until the special election.

F. Creation of Community Service Program

My goal continues to be the creation of a new program within our Court system to offer eligible individuals the option of community service. The program would be administered in our Municipal Court. Those that chose this opportunity will work with city departments (mainly Streets and Parks) and we will coordinate with private non-profits in the area. This plan includes attempting to work with Tulsa and Wagoner County Sheriff Departments. There may be trustees that could help with our beautification and clean-up efforts.

G. Center for the Creative Arts

The City has committed approximately \$4 million from both GOB and surplus Vision 2025 funds for this important initiative. To-date, about \$300,000 has been encumbered for architectural services.

The Arts OK Group is currently working on the development of cost estimates for Phase I and II. Notwithstanding, and after much consideration, it has been decided that we will not go forward with Phase II of the project in the 2018 GOB package. Instead, we will continue to work with Arts OK as they endeavor to secure operational funding. I believe that we should allow Arts OK most of FY 2019 to try and secure the on-going funding needed to operate Phase I. If such on-going funds are secured, I recommend that we go out to public bid for the first phase only. If the required operational funding cannot be secured, Council will need to provide direction on use of the Vision Funds and what to do with the GOB

authorization for the project. Tulsa County Vision Authority routinely asks for updates on when we plan to spend our remaining surplus vision funds.

H. Technology

There are two (2) major initiatives underway that will dominate FY 2019 and they include:

a. Enterprise Resource Planning (ERP) Project.

The ERP is underway, with the goal to replace the early 90s legacy financial software system that has been updated several times, but is definitely well beyond its useful life. Bids specification should be completed by the end of 2018. The acquisition and implementation of new software modules will be transforming for our organization. It is estimated the complete package will cost around \$6 million. We have included \$4 million in the proposed GOB package. The remaining funds will come from utility revenue and 911 funding. Once a contract is awarded, completion of the project will take 3 – 4 years.

b. Project Manager Software.

A comprehensive management report is needed to track GOB, BAMA, and STCI projects. Right now status of projects and funding is completely decentralized. This must change as we literally have hundreds of projects that transcend multiple years. A contract for consulting services has been awarded to analyze how we do business and make recommendations on a specifications for a software package. I would anticipate this enterprise will take approximately 18 months to fully implement.

I. Organizational Planning.

During the upcoming FY, we will complete our Comprehensive Master Plan update and an update to our Parks and Recreation Master Plan. These two very important documents will help guide our future for the next decade or longer. Currently the public education and input phases are underway.

II. Broken Arrow Municipal Authority (BAMA)

1. Revenue and Expenditures

The total available revenues from all sources for the Broken Arrow Municipal Authority is \$105,462,110. Total proposed expenditures, including transfers is \$105,115,361. The proposed BAMA budget is \$10,770,561 or 11.42% more than Fiscal Year 2017-18.

2. Budget and Work Plan Highlights

A. Utility Rates

In the fall of 2016, the City Council approved the outline of a 5-year rate model for BAMA and the related increases for utility services. The rate model covers the reasonable estimated expenses for operations and pay-as-you-go capital improvements. It also covers the debt-service needed to fund \$90 million of our \$140 million capital improvement plan approved in 2016. The second year of the model has been approved and the Council will consider the Year 3 increase in October to be effective in November. As part of this process Council amended its policy regarding Emergency Reserve Fund Balance.

BAMA's previous financial policy related to maintaining reserves is set forth in Resolution No. 555 and states that BAMA will maintain an Emergency Reserve fund balance equal to six months of water and wastewater operating and maintenance expense and four months of stormwater operating and maintenance expense. BAMA determined that an Emergency Reserve fund balance of 90 days, on a combined utility basis, would be sufficient and align with industry best practices.

B. Remaining Capital Projects: Bonds vs. Rates.

In the fall of 2016, the notion of going to the voters for a GOB for the remaining \$50 million for projects was discussed. The goal was to determine the most financially viable way of come up with the funding needed for the necessary work.

In a series of meetings with our Financial Advisors, we have determined that it is a more cost-effective way to proceed by adjusting rates to provide debt service. Currently our property tax mil levy is 16.84 and is needed for repayment of debt service for GOBs. This includes debt service and judgments. I have Mr. Schwab and our consultant, Black and Veatch studying our current rate model to determine what additional adjustments will be necessary in the rates to accommodate debt-service for the funds to complete the projects. The administration will present the findings later this summer.

C. Capital Improvement Projects

I have included \$3.91 million in the budget for "pay as you go" capital projects. Several of the highlights of "pay as you go" include:

- Utilities vehicles and equipment \$823,000
- 2 Refuse Trucks \$325,000
- County Line trunk Sewer Odor Control Equipment \$235,000
- Water Line on Jasper, Gardenia to Olive \$200,000

I am also recommending we seek approval of \$25 million in Water Resources loans for several projects in the approved long-term capital plan. These projects are noted on Attachment A.

D. Recycling

The Authority has approved the implementation of two pilot programs for curbside recycling

In December 2017, the Authority approved a recommendation from the Citizens Recycle Committee to implement two pilot programs for curbside recycling. Both pilots would last for approximately four months and include 500 residents for each pilot, with one pilot using both a garbage cart and a recycling cart and the other using only a recycling cart.

Estimated costs for both pilots was \$300,000. Funding was included in the FY 2018 budget and those funds will be carried over into the FY 2019 budget.

Implementation steps are ongoing. It is anticipated that the two pilot programs will be initiated in January 2019 and be completed in May 2019.

3. BAMA Personnel

Currently there are 248 employees in our BAMA departments. As part of the approval of the 5-year rate model, the Authority approved approximately 34 new positions for BAMA departments. The third year positions total 4 and include:

1. Utility Department – New Assistant Department Director.
2. Engineering and Construction Department – 2 Project Engineers.
3. Wastewater Plant – 1 new plant operator.

In terms of salary increases I am recommending we mirror what is planned for the General Fund vis-à-vis the implementation of the compensation and class study.

4. BAMA Work Plan Highlights

We will continue to work on the water and wastewater infrastructure as depicted in our 5-year Capital Improvements Plan. A few of the projects that will be completed/started in FY 2019 include:

A. Water System Improvements

1. Pretreatment Basin Expansion – The design to expand the pretreatment basin at the Water Treatment Plant from 4 plate settlers to 8 plate settlers is complete and at the state for review. We expect to obtain the Permit to Construct this summer and secure the necessary construction funds in the fall. The construction should begin early next calendar year. This project improves our overall treatment control and capacity. It will expand the plant capacity from 20 million gallons a day (MGD) to 30 MGD. The cost of construction is on the order of \$8 million.
2. Copper Sulfate Feed System – The design of the copper sulfate feed system is complete and the review from the state is complete. A Permit to Construct has been issued and the project will be advertised for bids summer 2018 and begin construction fall 2018. This improvement will provide greater raw water quality control at

the pretreatment basin and aide in the protection of the membranes. The cost of construction is around \$200,000.

3. Tiger Hill Water Storage Tank Restoration – The City of Broken Arrow has 10 million gallons of storage in the low pressure plane which serves about 85% of the community. Four (4) million gallons is stored in the facilities on Tiger Hill. The oldest tank was commissioned for use in 1962, whereas the remaining two tanks were commissioned for use in 1976 and 1979 respectively. We are currently in the process of restoring and rehabilitating these tanks. The restoration of the first tank will begin this fall after the peak use of summer declines. The cost to restore the first tank is about \$800,000.

B. Wastewater System Improvements

1. County Line Trunk Sewer Replacement – The County Trunk Sewer was constructed in 1984. It extends from Washington Street (91st Street South) south to the Lynn Lane Wastewater Treatment facility. It serves the north and eastern part of the community and transports untreated wastewater to the treatment plant near the Arkansas River. The system consists of large diameter concrete pipe that is nearing the end of its functional life. This project will be separated into phases and will begin at the downstream portions first. The City of Broken Arrow has entered into a Consent Order with the state to address this stretch of sewer line. The design is complete and right of way acquisition is in process. We anticipate submittal to the state and security of a loan this fall. Construction is expected to begin early 2019. The cost of construction for the first phase, which runs from the plant to the Creek Turnpike, is on the order of \$12,500,000.
2. Haikey Creek Plant Grit Facility Upgrade – The Broken Arrow Municipal Authority jointly owns the Haikey Creek Wastewater Treatment Facility with the Tulsa Metropolitan Utility Authority (City of Tulsa). This plant was constructed in 1972. Over the past several years the two entities have been involved in a major overall and upgrade of several facilities and processes at the plant. A few of the projects include: construction of a new Haikey Creek lift station, revamping an existing Flow Equalization basin (FEB), constructing a new FEB, and installing a parallel force main from Haikey Creek lift station to the plant. This year the existing grit facility will be revamped and upgraded. The plans are complete and the project is at the state under review. It should be advertised in late summer with an early fall construction. The cost of construction is about \$3 million with half of it the responsibility of the Authority.

III. Sales Tax Capital Improvement Fund

The Sales Tax Capital Improvement (STCI) Fund was established in 1970 and is .5% of the 3.55% municipal sales tax. The fund pays for a variety of public improvements including vehicles, police units, fire trucks, ambulances, construction equipment, computer equipment, building improvements, road maintenance and park improvements. Historically throughout the fiscal year

it is accessed for unanticipated capital expenditures that require immediate attention. A substantial fund balance is maintained to ensure funding is available for emergency capital expenditures.

Revenue for FY 2018-19 is estimated at \$7,888,300. The beginning fund balance is \$8,317,790, of which \$900,000 is reserved for Debt Service.

Some of the proposed capital projects that total \$8,527,500 include the following projects and programs:

- Street and Stormwater new and replacement equipment \$830,000
- Police Vehicles \$650,000
- Fire Engine and other vehicles \$630,000
- Comprehensive Plan Update Completion \$251,000
- Traffic Signal at Hillside Drive and 23rd Street \$275,000
- Storm Siren and Radio Upgrades \$200,000
- Debt service to pay for the Bass Pro Building is \$1,995,000.

Total expenditures are projected to be \$10,522,500 and the ending fund balance is projected to decline to \$5,683,590.

IV. Broken Arrow Economic Development Authority

The Broken Arrow Economic Development Authority was created to encourage development of industry, retail and commerce, as well as and other related activities on behalf of the City. The contract for ED services expires on June 30, 2018 and the one for downtown redevelopment services expires on April 30, 2019. Both will have to be renegotiated.

There is presently no general-purpose funding source for BAEDA. As a result, expenditures are ultimately funded through the General Fund, BAMA or the Sales Tax Capital Improvement Fund.

The sole direct revenue source for BAEDA is revenue generated from the Downtown Tax Increment Financing District. Those revenues are restricted to fund the debt service within the TIF and repayment of TIF expenditures.

For Fiscal Year 2019 transfers from General Fund and BAMA are \$1,200,000. These transfers pay for contractual agreements with the Economic Development Corporation, economic development programs managed by the Tulsa Metro Chamber and economic development incentives.

VIII. FY 2019 Priorities:

- Implement Recycling Committee's recommendations for two (2) curb-side recycling program.
- Implement public education phase associated with the 2018 General Bond Obligation Package. Vote set for August 28th.

- Seek approval and implement new Street and Stormwater Department Neighborhood Street Maintenance Program.
- Complete the Comprehensive Master Plan update.
- Complete the Parks and Recreation Master Plan update.
- Continue completing approved GOB package projects, implementing our long-term BAMA capital improvement program, and approved the 3rd year of a multi-year rate model for BAMA.
- Assist Milestone and Soundmind Memory Hospital with their development projects. Also, complete Nashville Street in connection with the Alfa Laval plant expansion.
- Finalize a decision on the Creative Arts Center – Phase I. Assist Arts OK with securing operational funding for the Creative Arts Center.
- Complete the expansion of our Veteran's Memorial Park and improvements in our new Memorial Park for First Responders and Bever family victims
- Work with local and state officials to implement a better taxation funding model for revenues to pay for municipal operations.
- Implement best practice recommendations for Finance, Street & Stormwater, and Utility Departments.

Conclusion

This year's budget document is the product of many hours of hard work by the entire City's Leadership Team and staff. It represents a sound financial plan that provides the resources needed to maintain a high level of public services to our citizens and the funds required to reinvest in our infrastructure.

The Department Directors and their staffs prepared their individual budgets. Staff members from our Finance Department contributed many hours to prepare the Budget. Special recognition goes to Tom Cook, Robin Tai, and Alicia Glanz for their many hours of commitment and dedication to this budget. This teamwork has produced a budget that embodies the City Council's commitment to financial discipline at all levels of the organization. I am looking forward to getting our new Finance Director up-to-speed as soon as practicable on the budget.

The team work demonstrated in preparing this budget is an outstanding example of how the City employees are working to serve the best interests of the City of Broken Arrow. We look forward to discussing the proposed plan with the governing body.

Respectfully Submitted,



Michael L. Spurgeon
City Manager

cc: Russell Gale, Assistant City Manager – Administration
Kenny Schwab, Assistant City Manager – Operations
Cindy Arnold, Finance Director

FY 2019 CM Budget Message - Attachment A

FY19 OWRB Loan Projects Request

| Projects | Cost |
|---|-------------------|
| Water Treatment Plant - Plate Settlers Expansion | 5,700,000 |
| Secondary Tulsa Water Connection - Land Acquisition | 400,000 |
| 4MG Restoration - Phase 2 Tiger Hill Design | 60,000 |
| Total Water | 6,160,000 |
| | |
| Lynn Lane Plant - Rehab of West Clarifier/Digestors | 3,800,000 |
| Lynn Lane Plant - Disinfection System - Design | 300,000 |
| Lynn Lane Trunk Sewer Replacement | 6,300,000 |
| County Line Trunk Sewer Replacement | 8,000,000 |
| Elm Creek Trunk Sewer Replacement | 600,000 |
| Total Sewer | 19,000,000 |
| | |
| Total Loan | 25,160,000 |