



April 30, 2019

Honorable Mayor and City Council:

It is my honor to submit to the City Council the operating and capital improvement budgets, along with the outline of our work plans and priorities for Fiscal Year 2020 (July 1, 2019 to June 30, 2020). My annual budget message will serve as a comprehensive summary to the proposed municipal spending plan.

The bold agenda for next year incorporates the recommendations that I received from all department directors, with input from the governing body, and in my opinion reflects our continued commitment of providing our community with outstanding public services and amenities, while conserving our long-term financial sustainability. Our ultimate goal is to ensure that we remain committed to keeping BA a safe and desirable place to live, work, and visit.

The City Council and Broken Arrow Municipal Authority (BAMA) and the Broken Arrow Economic Development Authority (BAEDA) are scheduled to review the proposed budget at a special meeting on May 9, 2019. Correspondingly, a public hearing is scheduled for the regular meeting on June 3, 2019, with adoption of the Budget planned for June 17, 2019.

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

Budget Overview

With regard to the budget, my number #1 priority is always fiscal balance and financial discipline. Our budget now has a total of 29 (we added a technology fee fund for court and the 2018 General Obligation (GO) Bond fund this Fiscal Year) different funds. Included in the FY 2020 Budget Book is a breakdown on proposed expenditures and fund balances where applicable. Please allow me to reiterate that three years ago, we increased the number of funds by three by adding the following Special Revenue Funds:

- Street Sales Tax (Fund 043);
- Police Sales Tax (Fund 044); and
- Fire Sales Tax (Fund 045).

These funds were created pursuant to the passage of the Vision Renewal tax approved by voters on November 10, 2015. Approval 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 Public Safety (Police and Fire Departments) have been removed from the General Fund and incorporated within the afore-mentioned funds. The breakdown of all our remaining funds include:

- The General Fund.
- 3 Enterprise Funds (Broken Arrow Municipal Authority, Broken Arrow Economic Development Authority and Battle Creek Golf Course).
- 6 Capital Improvement Funds (the Sales Tax Capital Improvement Fund and the General Obligation Issue Funds of 1994, 2008, 2011, 2014 and 2018).
- The Debt Service Fund.
- 2 Internal Services Funds (Employee Group Health Care and Workers Compensation).
- 16 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 renewal 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. Please note that I am recommending that we increase our Reserve Fund Balance policy from 10% to 15%. It should be noted that the Best Practices Report by Crawford and Associates recommended, "It is more desirable to have a reserve closer to 30% of operating revenues." If Council agrees, a resolution will be presented for your consideration on June 17, 2019.

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, stormwater 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. As of June 30, 2019 and 2020, I anticipate that we will exceed our target fund balance of 90 days.

Budget Considerations and Concerns

The good news is that revenues have come in strong this fiscal year, and expenses are anticipated to come in below budget for FY 2019. Contributing factors are mindful spending and staff vacancies. These two factors set us up for a positive FY 2020.

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

Without question, it is immensely challenging for us to precisely estimate revenues in such an unpredictable system. Because our state continues to use this antiquated business model, we spend an excessive amount of time chasing sales tax type businesses in order to give our citizens more opportunities to shop local to maintain and grow our tax base.

When sales tax and other revenues that fluctuate under-perform, this leads to potential 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, two years ago the State of Oklahoma entered into a compact with Amazon where it will remit use tax for purchases made on their internet site. Likewise, last year's Supreme Court decision involving the State of South Dakota on internet sales has helped with collections. However, we still don't have an entirely level playing field with all internet sales and this hurts our "brick and mortar" businesses. As a result, 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. I will point out that 2020 is a Presidential election year, and we could see the economy slow during the second half of the FY. Accordingly, we will watch our revenues closely and hopefully will not have to make any mid-year adjustments.

In the fall of 2018, we had a rating call with Moody's Investor's Service in connection with issuance of voter approved General Obligation Bonds (GOBs). In summary, Moody's maintained the City's rating with an Aa3 credit rating. The summary of the credit opinion said:

Credit Strengths - Stayed the same as last time we had a rating call.

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

Credit Challenges - Stayed the same as last time we had a rating call.

- While we are meeting our policies for General Fund and BAMA for reserves, the rating agency believes that we have below average reserves and liquidity. We hope to address this comment by increasing the General Fund reserves 10-15%.
- 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 fourth municipal budget in Broken Arrow, I believe our two main challenges include: (1) the long-term cost of funding our public safety operations (police and fire departments) and (2) implementing a sustainable operating plan for the utility department in BAMA. Both of these challenges require consideration and effort so we can maintain both outstanding public safety and public utility services.

With regard to public safety, each department currently receives a dedicated portion (Police 36.7% and Fire 30.7% respectively) of all available general fund operating revenues. Moreover, based on current expenses public safety consumes all available operational sales tax and 18% of all other general fund revenues. Based on the anticipated cost of collective bargaining, we will eventually need to find another dedicated funding

source for public safety or alter current operational priorities. Without question, I will continue to work diligently to find funding for our number one priority. Noteworthy is the fact that the concept of a public safety district has been debated in the Oklahoma State Legislature for three years. 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. We are assured that the Bill will receive a fair hearing in 2020 and could make it to the Governor's desk. If it does become law, 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.

Concerning the utility department, we are currently implementing a five-year rate model and long-term capital reinvestment plan. FY 2020 will be year four of the current model. The Administration is already gathering data to finalize and present a recommendation on the next five-year model (2021 – 2025). I am pleased to say that we are meeting the Authority's policy direction for department reserves. 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 the transfer to the general fund closely.

Despite these legitimate concerns, there continue to be a number of encouraging signs at the national, state, and local levels. Nationally, healthy gains in the stock market indicate the recovery is behind us to a certain extent. Locally, we continue to anticipate good numbers for new home sales, modest improvements in job growth, and noticeable improved growth in a number of industry sectors throughout the state. More specifically, we are estimating that there will be approximately 425 new single-family housing starts in both 2019 and 2020. This figure has been revised downward slightly to reflect actual starts in the last two fiscal years. Plus, growth in our retail and commercial sectors is expected to trend upward with the completion of the Milestone mixed-use project in the Rose District and with the upcoming sale of the Tiger Hill parcel located at the intersection of Lynn Lane and Kenosha. Equally, we continue to aggressively focus on job retention and recruitment in our manufacturing and high-tech sectors. Our newly created Business Retention and Expansion (BR&E) Program should help our efforts. There is additional information on our BR&E later in my message. All this translates into more jobs and opportunities to shop local in our community.

Proposed FY 2020 Municipal Budget

The proposed Municipal Budget includes planned expenditures of \$307,646,172, an increase of \$53,529,978 or 21% over the Fiscal Year 2018-19 originally budgeted expenditures of \$254,116,194. As noted below and on the following page, this includes:

Operational Expenses -\$119,779,255; an increase of \$8,975,153 or 8%

Capital Outlay- \$156,593,904; an increase of \$42,200,412 or 37%

Debt Service- \$31,273,013; an increase of \$2,354,412 or .9%

The increase in Capital Outlay is primarily due to the first two sales of the 2018 Bond Package and the loans from OWRB. With the addition of this debt, the debt service also will increase.

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 three-year period.

The total proposed budget for the General Fund, which includes expenditures, transfers out and budgeted ending Reserved and Unreserved Fund balances is \$95,043,520.

Proposed expenditures, including transfers, is \$79,028,724, an increase of \$4,937,267 or 7% over the FY 2019 Budget. I continue to point out that, in addition to the new Vision Renewal tax passed in November 2015, the Council adopted an ordinance dedicating at least 36.7% and 30.7% of General Fund revenues to the Vision Renewal Tax Funds respectively.

With regards to General Fund operating revenues, we did realize an overall increase over the FY 2019 Budget. While sales tax collections are projected to increase 2% over FY 2019 collections, the Finance Department estimates that overall revenues for the upcoming year will increase 6% or \$3,504,900 over last year budgeted amounts or \$1,630,405 or 3% over estimated year end.

In terms of estimating future revenue growth, the Finance Department utilizes historical data. The proposed FY 2020 Budget includes sales and use tax growth at 2.00%. Other revenue was based on a historical trend for each revenue line item because of the volatility of each source.

Based on the above-referenced action items and other steps taken throughout Fiscal Year 2019, the City anticipates the Emergency Reserve Fund Balance will meet the required balance.

2. General Fund - Personnel Considerations

Currently in FY 2019, the City has 816 full-time employees City-wide. In our Governmental Funds, we have 564.

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. Total new positions for the City will be 19 full-time and 4 part-time for a total of 942 employees for Fiscal Year 2020. The

breakdown on total employees is: 836 full-time, 18 part-time and 88 seasonal. Below is more detailed information for the additional positions.

Personnel expenses make up 70% of the General Fund expenditures, 90% of the Police Sales Tax Fund, 92% of the Fire Sales Tax Fund and 63% of the total City budget, excluding capital outlay, debt service and operating transfers out. Also noteworthy, is the fact that public safety consumes 118% 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 as of July 1, 2019 the creation of 3 new full-time positions in the General Fund. The proposed new positions include:

- Parks and Recreation Department.
1 Forestry Crew Leader
1 Park Maintenance Worker
- Street and Stormwater Department.
Truck Driver

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 five-year period. The City began receiving the repurposed sales tax in March 2017. Part and parcel to repurposing the sales tax was the passage of City Council Ordinance 3360 that dedicates a certain percentage of current General Fund Revenues of \$62,509,500 to separate funds set up for police and fire. The percentages are 36.7% (\$22,940,986) for police and 30.7% (\$19,190,417) for fire. Any balances remaining from annual expenditures must stay in the respective funds.

Thanks to securing two federal SAFER grants in previous fiscal years, all 20 new firefighters have been hired and are working. The final five new police officers (of the 20 authorized from the repurposed Vision Tax) have been included in the FY 2020 budget. This will bring the number of officers hired from the repurposed tax to 20. Actually, Council approval of the proposed budget will bring the total number of new positions to 25, as five new positions were included in the FY 2016 budget.

I would also like to point out that during the year we have a certain number of police officers retire. We would like to remain as close to 100% strength as possible. Therefore, I will be working with Chief Brandon Berryhill and Finance Director Cindy Arnold on developing a

plan to anticipate departure and ensure future recruit academies take this into account.

C. Employee Salary Increases

In terms of a salary increase, this current FY, non-union employees received a 2% general wage adjustment on July 1, 2018 and then a mid-year adjustment of 2% on January 1, 2019. Additionally, those who were eligible received a 3% wage adjustment within their respective salary range, provided they received a satisfactory performance review.

In this FY, the Administration implemented the results of the Compensation and Classification study. The detailed study revealed that overall, the non-union pay structure slightly lags the market. Here is a recap of how I implemented the recommendations:

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

For FY 2020, I am recommending a 2.5% wage adjustment for non-union employees. 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 2020 Work Plan Highlights & Priorities

Continuing to set a long-term strategic vision for the City is one of our most important responsibilities we have as city leaders. Keeping it simple and straight-forward, I am constantly asking myself “where do we want our community to be and how do we get there”? Setting the vision and then implementing the steps and measures necessary to get there will always be my focus.

In addition to the day-to-day operations, some of the most significant areas of focus include: communications and transparency, economic development administration, public safety, public infrastructure, and enhancements of current services. The proposed work plan continues the implementation of the

priorities we have been discussing over the last couple of years. The following are some of the exciting highlights planned for the upcoming Fiscal Year:

A. Communications and Transparency.

Again, one of the most important responsibilities we have as city leaders is keeping our citizens informed of what is happening at City Hall and around the community. While we do a great job of being transparent, there are always ways to improve and provide even more transparency. As such, we will undertake the following initiatives:

1. Continue the distribution of our Annual Financial City-wide Newsletter and Annual Report.

The Financial edition of our newsletter, *Thrive, Your Money at Work*, goes out around Labor Day, and the Annual report is distributed in the first quarter of the calendar year. In these editions, we provide our citizens with a plethora of information on revenues, expenditures, comparison of tax rates, utility costs, and work plans.

We will continue producing City Council Highlights and the Broken Arrow in Motion monthly update videos. Last year, in order to keep our community informed, the Administration implemented 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 and then delved into the realm of Instagram. Finally, around mid-year I converted an open position in the Streets and Stormwater Department into a communications/media specialist to provide more transparency on departmental activities. This has been very helpful to inform the community on operations and projects in the department.

2. New Communication Initiatives for FY 2020.

In FY 2020 we will add five new initiatives:

- a. We will finally implement a highlight show spotlighting individual City Council members;
- b. I am currently in what I would call “semi-test” mode on a City Manager’s report segment. This would be in addition to City Council Highlights for each meeting. This approximately 10 – 15 minute video segment will provide a deeper dive on many of the operational, organizational, and community topics happening now.
- c. We will implement a new video segment associated with our Business Retention and Expansion (BR&E) Program. The

new BR&E segment will showcase existing business and industry within our City. The new show will be called Broken Arrow in Motion – **BAmazed!** We're doing some beta testing now and will begin promotional segments this summer.

- d. The position in the Streets and Stormwater Department that was converted to a communications/administrative position will be moved to the Operations Building with the position's responsibilities upgraded to working with Krista Flasch's team, covering the operations division departments (Streets, Engineering, Parks, Utilities, and Development Services); and
- e. The Finance Department will be adding what is called a "Perfometer". The City recently engaged Crawford & Associates to prepare the Perfometer Financial Health and Success Report starting with the last five years of data. This report will communicate the financial health and performance of the government as a whole over a period of years in a manner that is understandable with a scale of 1-10, with 10 being excellent and 1 being poor financial health. We anticipate that the first report will be completed in early fall and will be issued on a yearly basis as soon as the annual audit is completed. Moving forward it is anticipated that it will be published early spring of each year.

The objective of these five 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 Administration.

In my opinion, one of our most indispensable non-public safety and capital improvement functions is economic development (ED) administration. I like to say ED success provides the fuel the government engine needs, in turn, delivering the critical services we provide the community on a daily basis. The most important facets of ED administration include: (1) job recruitment; (2) job retention; (3) community engagement; (4) marketing and promotions, and (5) development opportunities (new and existing). Our biggest challenge and opportunity is trying to increase the daytime population of our community to support local businesses.

Economic Development Manager Norm Stephens heads up our organizational ED Administration efforts. We also have a contract with the Economic Development Corporation (EDC) that focuses primarily on recruitment and business development with our larger industries. We are excited that Darla Heller joined the EDC earlier this year as the Senior Vice-President of ED. She has a wealth of knowledge and experience in all facets of ED administration, and we believe she will

help our overall program immensely! Our new Chamber CEO should be on board in July, which will round out our economic development team!

Again, our main focus of economic administration is job creation and job growth, marketing and promotions, and working to bring more opportunities to our community to shop local. Some of the larger operational initiatives for FY 2020 include:

1. Implementation of our new Business and Retention Expansion/Engagement Program.

We are in the process of launching our new Business Retention and Expansion program (BR&E). The new initiative will combine Tourism and ED for an effective and robust operational team. As a part of this initiative, we have moved the Tourism Office (and BR&E Program) to the Rose District. We could stay in the current location (by way of rent) or look at other options.

The goals will be a multi-faceted economic development effort to engage with existing businesses. Face-to-face interactions with businesses, marketing and communications will play an important role in achieving success. Goals, objectives and measures of success are being developed by our ED Team for implementation.

2. Redevelopment of New Orleans and Elm Place – Small Area Plan.

Last year, 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 areas at the New Orleans and Elm intersection. A public meeting to reveal the consultant's recommendations will be held in late May. Once the recommendations have been presented to the public and feedback received, the report will be presented to the Council for consideration and future implementation. Funds for some public infrastructure improvements were approved in proposition #1 of the GOB package. To-date, only \$600,000 has been sold, which is for intersection improvements. Currently, there is \$1.1 million available for road work at the intersection. There is also approximately \$2 million available for infrastructure improvements for the area. However, these bonds have not been sold yet.

3. Continue to promote development in the Shops at Aspen Creek and South Broken Arrow.

Despite a significant public investment in our infrastructure and the offering of incentives, development in the south part of our city has been slow. Notwithstanding, the City will continue working with the developer/owner of the Shops at Aspen Creek on business recruitment for the development.

Likewise, a top priority currently will be to recruit a new grocery store and potentially additional retail/commercial for the southern part of our City. Part of our efforts will be to heavily market city-owned property near the Creek Turnpike and Aspen Ave.

We also continue to be optimistic that the Soundmind Memory Hospital project will move forward later this year. If the developer can secure an operator for the facility, the new hospital will add approximately 240 new jobs that will help our economy and increasing daytime traffic in the area. This facility could also increase the possibility of additional health care services and office space in the area and the possibility of a hotel.

4. Creek 51 Development and implementation of a Tax Incremental Financing (TIF) District for the Project.

We are currently working with a developer who owns a tract of land off Highway 51 along the Creek Turnpike. The developer desires to build a business park for manufacturing and related industry. I plan to recommend to the governing body the creation of a TIF District for the project. Working with Broken Arrow Public School officials (and other taxing entities), we will develop a plan that will help facilitate the development. What is palatable about this project is that the developer takes all the risks and only benefits if development builds out.

5. Rose District and Surrounding Areas.

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 that are currently under construction:

i. Completion of the redevelopment of our property on North Main (Former Assembly of God Church). We have a lease with Milestone/Cowen Construction to build a 131,000 +/- SF multi-use project that will bring additional retail/commercial to our downtown, along with much needed new housing. Construction is scheduled to be completed before the end of the 2020 FY. We will complete various public infrastructure improvements around the site as part of our obligation, to include Streetscape V and road maintenance. The streetscape project (between Detroit and Elgin) is an approximate \$1.6 million public investment paid for from our Vision 2025 surplus funds. Work on Phase V should begin by the end of 2019.

ii.. Completion of the redevelopment of the former Presbyterian Church on North Main. The developer is

currently converting the former facility to a restaurant and approximately 8,000 SF of office space. The City has completed the agreed upon waterline upgrade and is currently finishing the additional on-street parking on Ash and Elgin Streets.

- b. We need to close on the Tiger Hill land sale and work with the soon-to-be owner on the proposed commercial development of the property. We currently have a contract and construction has begun on improvements to Tiger Hill Wall.
- c. We need to seriously look at determining how we can invest in a downtown business incubator being developed. Business incubators are organizations that offer startups shared operation space. In doing so, entrepreneurs enjoy a collaborative work environment with invaluable mentoring and networking opportunities, funding support and shared equipment. In short, they offer fledgling companies a warm, safe place to grow and prosper. Doing so could put more people downtown, increasing daytime traffic for our Rose District and city.
- d. 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 a new workable set of guidelines for development; and (2) increase the residential density to support the retail and commercial investments. 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: I continue to believe we should use some available capital funds to incentivize/stimulate downtown housing initiatives. The proceeds from the sale of the Tiger Hill property could provide some funding for the initiative. Funds from a land sale in the district should be used in the district. I plan to work on this in the upcoming FY.

6. Proposed Innovation District.

The City has announced its intentions to proceed with the creation of the new Innovation District that will be a partnership between local government, education, and the private sector. The goal continues to be the creation of 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 five years and originated out of visioning sessions between the City, Chamber of Commerce, and EDC. In this FY, the City committed \$100,000 and hired a consulting firm to assist us in the technical assistance phase of this endeavor. Unfortunately, the initiative has hit a snag, as NSU will not donate the land to us for the district as originally expected. This decision will require the City to identify other possible sites for the visioning, partnership-structure, and developing cost estimates for the district's infrastructure. The EDC has formed a committee to help the Administration and consultant.

The good news is voters approved approximately \$10 million in the 2018 GOB package for the proposed district. We will be able to use these funds for public infrastructure and possibly as a local match for an Economic Development Administration (EDA) grant.

C. Capital Improvement Highlights for FY 2020:

1. 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 \$3.78 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.

Each Fiscal Year our Streets and Stormwater Department will implement a detailed work plan for use of the funds. As recommended by staff, **Attachment A** details my proposed use of funds for street maintenance and repairs for FY 2020.

The final element of our street maintenance plan is the use of funds from the 2018 GOB package – Proposition #1. In said package is \$25 million. Each year we issue bonds from this line-item, and we will add the bond funding to the account to continue implementing the Street Maintenance Program that is based upon the PCI Report. This year, I am recommending the sale of just over \$2 million for road work.

2. Downtown Public Improvements.

The recommendation is to complete various road repairs throughout the downtown. Specific highlights include the repaving of 1st Street from Dallas St. to College St., which should

start in June and road work around the Milestone Project. Likewise we will complete Phase I of the street improvements on Detroit from Lynn Lane to 4th Street. Phase II will be completed in FY 2021 and will be from 4th Street to 1st Street. Funds for this work will come from 2011/2014 General Obligation Bonds, Community Development Block Grant (CDBG) and Vision Funds.

Finally, \$600,000 has been allocated from the first 2018 GOB package sale and will be used for various improvements in the downtown to include: drainage improvements around Commercial Street, the reconstruction of several business alleys on the west side of Main Street, and sidewalk work. We are always reviewing options for additional parking in the downtown business areas as well, especially around the Milestone project.

3. 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.
 - a. 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 and should be completed around Labor Day.
 - b. 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. The right of way has been acquired and utility relocations could begin before the end of 2019. This project has federal funds through the Surface Transportation Program (STP). This project should be out to bid by the end of the upcoming FY. Because bridge construction is part of the project, it is estimated that all work will take 15 – 18 months to complete.
 - c. Washington Street (91st Street South) – The widening of Washington Street from 3 lanes to 5 lanes from Garnett Road to Olive Avenue (129th E. Ave.) including a pedestrian trail along the north side is now under construction and will take one year to complete.
 - d. 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 the spring of 2020. When this project actually starts is a matter of timing. The current plan calls for the work to begin

around the time the Washington project wraps up. We want to be careful about traffic issues from having major east/west roads under construction.

- e. Other projects that we will be moving forward with in FY 2020 include:
 - i. Kenosha – Date Street to Main road widening utility relocation phase.
 - ii. New Orleans – Widen 3 lanes: Aspen to Olive.
 - iii. Reconstruction of the intersection of Aspen and Washington.
 - iv. Washington road-widening from Olive to Aspen.
 - v. Installation of sidewalks on New Orleans (both sides) from Aspen to Town Center Shopping Center. Connectivity project.
 - vi. Design of Houston – Lynn Lane to Hwy 51.
 - vii. Design of County Line Road widening and bridge project from Omaha to Albany.
 - viii. Widening of Albany – Lynn Lane to County Line Road.
 - ix. Finalize land acquisition and begin construction of our Senior Citizens Annex and new Armed Forces Facility.
 - x. New bike trail for connectivity on 1st Place from Washington to New Orleans.
 - xi. Complete foundation repairs to Fire Station #2.
- f. Adult Softball Complex – The design of the Adult Softball Complex and Miracle Field is complete, and the project went out to bid in April. Work should begin in July. The project construction costs are \$6 plus million. This complex is located at our Events Park and is expected to be completed in early summer of 2020.
- g. Southwest Park – The City recently completed the land trade with BAPS and now owns approximately 53 acres off Florence for the proposed new park. This acquisition allows 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. Fortunately, voters approved \$3 million for the new park. I am recommending that we form a citizens committee to help the city design the park.
- h. We will start construction on replacement fire station #3 on County Line Road – late summer of 2019. Also, construction of replacement station #7 will begin in

spring of 2020. Funds for #7 are included in the proposed GOB sale for Year #2, which the Council will consider as part of the budget process.

4. **2018 General Obligation Bond (GOB) Package Implementation**
There are 90 projects totaling \$210,525,000 that voters approved last August. Listed in Attachment B for Council's consideration are the proposed projects for the Year #2 sale, which totals \$22,500,000. We will discuss these projects during the budget review process and finalize. The Year-2 package approved by Council will be sold in the October – December timeframe with funds available in January 2020.

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

It has been decided that we will only go out to bid for the first phase of the Center. It was confirmed last fall that operational funding has been secured by ArtsOK for the first 3 – 5 years of operations. A use agreement will have to be executed.

The architect for the project is currently working on the bid package. The site of the former AVB Bank on the corner of Dallas and South Main will be the location of the new facility. As a part of the project, AVB will donate the property to the City and demolish the existing buildings. Right now there are timing issues due to AVB still using the old building for operations. I have been advised that the bank is in the process of purchasing an existing facility in the Rose District to move their operations center. Thus, the project cannot begin until AVB has relocated. I still believe we will go out to bid before the end of FY 2020.

6. **Technology**
There are three (3) major initiatives underway that will dominate FY 2020 through 2022. They include:

- a. **Enterprise Resource Planning (ERP) Project.**
Phase I of our ERP is underway, with the goal to replace the early 1990's Legacy financial software system that has been updated several times, but is definitely well beyond its useful life. 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. Voters approved \$4 million in Proposition #4 of the 2018 GOB package. The remaining funds will come from utility revenue and 911 funding. Once a contract is awarded,

completion of the implementation will take three to four years.

b. Project Management Software.

A comprehensive management reporting program is needed to track GOB, BAMA, and STCI projects. Right now, the current 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 specifications for a software package. I would anticipate this enterprise will take approximately 18 months to fully implement.

c. Major upgrade of our Geographic Information Systems (GIS) capabilities

GIS is a system designed to capture, store, manipulate, analyze, and manage geographic data. GIS applications are tools that allow users to create interactive queries (user-created searches), analyze spatial information, edit data in maps, and present the results of all these operations. In the coming fiscal year, we will be combining all GIS operations and expanding our operations while creating a separate division in the Department of Engineering and Construction. This consolidation affects all personnel and operating expenses throughout the organization, and will maximize our efforts and improve our efficiency in this important area.

7. Organizational Planning

a. We are currently wrapping up 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.

b. Creation of a Stormwater Advisory Committee

We have many potential stormwater management projects, with \$13,000,000 in funding from Propositions 5 & 6 of the 2018 GOB package. I believe we need a committee made up of two Councilmembers, city staff, and citizens to review, analyze and prioritize projects.

II. Broken Arrow Municipal Authority (BAMA)

1. Revenue and Expenditures

The total available revenues from all sources, including fund balance, for the Broken Arrow Municipal Authority is \$139,437,975. Total proposed expenditures, including transfers is \$129,847,800. This will leave \$9,590,175 for emergency reserves which meets our target of 90 days of operating expenditures.

2. Budget Considerations

a. Utility Rates.

In the fall of 2016, the City Council approved the outline of a five-year rate model for BAMA and the related increases for utility services during the five-year model period. The rate model covers the reasonable and customary estimated expenses for operations and pay-as-you-go capital improvements. It also covers the debt-service payments needed to fund \$90 million of our \$140 million capital improvement plan approved in 2016. The third year of the model has been approved, and the Council will consider as a part of the budget process the Year 4 increase to be effective October/November time-frame.

b. Remaining Major Capital Projects.

As a point of reference, in the fall of 2016, the notion of going to the voters for a GOB for the remaining \$50 million for projects was discussed, but later it was decided not to pursue this option.

I have Kenny Schwab, Assistant City Manager of Operations 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 \$50 million in proposed projects. The administration will present the findings when the study is complete.

c. Capital Improvement Projects

I have included \$6.63 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 \$1,258,600
- 3 Refuse Trucks \$547,000
- Project Management Software \$200,000
- Various water lines \$455,000
- Stormwater vehicles and equipment \$827,500

I am also recommending we seek approval of \$17.79 million in Water Resources loans for several projects in the approved long-term capital plan.

d. Recycling

The Authority authorized implementing two (2) pilot programs for curbside recycling which are currently underway. Both pilots will 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. The results of the pilot programs will be provided to the Authority in late summer 2019 for review and direction.

3. BAMA Personnel

Currently there are 252 employees in our BAMA departments. As part of the approval of the five-year rate model, the Authority approved approximately 34 new positions for BAMA departments. The fourth year full-time positions total 6 and include:

- a) Utility Department – 1 Crew Supervisor (sewer) and 1 Utilities Service Worker (sewer).
- b) Engineering and Construction Department – Assistant Director, Special Projects Manager, and a Stormwater Quality Coordinator.
- c) Stormwater – Service Worker.

Additionally, I am recommending 4 new positions not in the rate study:

- a) Sanitation - 2 Refuse Collectors, Sanitation Crew Leader and a Route Driver (Non CDL)

In terms of salary increases, I am recommending we mirror what is planned for the General Fund employees.

4. BAMA Work Plan Highlights

We will continue to work on the water and wastewater infrastructure as depicted in our five-year Capital Improvements Plan. A few of the projects that will be completed/started in FY 2020 include:

a) Water System Improvements.

- i. 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 level for review. Construction is underway and expected to be complete on this project in early Fall 2019. 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 \$7 million.
- ii. 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

- i. 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 project was bid in April and construction is expected to begin June 2019. The cost of construction for the first phase, which runs from the plant to the Creek Turnpike, is on the order of \$15,000,000.
- ii. 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.
- iii. The two entities have been involved in a major overhaul 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 project was bid in April 2019 and is expected to begin in July. The cost of construction is about \$3 million with half of it the responsibility of the Authority.
- iv. Haikey Creek Plant Aeration Basin Improvements – The aeration basins are the primary treatment operations at the plant. The current structure is the original construction dating back to 1972. The process is permitted for 16 million gallons a day (16 MGD), but through new Department of Environmental Quality regulations is only rated at 12 MGD. Through operational wear on the system, the current aeration process can only treat about 10 to 11 MGD. The design for the improved system is complete and will bid in May 2019. Construction is expected to begin in August 2019, and will take about 18 to 20 months to complete. The cost of construction is about \$21 million with half of that cost as 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. A substantial fund balance is maintained to ensure funding is available for emergency capital expenditures.

Revenue for FY 2019-20 is estimated at \$7,562,600. The beginning fund balance is \$10,184,206 of which \$900,000 is reserved for Debt Service.

Some of the proposed capital projects that total \$7,905,241 include the following projects and programs are listed below. A complete listing of proposed expenditures is in the budget in the section on STCI:

- Street and Stormwater Equipment \$991,500
- Police Vehicles \$470,000- 5 additional vehicles are also budgeted for in the Police Fund for the new officers
- 3 new ambulances- Lease purchase
- Fire Station 2 foundation repair \$400,000
- 2 Fire Administration vehicles
- Equipment and repairs for Battle Creek \$120,000
- Debt service to pay for the Bass Pro Building \$1,950,000.

Total expenditures are projected to be \$9,855,241 and the ending fund balance is projected to be \$7,904,565.

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. We also have a contract with the Economic Development Corporation (EDC) for economic development services.

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 2020, transfers from General Fund and BAMA are \$900,000. These transfers pay for contractual agreements with the Economic Development Corporation, economic development programs managed by the Tulsa Metro Chamber and economic development incentives.

Conclusion

The City Council and City Administration understand that choices made today impact future spending decisions. Our effective short and long-term financial, economic, and programmatic planning strategies will help ensure that Broken Arrow can continue to provide the level of services that residents desire, while maintaining the modest tax implications taxpayers have come to expect. I believe that the initiatives and spending priorities recommended in this budget submission reflect not only the goals of the City Council, but also the priorities of the residents and taxpayers of BA.

In closing, 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 Cindy Arnold and her team for their many hours of commitment and dedication to this 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,

A handwritten signature in black ink, reading "Michael L. Spurgeon". The signature is fluid and cursive, with the first name "Michael" being the most prominent part.

Michael L. Spurgeon
City Manager

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