City of Broken Arrow

City Hall
220 S. 1st Street
Broken Arrow OK
74012

Minutes
Broken Arrow City Council
and
Broken Arrow Municipal Authority
Special Joint Meeting

Tuesday, September 27, 2016 | **Time 5:00 p.m.** | **Public Safety Complex**
1101 North 6th Street
Broken Arrow, OK 74012

Special Joint Meeting of the
Broken Arrow City Council and Broken Arrow Municipal Authority

1. Call to Order Broken Arrow City Council

Mayor Craig Thurmond called the City Council meeting to order at approximately 5:00 p.m.

2. Call to Order Broken Arrow Municipal Authority

Chair Craig Thurmond called the Municipal Authority meeting to order at approximately 5:00 p.m.

3. Roll Call for Broken Arrow City Council

Present: 5 - Scott Eudey, Johnnie Parks, Mike Lester, Richard Carter, Craig Thurmond

Roll Call for Broken Arrow Municipal Authority

Present: 5 - Scott Eudey, Johnnie Parks, Mike Lester, Richard Carter, Craig Thurmond

4. Pledge of Allegiance to the Flag

Mayor/Chair Thurmond led the Pledge of Allegiance to the Flag.

5. Consideration of Consent Agenda

A. 16-1184 **Consideration, discussion, and possible approval of granting Air Evac Lifeteam to land and take off a helicopter at the Broken Arrow Police and Fire Training Facility for training purposes on October 6th through 8th, 2016**

Mayor/Chair Thurmond asked if there were any items to be removed from the Consent Agenda. There being none, he asked or a motion.

MOTION: A motion was made by Mike Lester, seconded by Scott Eudey.
Move to approve the Consent Agenda
The motion carried by the following vote:

Aye: 5 - Scott Eudey, Johnnie Parks, Mike Lester, Richard Carter, Craig Thurmond

6. Consideration of Items Removed from Consent Agenda

There were no items removed from the Consent Agenda. No action was required or taken.

7. General Council and Authority Business

A. 16-1187 **Presentation, review, discussion, consideration and possible action on the rate study analysis for the water, wastewater and stormwater public utilities and corresponding utility rate increases**

Before the presentations, City Manager Michael Spurgeon asked the various staff Directors, Utility Department Directors, and Supervisors in attendance to identify themselves by stating their name and title.

Mr. Spurgeon thanked the Council for coming together to meet for the work session, stating that the overall purpose of the meeting was for members of the governing body, in their capacities as both City Council members and Municipal Authority members, to review BAMA's setting of rates. He asked for the Council's consideration in reviewing the consultant's presentation with regard to the City's operational capital needs. As Council/Authority members knew, the operation of the capital improvements to deliver services and the fruits of capital projects was built around a rate model. The rate model determined the amount charged for water, sewer and stormwater. Following the presentation, Mr. Spurgeon would be soliciting the Council's/Authority's input; specifically, their thoughts and suggestions for the Administration with the overall goal of amending the Manual of Fees at a forthcoming meeting. Black & Veatch's report was multi-year rate model spanning five years that had been created for the Council's examination. To begin, Assistant City Manager of Operations Ken Schwab would give a brief PowerPoint presentation on each of the projects currently on the Capital Improvements schedule, with particular attention to their priorities. They would be able to see that the number of projects the City could undertake was dependent upon the proposed rates. Then, Anna White of Black & Veatch would go through the rate model that was formulated in detail, based upon the information given by the Finance Department on the current cost of operations and cost of the proposed projects.

Mr. Schwab said he was there to give some background and overview and Director of Utilities Anthony Daniel would follow, touching on a few items. At the close of the meeting, he would return to give a summation.

Mr. Schwab related that the purpose of the rate study was to determine actual costs of services delivered, define the Capital Improvements Program (CIP), and develop a rate structure to secure sufficient revenue. They had to determine what it cost for the City to deliver water and collect sewer from an operational and maintenance standpoint. By definition, a Capital Improvements project encompassed design, construction, right-of-way acquisition, inspection, and equipment. With regard to the scope of the rate study, Black & Veatch had worked with Finance, Utilities, Streets and Stormwater, and Engineering/Construction over a two-year period, to determine the costs associated with operation and maintenance. Also relating to the study's scope, they had updated their Capital Improvements Program, with Engineering working in conjunction with Utilities, in large part, and Streets and Stormwater contributing as well, to gauge which projects were critical, which were essential, and which were considered beneficial. Mr. Schwab recalled that the Council/Authority had received a basic CIP on all their projects in their packet, the Friday before. In all, 99 projects were listed: 32 water, 36 wastewater, and 31 stormwater. Identified as in the category of critical was the aging County Line sanitary sewer trunk line that collapsed in April 2016. Some features at the plants were critical also. A project defined as essential was one that needed attention before it became critical. A beneficial project was defined as one that improved efficiency or effectiveness of operations, which, if neglected, would cost them money over time.

Mr. Daniel gave some background with regard to rates citing milestones from May 2013 to the present regarding the Black & Veatch finding & the selection of the final being the presentation of Black & Veatch's updated study that evening.

Mr. Schwab returned to give some historical background on the CIP. With reference to the current structure, he recalled that he was hired in February and was immediately directed by the City Manager to look at the five-year CIP, which they decided, upon examination, to expand to a seven-year CIP, comprised of the five-year CIP plus a two-year planning period. In July they forwarded the CIP values they formulated to Black & Veatch, which in turn, incorporated them into their study.

Mr. Daniel announced that they were proposing to add 34 new staff positions, as part of the rate study and overall projections. The hiring would be spread out over five to seven years, as funding permitted. He gave the breakdown of the positions: ten dedicated to water, eight to wastewater, ten to stormwater, and six positions split between Utilities and Engineering/Construction.

With respect to the overall CIP budget, Mr. Schwab showed a bar chart of the projected utility improvements capital budget outlay, beginning with the record of projects done during the past fiscal year, and covering the present fiscal year 2017, projections for the years 2018 to 2021 in the five-year CIP and finally, the two-year planning period in 2022 and 2023. The budget covered system improvements divided between water, wastewater and stormwater. The five-year total (2017 to 2021) was $137,574,500, which was the number contained in Ms. White's rate structure, design and analysis. Each year, staff would go back an update it as they moved forward, continuing to do a rolling seven-year planning horizon. Turning to a second bar chart on the seven-year CIP, he stated he that expected projections for 2022 and 2023 to go up, but at present, for 2017, they were looking at a total CIP of just under $40 million. Typically, he had found from experience that planning figures started out high, and then as they started moving along and time went on, projects dropped and were picked up again, at the end of the period. They had discussed trying, potentially, to balance the load a bit, but regardless, within the five-year CIP window of 2017 through 2021, they were still looking at roughly $138 million.

Mr. Schwab outlined the water system CIP budget and projects, broken down into a water system summary of four components that included water plant improvements, water master connection improvements, water distribution system improvements, and water storage system improvements. The five- and seven-year projected cost for each of the four was delineated. He specified that there were, technically, three connections, their having built the last one and rendered it operational that very year, 2016. The funding for the new connection was budgeted in the program since, as they had projected, it carried over. There was also a third, future connection, that they might wish to turn into a pump station where the second one was, so as to double the capacity taken from the Tulsa connection. With regard to the plant, they would have to address and incur the cost of an unforeseen problem with the plate settlers that resulted in an undesirable change in water quality, once summer temperatures reached a certain high. The problem resulted in a decrease in water production. The OOWA line project was at an impasse and they had contracted HDR, Inc. to analyze what the City could do with it and some options were forthcoming. Mr. Schwab reported also, that a lot of distribution issues had to do with the Old Town Line. With reference to distribution, they needed to maintain the tanks at a higher level. A photo of a pipe taken out of Old Town was also shown as an illustration of other distribution issues the City faced, including its remaining cast iron pipes. The cast iron pipe was so blocked and encrusted that very little water could flow through. It was particularly relevant with regard to Old Town as they were beginning to grow and construct an overlay district. All told, the five-year CIP water system budget was close to $26.2 million.

Mr. Schwab reported that on the wastewater side, Haikey Creek and Lynn Lane improvements figured heavily with regard to the system CIP budget. The latter was jointly owned with Tulsa, however, Broken Arrow owned the basin itself, as well as all the collection system flowing down to the Haikey Creek lift station. He explained that once at the lift station, it was jointly owned. The five- and seven-year projected costs for the Haikey Creek plant were displayed as identical, at upwards of $49.6 million, since they hadn't gotten the numbers from Tulsa yet and couldn't provide an adequate update. Together with the basin lift station improvements, they were looking at an expense of roughly $53 million to $54 million. The Lynn Lane plant and basin improvements were projected to cost just under $20 million and over $28.5 million, respectively, for a total of just over $100 million for the five-year CIP.

Mr. Schwab stated that the stormwater CIP budget in a five-year window would be over $9.5 million. Stormwater improvements were handled by way of General Obligation (GO) Bonds and there were four main wastewater system components. The budget for conveyance system improvements was just short of $5 million, with detention facility improvements projected at nearly $3.6 million, dam facility improvements at just shy of 325,000, and master drainage plan projects projected at $750,000.

Mr. Spurgeon asked if there were any questions about the projects. There were none. He asked Mr. Schwab whether there were any projects which Council members could consider unnecessary or whether they were all projects that needed to be done over the course of the next five to seven years to rebuild, maintain, and make adjustments for growth. Mr. Schwab reiterated that the projects fell under the three categories of critical, essential, and beneficial. Critical and essential projects were absolutely necessary, whereas with regard to beneficial projects, it was a matter of choosing to spend in order to save in the future and avoid losing benefits down the road. Councilor/Trustee Lester asked if the upgrade of the Lynn Lane sewer plant would entail more or fewer personnel. Mr. Schwab replied that he did not think the upgrade required personnel, but additional staff had been put in place to manage their current operations. Councilor/Trustee Parks observed that Mr. Schwab had said that some projects were under a bond issue, inquiring if they were bonds the City had already sold, or bonds that hadn't passed yet. Mr. Schwab answered that it was a matter of both, elaborating that the only projects in the CIP subject to current GO Bond funding were stormwater ones. Spurgeon asked Mr. Schwab to touch on their responsibilities under the Regional Metropolitan Utility Authority (RMUA), in connection with Haikey Creek and its status. Specifically, he requested an update and clarification on when the City might be in need of funds to meet its obligation. Mr. Spurgeon explained that concerning RMUA, the $54 million represented a jointly funded venture with the Tulsa Metropolitan Utility Authority (TMUA). The program had been mapped out and there were some funds left from a previous loan, however, they were still short regarding funding. He recalled that at the last City Council meeting they considered a resolution, and they were in the process of seeking the funds. Mr. Schwab pointed out that once the current loan request went through and funds became available, they would have about $13 million, minus what they had already spent. In reply to a question by Councilor/Trustee Lester, he specified that the total cost of the Haikey Creek rehabilitation was about $70 million. In reply to an inquiry by Councilor/Trustee Eudey, Mr. Schwab stated that a few of the authorized projects had been secured by loans and were in the design stage. The only one that had gone through the construction stage was the $800,000 Tulsa Connection, paid for already by BAMA, but they still needed the rates to be established in order to cover the debt service when it came. Referring back to Councilor/Trustee Parks' query about the status of bond issues, Mr. Spurgeon recalled that he had mentioned a couple of different options to pay for capital improvements, a month or two prior. Obviously, as they were speaking of utilities, the rate-paying customers could shoulder the entire load. Another option, not taken up by the City in a few decades, was to ask the voters to consider the traditional bond obligation projects for water and wastewater improvements. One of the models they would see did include in 2018 and 2020, respectively, a request to voters to consider some level of GO Bond funding, in addition to the traditional GO Bond proposals the City requested with respect to streets, parks, public safety, facilities, and so on. There was a model that put the additional cost of all CIP projects on the rate-payers. He went on to say that if Council chose to take a portion of what was needed for CIP and move to have the voters consider it, then he thought that they should have a discussion, at some point, on how they could proceed to do that, making sure that they had a public education strategy to help voters understand the need and showing them the comparison of what the City would be asking them to fund ad valorem vs. what the cost would be through straight rate paying. They could approach the citizens, informing them of the projects needing attention, and could find out which project(s) they would be willing to support. The ones approved by resident's ad valorem would roll off, i.e. they were not permanent. Secondly, it was in conjunction with property taxes, so there would be a tax savings for them. He believed that through property taxes the portion might be cheaper, though he was concerned that should they ask for $75 million to $80 million worth of bond propositions in the next round starting that fall, they would be looking at something much higher. Councilor/Trustee Eudey asked what was meant by "much higher." Mr. Spurgeon said that one scenario included about $39 million worth of General Bond obligations for voters to consider and hypothetically, if Council approved of going to the voters for $80 million for streets, and so on, over a five-year period, they would be looking at a $100 million to $110 million bond proposition. He added that the school district had, for several hundred million dollars in the last couple of years, and if they decided that's what they wanted to do, they would need to launch an aggressive public education campaign to point out the difference between their taking the GO Bond approach, which overall, was more cost effective, and their shouldering the cost by way of utility rates. They would have to come up with a plan that they could go out and sell to the public. Black & Veatch's representative would be presenting the straight story on where they were operationally, where they would be in adding the additional debt service to existing rates, what it would do to their rates, and what would be needed. As Ms. White spoke, he asked that the Council/Authority focus on the fact that, as a City and as utility, they had to have a reserve fund and could not afford to put themselves in a position where they didn't have $200,000 for an emergency fix of a trunk sewer failure, as they were forced to do earlier in the year. If they did not have a reserve fund for the Utilities Department, they would have to take the money out of the General Fund and that was not good public policy. They would see that the model was designed to ensure that over time, they would begin to rebuild reserve funds in order to handle unforeseen or catastrophic occurrences, while making sure that they had adequate funds for everyday operations. He indicated that with the volume of demands being placed on department heads and staff, it was becoming increasingly difficult to continue to meet the needs of customers at their present level of personnel. For that reason, they were being asked to consider adding, over a five-year period, a total of 32 to 34 new positions with no specific immediate positions be mentioned. Mr. Spurgeon also noted the side conversation he had with our newest council member/trustee Councilman/Trustee Eudey just to get him up to speed on where we were at 2 years ago versus today. He concluded by saying that he was confident in the data compiled and analyzed by Black & Veatch.

Ms. White explained that the PowerPoint presentation that she had prepared was going to walk them through the projected revenue requirements for the three utilities of water, wastewater and stormwater, for the next five years. Following that, she would present the resulting revenue adjustments, rate schedules, and typical utility bills. She would begin, however, with a description of the results, as seen on page 31 (the first three slides), by showing typical residential bills for water, wastewater, and stormwater at their proposed rates for 2017. As Mr. Spurgeon mentioned, they were looking at three financing options and three proposed rates corresponding to three different scenarios. She compared two households, one with low water usage and one with typical usage for a family of four. The communities reflected in the comparison tables were the same communities identified by Black & Veatch when they did their 2013 rate study. The communities were either in close proximity to Broken Arrow or were similar in size to Broken Arrow.

Ms. White wanted the Council/Authority to keep in mind that the rate schedules that they would view at the end of the presentation resulted in a typical bill, in the case shown, of 3,000 gallons of water per month, equal to or less than the average of the median for the other 20 communities. A more typical Broken Arrow user was using about 7,000 gallons of water per month, she pointed out. She brought up a slide (page 32 of the study) showing typical residential bills for stormwater. Not quite as many communities were reflected because not all communities had a stormwater user fee, but the rate illustrated represented the charge for one Equivalent Stormwater Unit (ESU). She explained that every residential parcel in the City of Broken Arrow was charged 1 ESU per month and the existing rate was $5.01. They set an objective of raising the stormwater user fee in fiscal year 2017 to the same rate as Tulsa's. The Council/Authority would see that significant increases were necessary for stormwater. Black & Veatch realized they needed to cap it at a certain point so they decided that if they set is as equal to Tulsa's rate, they would not be the highest, but it gave them a way to make sure that Broken Arrow would remain competitive with the nearest largest city in terms of attracting business.

Ms. White skipped back to the beginning of her presentation, recalling that Black & Veatch's contract was extended so that they could perform an updated rate study from the one they presented in 2013. Their objective was threefold: development of long-range financial plans that would provide financial stability for BAMA; creation of a cost of service analysis that would result in fair and equitable cost allocation; development of rate structures that would recover the full cost from BAMA. The purpose of a cost of service rate study was to match the cost of providing service to an individual customer class and then design rates to recover costs, in a manner that the cost of service indicated. There were three basic steps that they followed in conducting such a study. They were seeking, in effect, the answer to three questions. The first question was how much money was needed? Also termed the revenue requirement, step one's goal was to determine how much revenue BAMA was currently bringing in for the three utilities, how much revenue the Utilities Department needed, in fact, to bring in, and how they could close the gap between those two figures. The aim of the second step was to determine from whom they should collect the money once they knew how much money was needed: Should they collect from residential customers, commercial customers, investor-class customers, customers inside the City, customers outside the City? Also, how should they allocate costs to each customer class? In making the decision they had to take into account the different ways in which customers used the system and the demands placed on the system by each class. The end result of their analysis was a fair and equitable allocation of the cost, appropriate to each class of customer. The third step focused on rate design, indicating how services should be priced. Ms. White concluded her description of their methodology, stating that Black & Veatch followed a very specific, detailed process, in accordance with two manuals that guided the industry. One manual was the American Water Works Association's "Principles of Water Rates, Fees and Charges," and the other the Water Environment Federation's "Financing and Charges for Wastewater Systems."

Ms. White stated that the bulk of her presentation would concentrate on aspects relating to financial planning. In determining revenue requirements, they had to project revenue under existing rates, and in order to do that they needed to look at the units of service, the number of customers for water and wastewater, the projected usage, projected contributed wastewater flow, and the ESUs in the case of stormwater. They examined what the units had been over the last five years, how they increased or decreased, and connected with City staff and management on what they saw going forward, especially with regard to new housing developments being constructed and new industrial or commercial development that would increase the number of customers and impact the system. Ms. White reported that historically, there had been little or minimal growth in terms of the customer base, but they had seen some growth in the categories of single and multi-family residential, as well as commercial properties. The result, with reference to water and wastewater, was about a 0.5% increase per year for the three classes of customer. There was also a little growth with regard to residential stormwater ESUs, so that a 1% annual growth was projected. Ms. White went on to report that, as with utilities nationwide in large part, water usage in Broken Arrow had been declining over the past years. Therefore, they were making no growth projection in terms of water usage and contributed wastewater flow. Examining revenue under existing rates, it was evident that the only increase was due to the very small increase in customer base.

Ms. White stated that once projected, the units were applied to the existing rate schedule, giving the revenue or existing rates. The next step was to look at the revenue requirements, which they broke down into operating costs and capital costs. Operating costs consisted of operation and maintenance expenses. The 2017 budget was the basis for their projection and they factored in inflation starting in 2018. She noted that the inflation factor ranged between 2% to 5%. Also, they included a 7% annual increase for the rate charged by TMUA for purchased water, judging from the average of past increases over a four or five-year period (that purchased water making up only 8% of the water budget). Black & Veatch also added the 34 new positions that Mr. Schwab referred to earlier in the meeting, phasing them in over the 5-year study period. The total cost of salaries and benefits, from the perspective of 2017 dollars, was $2.2 million, allocated at approximately 41% to water, 25% to wastewater, and 34% to stormwater.

Ms. White turned their attention to capital and specifically, how they would fund the capital program Mr. Schwab had presented earlier. Three scenarios were created for the Council's/Authority's consideration, all three including the use of GO Bond funding in some shape or form. In Scenario 1 they were assuming that there would be GO Bond funding available for wastewater and stormwater projects in FY 2018, and then again, in FY 2020. The two fiscal years could be combined into one issue in FY 2018, but they wished to show that should there be two issues, about two years apart would be appropriate. In Scenario 2 they assumed that the City would have GO Bonds for wastewater and stormwater, but the first issue would not be available until FY 2020. Scenario 3 was created under the assumption that they would not have any GO Bond funding for wastewater, but only for stormwater. They assumed that there would be a citywide GO Bond issue in FY 2019 and that stormwater would be included. Ms. White spoke more in depth on the three scenarios of GO Bond funding of CIP projects, as illustrated in her PowerPoint presentation. She pointed out that Black & Veatch identified projects to be funded by GO Bonds as those associated with the Lynn Lane plant and basin, being that GO Bond funding had to be matched with a particular project following an exact project schedule. On the other hand, projects associated with Haikey Creek were constantly shifting, making it difficult to fund them through an instrument like a GO Bond. They assumed, therefore, that all Haikey Creek projects would be funded through Financial Assistance Program (FAP) loans, and depending on the timing of the GO Bonds, they would use those funds for the Lynn Lane projects.

Ms. White explained that from that point on in her presentation, each set of tables would be shown three times, reflecting each of the three scenarios. She recalled that to get to that point they had taken into account the revenue requirements, consisting of operations and maintenance expenses, payment of in lieu taxes, debt service on existing and proposed bonds, and cash financing of major capital or capital outlay equipment. She observed that there was a gap, beginning in 2018, between revenue under proposed rates and revenue requirements because they were using the difference between the two numbers to build the fund balance. Underscoring that the fund balance was key, Ms. White stated it constituted whatever was left over at the end of the year in the BAMA fund balance. She recalled that BAMA had an existing Resolution No. 555 which was for its Emergency Reserve Fund. Ms. White cited that under the Resolution, six months of expenses for water, sewer, and sanitation, and at least four months of expenses for stormwater should be set aside in the Fund balance. Black & Veatch decided to take a closer look at the Emergency Reserve, cognizant of the fact that an operating reserve in the range of 90 to 100 days was the general rule in the water industry. Where a municipality fell in that range depended on how much and often it went out to the bond market and was concomitantly evaluated by the rating agencies. They recommended that if the City accessed the bond market, it would be into at least 180 days, 240 days or 300 days for most utilities. If it didn't access in that way, it would be much more safe being at the 90 days or 120 days level. They found the inclusion of debt service in the Resolution a little unusual since BAMA already maintained a debt service reserve for FAP loans at 10% of the loan amount. It was a redundancy in that it represented a second reserve on the debt service, and was therefore, not really necessary. Black & Veatch had two suggestions for the Council's consideration: reducing the number of days required in the funds from six and four months, respectively, down to the range of 90 to 120 days; and, at minimum, excluding the debt service on the FAP loan program from their calculations. The suggested changes would align policy more closely to industry standards, providing a more reasonable target for BAMA to achieve.

Displaying a line graph showing combined utility fund balance in Scenario 3, Mr. White explained that they were targeting two things in the goal they set when they went about designing revenue increases. The first was to never let the Fund balance go below 30 days and the second was to achieve 120 days, under the current definition, by the end of the study period. Black & Veatch also calculated what the graph would look like if there were no rate increases and found that by 2017 they would be at negative 6 days, and go down further in the minus column with each successive year. Further calculations on their part revealed that they could only go on one more year under existing rates, before revenue would not even be sufficient to pay for operations and maintenance and debt service on existing obligations. A similar outcome was predicted for Scenarios 1 and 2

Councilman/Trustee Lester asked if the bottom 2 lines on the chart were considered significant and if so how come they did not get a copy of these particular charts. Mrs. White responded that as they were walking through the presentation yesterday and talking it out with staff, it occurred to them to include the anticipated question as to what if nothing was done, so the charts were updated to reflect that, Mr. Spurgeon concurred. Councilman/Trustee Lester said he considered it a dramatic change and did not like being presented with an 11th hour change of this nature without being provided a copy of his own to consider and aid in his decision. Mr. Spurgeon confirmed that a copy would be provided to the council members.

Ms. White stated that the next set of tables provided more detail on adjustments, with respect to each individual utility, and then to the utilities on a combined basis. They gave the resulting end balances and number of days in the Reserve. Black & Veatch realized that it had to address wastewater, and specifically, how the City was going to fund $100 million in projects. Their first assumption or goal was that the wastewater fund would have a positive end-of-year balance. That was the case in Scenario 1, where each year in the study had a positive balance, and so, it wasn't an issue. In Scenarios 2 and 3, however, the end-of-year balance showed a deficit that carried over until the end of the study period, 2021, when revenue adjustments would bring in enough to fund the CIP. The second assumption of Black & Veatch, alluded to earlier, was the need to put a limit on revenue adjustments for stormwater. A 29% increase in 2017, followed by a 9% increase in each successive year of the study, would put them on par with Tulsa's increases. Nevertheless, those increases would yield a deficit in the end-of-year balance throughout the 6-year period, and a concomitant deficit in the number of Emergency Reserve Fund days. Their third assumption or aim was to have 120 days in the Emergency Reserve Fund, on a combined basis, by the end of the study, in 2021. Ms. White showed a table illustrating that by the end of the study period, the third goal would be achieved in Scenario 1. A table showing the percentages of increase in revenue received by the City for each of the three utilities, in every study year and all three scenarios, followed. The table reflected combined percentage revenue increases and the cumulative revenue increases, as well. In response to two questions, Ms. White clarified that the rate structure was based on two components: service charge and volume charge. The components of each of the three utilities differed and rate adjustments for each would vary. The table they were reviewing did not provide proposed rate adjustments, but rather showed percentages in additional revenue for the City in each respective scenario. Ms. White confirmed that Councilor/Trustee Eudey was correct in stating that revenues would increase, by the percentages indicated, through rate increases and future GO Bonds, in accordance with whichever of the three scenarios they adopted. Ms. White reiterated that the percentages reflected the revenue needed to fund operations and maintenance, in lieu taxes, debt service on existing debt, as well as the debt service on any FAP loans that would have to be issued for projects not covered under the GO Bonds.

With respect to Scenario 2, Ms. White pointed out that water would subsidize wastewater and stormwater until they could raise the rates to where they needed to be, so that each utility was self-sufficient.

Ms. White referred back to the summary of revenue increases for each utility and each study year, under the three Scenarios, observing that Scenario 1 showed the smallest cumulative increases, especially on a combined basis. Scenario 1's figures were indicative of that fact that the sooner they received GO Bond funding, the better, with less they would have to fund through the FAP loan program and less debt service the City would have to take on and recover through their rates. She went on to say that by pushing the first GO Bond issue for wastewater to 2020 in Scenario 2, they would be obliged to borrow an additional $30 million from the FAP program upfront, to cover the CIP until 2020. In addition, they would need to find another source to fund about $4 million in stormwater projects, before 2020. A pretty significant difference between Scenario 1 and 2 could be seen there, especially in regard to wastewater and the cumulative revenue adjustments over five years, just by eliminating the first possible GO Bond funding in FY 2018. Looking at Scenario 3 (in which there was no GO Bond funding for wastewater and some for stormwater in FY 2019), Ms. White pointed out that with regard to wastewater, since the entire CIP was going to be funded by FAP loans, thereby incurring larger debt service on a larger sum to be borrowed, it would take greater revenue increases in order to achieve a positive Fund balance by 2021. In the case of stormwater where, in comparison to Scenario 2, they moved the GO Bond funding forward a year from 2020 to 2019, there would still be a deficit; it would, however, be less. Ms. White observed that in Scenario 3, they were able to slightly lower the revenue increases calculated for water, as well.

Ms. White paused to take questions. Councilor/Trustee Lester said that as he understood it, the combined cumulative average in Scenario 1, over five years, was an increase of 60%. Ms. White replied that was correct, emphasizing that it was an increase in revenue.

Ms. White turned to her company's findings with respect to rates and typical bills. In addition to taking the results of cost of service allocations, there were a few other factors that needed to be taken in consideration when they did rate design. They needed to make sure that the rate structure was equitable, resulting in fair and impartial recovery of costs, and that it provided revenue stability, which was achieved by maximizing how much they received from the fixed service charge, in connection with the variable volume charge. It was important, as well, to send the appropriate price signals to customers, making certain that they recognized their own usage patterns and their demands on utilities. The rate structure needed to be easily understandable and easy to administer, and one that customers accepted. And finally, the rate structure must be consistent with city policies and in the event of a challenge, that it be legally acceptable or defensible.

Ms. White brought up the next set of charts, showing what typical bills looked like for each of the three Scenarios, one bill for water, one for wastewater, one for stormwater, and one combined. Four different assumptions for monthly water usage by residential customers were provided: 0 gallons (reflecting the service fee alone), 3,000 gallons (low), 5,000 gallons (average for a Broken Arrow family of four), and 7,000 gallons (high) usage. Councilor/Trustee Eudey inquired whether the service charge was incorporated into the three bar charts showing a certain amount of usage. Ms. White replied that is was and that the service charge varied somewhat in connection with approximate consumption, less usage incurring a lower service charge. Ms. White went on to explain that the assumption that they made regarding increases in service charges was based on the fact that existing service charges had not increased since 2012. They chose to increase them by 10% in 2016, and then in 2017 and 2018 to increase them by 5%. In doing so, they were trying to make up the lost ground from not having increases in previous four years. Councilor/Trustee Lester requested clarification on the year/fiscal year that the first increases would be applied. Ms. White thanked him for questioning that because evidently, the years cited on the charts were off, and the years should read "2017," "2018," and "2019," respectively, instead. She clarified too that the rates reflected were just the service charges and not the volume charges. With regard to the wastewater chart, she pointed out again that customers were charge by ESU (Equivalent Stormwater Unit). Residential customers were charged 1 ESU, whereas the charge for non-residential customers was based on the amount of impervious area a property contained.

Ms. White stated that due to the amount of detailed information/data Black & Veatch was providing, they had seen fit to send packets, including a number of detailed tables, to Council/Authority members. She said that the first two tables should include the proposed natural post-rate structure for water and sewer, having existing rates and proposed rates for FY 2017, FY 2018, and FY 2019, and then a table for each of the three Scenarios. There were also three different sets of tables showing typical bills, one for each utility and a combined one, as well. That set of tables showed further categories and variants, including calculations for residential usage of up to 12,000 gallons, as well as for commercial customers, larger meters, and higher water consumption. Ms. White asked if there were any questions on rates and typical bills.

Stating that he was a commercial customer, Councilor/Trustee Lester commented that in two years they would be raising his stormwater fee by 50%. He wondered what he was getting for the 50% increase. Mr. Spurgeon said it was a good question. Councilor/Trustee Lester remarked that he had already paid a fee upfront and commercial customers usually had a lot of impervious square footage. Mr. Spurgeon said that the answer to his question was made up of two parts. Firstly, increasing the charge in question would generate additional revenue to help pay for the existing service provided by the City. Secondly, if he went back and reviewed what Ms. White had talked about with regard to how large the City's debts were, water was subsidizing stormwater operations at present. There was no way they could raise the stormwater fee that would enable them to cover it with a charge, so they were forced to come up with a rate that gave the City some additional revenue to pay for the existing service. What he was getting basically, was the same service provided currently by the City. Councilor/Trustee Lester replied that he could say that he already paid a fee in lieu, one time, for the Utilities to put in the regional detention, and so forth. Mr. Spurgeon pointed out that the systems the City built had to be maintained and the only response he could give was that they would continue to maintain all of the City's systems, and in order to do that effectively, additional personnel and equipment were required. He noted too that actually, they were seeking to increase the level of service in requesting additional personnel. However, in terms of getting something above and beyond what he was already receiving, he was not. They also needed to consider what they would be getting in the future because new development would entail a need to maintain new service, and they were having trouble keeping with maintaining what they currently had.

Councilor/Trustee Parks commented that historically, the City had subsidized all of its utilities with respect to water. Mr. Spurgeon said that was correct. Councilor/Trustee Parks added that the City was going to be able to have more money for water, if the stormwater could take care of itself, instead of taking from water revenue. Mr. Spurgeon and the Mayor/Chair Thurmond concurred that he was right. Mr. Spurgeon observed that about ten years before, the decision had been made to move funds in the General Fund into the stormwater utility and they didn't increase revenues in order to offset the costs that were moved over. It was not a good situation but they were no different than other municipalities like Edmond, where electricity subsidized a lot of their utilities. He was concerned about stormwater fees, as Councilor/Trustee Lester brought up, because he knew what it was going to mean on the commercial side. He felt that an increase for the school district would be entirely unacceptable, so it needed to be looked at. Councilor/Trustee Eudey said he was concerned about the impact on economic development, as well. Councilor/Trustee Lester gave the example of Warren Theatre and how much ground of impervious area it covered, adding that they would have to do their homework on the matter, especially with regard to selling it to the public. He understood that if there were an expense, people would have to pay for it, himself included. But when they were raising stormwater 50% over two years, they needed to be able to justify it and tell citizens how that money was going to be spent.

Mr. Schwab commented that the kind of discussion they were having was exactly what was needed and he had asked Stormwater Manager Jeff Bigby to pull the top five to eight commercial users, so that they could take a look at how the change would impact them and what impact they, as commercial customers, were going to see. The Council/Authority had investigated if there was a way that they could soften it. Mr. Schwab recalled that several years back, following the 2007 ice storm when there a lot of damage to creeks and private property, they took a look at how they could address it. They took on some flood plains through the flood prone property transfer policy, which he thought was the right thing to do. So they were going to look at both sides of the coin and examine how the stormwater rate increases would affect Broken Arrow public schools, Walmart, and other commercial sites having large impervious areas. Councilor/Trustee Lester remarked that it would impact smaller commercial properties proportionally, in a similar manner. Mr. Schwab said it was a valid point and asked if they couldn't spread it out some. Recalling Mr. Spurgeon's statement earlier on the necessity of educating the public on GO Bonds, etc., Councilor/Trustee Eudey commented that he thought the education program had to start before that, and the issue they were discussion was a good start because the average person would have a hard time understanding the sudden increase. Mr. Spurgeon stated that he thought all of the City's customers would have a hard time understanding, especially the first year of the increase. The only thing they could do was to examine and voice the questions they themselves had because the public was going to have the same questions. Mr. Spurgeon concluded that the only way they could probably minimize it, in terms of the first year, was in Scenario 1, which only included about $39 million worth of GO Bond potential. He postulated that they could go back and revise it to an even $50 million, which would reduce the amount of increase the City needed by, probably, several percentage points. Relying too much on GO concerned him since it meant a whole lot of public education that they needed to do, with no guarantee that voters would be willing to approve it. He rather thought they would, given Broken Arrow's history of voter support, especially if they explained it in the way he knew that they could. However, if, in fact, they did not give their approval, the City still needed to do the CIP projects. Another of his concerns was that the GO Bonds, as Ms. White mentioned, would be for Lynn Lane, and that was the thing the City Council got hit most on. He suggested perhaps, finding an additional defined project or two for the amount and then funding the Lynn Lane project through Oklahoma Water Resources Board (OWRB) funds so they could make sure it was taken care of.

Councilor/Trustee Lester stated that they were left with a backlog of 20 or 30 of projects that hadn't been addressed and needed to be done. He brought up the subject of roads, commenting that while spending money downtown on fountains and splash pads, the City had neglected to invest in the widening of County Line Road. He thought that a large segment of the public would feel the its needs were being neglected, with respect to that road. He stated that they needed to address some other issues. In reply, Mr. Spurgeon referred back to the financial newsletter, which disclosed their plan to do nearly $40 million worth of work in the fiscal year to the public. He couldn't account for what occurred before September 21, 2015, but he could say that the City had demonstrated the ability to increase transparency about what it was doing. They were sitting with, probably, another $55 million worth of 2014 bonds, after a two-year bottleneck in which nothing got done. They had since, addressed that problem as best they could under their present capacity. He could only promise that going forward they were going to meet the challenge with respect to Broken Arrow's roads. They were starting the process, but there was only so much they could get done with the resources they had. The magnitude of the type of improvements they needed to make – $137 million worth of projects – didn't escape him. They were able to sit and talk about such issues and Broken Arrow was growing, so they had to do the CIP projects or face being unable to service customers and halting growth, which would then result in a further erosion of revenues. They were in a position in which the City's resources were being stretched beyond present capacity. They needed to modernize the plant and address maintenance needs but staff were overburdened in meeting the challenge. Although he was excited about the work they were doing, he did not relish telling citizens that the City needed a 22% increase in utility rates. The Council's feedback was needed so that he and staff could go back and consider a way to reduce that to make it more palatable, and then go out and begin educating the citizens on what the City needed to do. Mr. Spurgeon wished to stress that while he understood rate-paying customers, himself being one, he was in great need of additional people to maintain the system. Unless additional staff was hired, they could not continue to maintain it correctly and would put themselves in a position of being in violation. Maintenance of the system was all-important and he, along with Ken Schwab, Anthony Daniel, and Assistant City Manager of Administration Russell Gale, had spent months trying to figure out how to address the situation, interacting with Ms. White repeatedly on how to they could make the numbers work out differently. The reality, however, was that the City had a plethora of needs and that the capital remained the driving force. Secondly, Mr. Spurgeon stressed that they had to have reserves. If they didn't retain reserve funds, then some of the transfer that was made over to the City to pay for the General Fund would not go back, creating a revenue problem in the General Fund. The input and leadership of the Council was needed and it could, if it so wished, give them a chance to go back and try to get the numbers down to a more reasonable amount. He asked if they any had thoughts about additional GO Bonds, or if they wanted to stay with the original $38 million. Councilor/Trustee Lester inquired how that would impact doing other projects, like roads, and getting everything else done in a timely manner. Mr. Spurgeon replied that they had an Assistant City Manager of Operations, a Director of Engineering, and an Assistant City Manager of Administration that were all on the same page, speaking the same language. They were adding additional capacity to be able to manage projects because no matter how much money was given him, if he didn't have sufficient manpower to manage projects, he couldn't get them done. A new engineer had just been hired and a couple of additional engineers were included in the proposal they were considering. As he had indicated all along, they needed to go to the voters in 2018 because there would not be an issuance in 2019. He advised that they ask for $75 million to $80 million, tentatively. They would be throwing all the different needs on the wall that fall, and they would have to narrow it down and bring it back to the Council to get their thoughts and their final word. He would then have to approach the economic development people, school districts, and so on, to get it finalized. If it turned out to be $75 million or $80 million for improvement to the quality of life, they would go out and sell it within the tolerance that the Council set, in terms of tax increases. They would monitor where it rolled off and where they had some capacity, so that they could try to have $15 million to $18 million a year of funds at their disposal. He felt confident that they could convince the public that they needed the improvements, if they educated them and could show them the completed projects they had already sanctioned. As it stated in the financial newsletter sent to citizens, by the end of 2017 nearly $40 million worth of work would be completed, and that didn't even include utilities. In summary, Mr. Spurgeon said that he saw tremendous opportunity for them, with the right team in place, to catch up on CIP projects, adding that $50 million for the General Fund would be a nice, round number. Above all, they needed to prove to citizens that the money they gave to the City was spent wisely, yielding the desired results. That had been a challenge in the past and he believed they had overcome that hurdle.

Vice-Mayor/Vice-Chair Carter said he thought that voters and people of Broken Arrow understood the situation. As far as their water and sewer capacity and the need to rebuild and maintaining were concerned, he was aware of other cities in Oklahoma and around the country having a big problem with aging structures, that hadn't even experienced that growth Broken Arrow had. Stories on it could be seen on the local news and the people were smart enough to approve projects such as the ones they had discussed. He noted that 20 years ago it wasn't like that, but people were a lot more cognizant today of the reality of the situation and knew that if they wanted good infrastructure and services, they had to pay for it. The people saw their problems relative to the problems other cities were experiencing. He was not apprehensive about asking for the rate increases because he believed they would understand. Echoing Mr. Spurgeon's observation, he said that citizens looked where their money went and could see how their city's downtown had come back to life.

Councilor/Trustee Parks voiced his agreement, commenting that in speaking with different groups of people even outside of Broken Arrow, he would talk about the quality of their City, the investment they had in their homes and the equity on their homes. The bottom line for him, knowing that there would and should be rate increases, was whether they could just minimize any rate percentage any one time. The first big rate percentage increase would hurt, and City's minimizing it in any way, would give citizens an opportunity to work it into their budgets. Referring back to the first slides presented by Ms. White showing surrounding cities, he thought it was good to compare them with Broken Arrow and see that it was one of the best cities in the state, as he knew himself, from the quality of life it enjoyed. He was in agreement with the Vice-Mayor/Vice-Chair Carter when he said that they were going to have to pay for things. In comparing Broken Arrow with neighboring cities in the State, citizens had to realize that as much money as their City spent, it could defend, and he thought Broken Arrow's citizens were smart enough. He reiterated, however, that he had a bit of a problem with starting off with such a large rate increase in the first year. He knew it might be needed but he was in favor of considering a bond issue perhaps, to spread it out. Mr. Spurgeon commented that he had spoken with Ken Schwab and Russell Gale about possibly going back and tempering their expectations, spreading capital improvements out over a longer timeframe, owing to political realities having to do with the need to get things done and for sensitivity on their part.

Mr. Spurgeon said he wanted to make sure that the Council/Authority was good with the data presented and the projects, and asked whether the members felt that they were adequately and fully informed. Looking at it, they could accomplish some things, but they were going to need a significant increase in the rates, probably that first year and then after that, more reasonable increases. Councilor/Trustee Eudey said that he tended to agree with Councilor/Trustee Parks and thought the citizens would lend their support. He thought that people would find the cost of the GO Bond a little more palatable, especially if they were educated with the comparison rather than just seeing the bill increase every month. Finding a way to implement the increases in a more gradual fashion was going to be the key, and then imparting to them that what the City had to do was absolutely necessary to maintain the City they had and avoid being in violation. Mr. Spurgeon voiced his agreement and Councilor/Trustee Parks did, as well. Councilor/Trustee Parks commented that he thought the approach they were taking was a long time coming, pointing out again that water rates that raised revenue for City projects had been too easy for years. He added that they were a big city now and needed to do big things. Mr. Spurgeon stated that Communications Director Krista Flasch was in attendance and they had been discussing how they were going to go about the education process, short and long term, based on the decision that Council would make that night. He went on to say that they hadn't expected Council would direct them to bring forth an ordinance at the next City Council meeting, figuring that there would be some work to do. However, they wanted to make sure that the Mayor and Council members got the full picture. He was excited about the opportunity to go out and sell it to the public because of the many opportunities to rebuild their infrastructure, and infrastructure was right up there on the list with public safety. Councilor/Trustee Lester observed that, by and large, most could afford the hike, but those living on a fixed income had to be considered. Mr. Spurgeon related that after projects, most of their time was spent with regard to stormwater, and they might have to adjust the proposed rate because the amount of increase even over a couple of years, might be too steep for businesses that owned commercial property. Councilor/Trustee Lester saw the need to bring the public and major players together to sit down and talk about it. Mr. Spurgeon said that was one of the things he and staff had talked about, but they needed some direction from the Mayor and the Council/Authority; however, he was hearing what they wanted him to do. Councilor/Trustee Eudey commented that they needed buy-in from the schools, the Chamber of Commerce and other entities. They had to demonstrate the need to them and then they, in turn, could help by spreading the word. Mr. Spurgeon said that he had begun to get the word out about the increase, but to go and tell the school district that over the next couple of years their stormwater bill might go up six digits was not going to go over well with them.

Mayor/Chair Thurmond stated that with respect to stormwater, he thought Broken Arrow's rate should be lower than Tulsa's, in order for the City to remain competitive. Council/Trustee Lester and Vice-Mayor/Vice-Chair Carter voiced their agreement. Mr. Spurgeon revealed that Tulsa's Mayor had reported recently that their Development Services was great and had asked how he could do better, everyone seeming satisfied with what they were doing. He said that Broken Arrow citizens did judge how good a job they were doing by comparing their city with a good many others, so he understood the Mayor's point.

Mr. Spurgeon asked if they wished to have another special session before the regular Council meeting, to consider a package that he and staff could put together. Several Council/Authority members expressed agreement that it was a good idea. City Attorney Beth Anne Wilkening stated that it sounded as if there might be consensus among Council members to direct the City Manager to continue to assess the utility rate structures.

Mr. Gale stated that a thing he might add was to inquire if the Council/Authority members were contemplating the changes in the Reserve Fund policy. Ms. Wilkening declared that she would open the matter for consideration at the next Council meeting. Mr. Gale specified that though should be given about the change from 6 months to 90 or 100 days. Another element was the big rate increase the first year was to address the funding challenge to operate the present system, if he understood correctly. Ms. White said that was right, it was just to keep it above 30 days. Councilor/Trustee Lester interjected that there are statistics on the average total number of gallons across the City, and that instead of percentages, he wished to see numbers on what they anticipated with regard to bills. Mr. Spurgeon replied that now that they were beginning to refine matters, he would be receiving a separate sheet stating as much. Mr. Spurgeon said they could actually make chart usage quantities a little easier to read, like stating "7,000" instead of "7M." However, as Ms. White indicated, what they shared with the public would not primarily be in chart form. Councilor/Trustee Eudey pointed out, and Council members concurred, that actual figures were more palatable than percentages because the latter could be high, when actual application of a percentage was low and insignificant, in terms of monetary value.

Mr. Schwab said he had two points he wished to share. He was in complete agreement on flattening out the initial rate increase and they would work with Black & Veatch on that. He and his team would also be working to find a few projects they could defer, which would help a little on the front end, to decrease that rate. He wanted to make sure also, that when they were talking about GO Bonds, which he believed they were key, the Council's policy of not increasing the millage would change. If they didn't increase the millage, they might be obliged to take away from the public safety and transportation program for stormwater. Mr. Schwab asked the Council's opinion on that issue. Finance Director Tom Caldwell wished to clarify, explaining that you could have the same amount on a bond issue, but in keeping the millage at the same rate you might have to sell the bonds over a period of seven years instead of five years. Mr. Spurgeon said that his thought was that if you presented to the voters that the City had to do the projects at that point, there were two ways that they could pay for them. The first was through utility rates and they would be shown what adding a hypothetical figure like $50 million, would do to their rates. If the same $50 million was raised through an ad valorem collection, which could be a tax increase, they would be shown what it would mean for them. Mr. Spurgeon noted that there were people living outside the City who were under the City's utility services, so that they would need to do some type of adjustment, to make sure everyone was paying. Those customers living outside the City then, would have some type of slight increase. They would be shown the difference, in terms of how much it would cost them as compared to what they were currently paying, should they approve the increase by way of a property tax increase. The comparison would be made with the understanding that one would roll off and other would be ongoing. He was already starting to think 7 and 15 years down the road, and if they took it all with the capacity at the present time through the rates, they would not be able to afford doing the capital and the rates would be jacked up to the very top. Some would roll off, but the last thing they would want would to be at the very top rate-wise. They needed to think that the GO Bonds still kept their rates very competitive, unlike doing it all through utility customers. If residential customers did not support a GO

Bond, then they would not have any choice but to adjust the rates because the projects mentioned earlier had to be done. He added, that they had obligations under RMUA that stated they were obligated to do them. They would do further analysis to show the Council what it would look like.

MOTION: A motion was made by Richard Carter, seconded by Mike Lester.
Move to direct the City Manager to continue to assess the utility rate structures in accordance with the direction given by the Council and Authority
The motion carried by the following vote:
Aye: 5 - Scott Eudey, Johnnie Parks, Mike Lester, Richard Carter, Craig Thurmond

8. Remarks and Inquiries by Governing Body Members

Mayor/Chair Thurmond thanked Anna White of Black & Veatch for her work and presentation to them. He thanked the City staff members for all the work they'd done and for their attendance.

Vice-Mayor/Vice-Chair Carter said he wished to amplify on that, saying that it was good to see all the staff members in attendance, some of whom he hadn't seen in years, in one place. He appreciated all the work they did with limited staff and budgets at their disposal. They were amazing and together with the Mayor and Council, they were going to forge ahead and make Broken Arrow even better.

9. Remarks by City Manager

Mr. Spurgeon thanked Anthony Daniel and his team. He appreciated the hard work put in by Ken Schwab and Ms. White, with a lot of work still to do, and thanked them.

Mayor Thurmond entertained motions to adjourn.

10. Adjournment of Broken Arrow City Council

The joint meeting adjourned at approximately 7:25 p.m.

MOTION: A motion was made by Mike Lester, seconded by Johnnie Parks.
Move to adjourn
The motion carried by the following vote:
Aye: 5 - Scott Eudey, Johnnie Parks, Mike Lester, Richard Carter, Craig Thurmond

11. Adjournment of Broken Arrow Municipal Authority

MOTION: A motion was made by Scott Eudey, seconded by Mike Lester.
Move to adjourn
The motion carried by the following vote:
Aye: 5 - Scott Eudey, Johnnie Parks, Mike Lester, Richard Carter, Craig Thurmond

Attest:

/Craig Thurmond___________
Mayor

/Lisa Blackford _______________
City Clerk