

CITY MANAGER BUDGET MESSAGE

Fiscal Year 2010

To Mayor Barrett and Members of the Peoria City Council,

I am pleased to provide you with the City of Peoria's FY 2010 annual budget and ten-year Capital Improvement Program. These spending plans strive to ensure our fiscal stability, while continuing the essential services afforded to our citizens.

The proposed budget totals \$535 million, which represents a 21% spending drop from the prior year. The operating budget totals \$207.4 million, which on its own represents an 11% decrease from FY 2009. The budget also includes \$199.4 million for the capital budget, \$66.5 million in debt service requirements, and \$61.7 million for contingency appropriation.

With the serious downturn in the economy, Peoria's government is being forced to balance the needs for City services with a diminished revenue base. To make ends meet, we have had to make tough choices, and numerous sacrifices. Yet even at a reduced level, this proposed budget focuses on preserving our community's excellent quality of life.

Earlier this year, the City Council developed their 24-month policy goals at their annual workshop. These goals will effectively serve as a guide to the organization as we look ahead. Included were six broad policy statements:

- Community Building
- Enhancing Current Services
- Preserving our Natural Environment
- Total Planning
- Economic Development
- Leadership and Image

The proposed budget reflects these policy statements, and allocates funding to address these important priorities over the next year.

The economic downturn has also directly affected numerous Peoria residents and businesses. With this in mind, a new focus has been placed on keeping Peoria communities healthy and viable. The submitted budget includes important, targeted investments to strengthen the physical and social assets in our neighborhoods.

Peoria's Fiscal Situation

Peoria's revenue structure relies on several key sources. Chief among them is the City collected sales tax, which represents the largest single revenue source for the City. The softening economy has had a direct impact on sales tax, with collections estimated at nearly 16% below the prior year. Other sources of recurring revenue, such as state-shared income and sales tax, have experienced dramatic drops as well. Expected declines in home values have also reduced the bonding capacity in the City's capital program.

Fortunately, the City's conservative fiscal management practices, underpinned by sound financial policies, have helped to minimize the City's financial burden. Nonetheless, the General Fund is facing a \$9.2 million structural shortfall for the upcoming fiscal year. Other operating funds are also feeling the pinch of a faltering economic base.

Budget Approach

With the backdrop of the difficult financial environment, the City has been taking deliberate, progressively stronger steps to respond to the changing situation. Early into the fiscal year, departments began a process of "scrubbing" operating budgets, which included scaling back on discretionary services, limiting out-of-state travel, restricting food expenses, and eliminating contractual positions. Soon after the financial events of September 2008, City staff stepped up their reduction efforts. By freezing many vacant positions, and shifting work duties, we've been able to manage effectively without undermining service delivery.

For the upcoming fiscal year, departments were asked to apply a more strategic approach when evaluating their services. The result was a "retooling" effort, which emphasized placing resources toward our most essential functions. To ensure good decision-making, every workgroup sought to distinguish their core and non-core services. Moreover, the City ramped up their performance management philosophy, ensuring that funding decisions were based on relevant and measurable outcomes.

Throughout this last year, employees have been challenged to find creative budget solutions. This included a series of brainstorming sessions with the larger management team. The sessions addressed a number of process improvements, and explored new cost saving and revenue opportunities as well.

One effective inter-departmental work team was the Fleet Solutions Group, which explored numerous aspects of our current vehicle fleet. Ultimately, their actions have resulted in the expected reduction of 80 vehicles, and a net \$600,000 in ongoing savings to the City. Our Sustainability Team proved up to the task as well, identifying numerous measures which could limit unnecessary use of energy resources.

All told, the creative efforts of these multi-disciplinary teams have resulted in nearly \$2.5 million in ongoing savings. This figure reflects the hard work and commitment put forth by Peoria staff over the last year.

Workforce Management Strategies

Yet even with these cost saving measures, the City will be forced to address the budget with workforce changes. Overall, employee-related expenses account for roughly 70% of the operating budget, with a considerable portion of this cost historically exceeding the rate of inflation. Thus the only realistic fiscal strategy is to lessen our overall personnel costs.

In January of this year, the management staff were not given their scheduled salary pay increase. In addition, the recommended budget would enact a pay freeze for all employees starting July 1st, pending Council approval of the proposed budget. These measures alone will account for \$4.3 million in ongoing savings to the General Fund.

Overall, the FY 2010 budget proposes 62 fewer positions than the year before (about 5% of our workforce). Included in this number are 25 individuals who have signed up for the City's Retirement Incentive Program. The ongoing benefit of this program will ultimately result in \$1.9 million savings (1/2 of this is attributable to the General Fund).

These reductions come from across all levels of the organization. The majority of these positions have been vacant over the last few months. For individuals in the filled slots, it is our hope that many can be placed elsewhere in the organization. Nonetheless, we will make sure that any individuals subject to this reduction in force

will be treated with the utmost dignity and respect, and will be offered thoughtful transition and career training benefits.

Use of Fund Reserves

The Council-adopted *Principles of Sound Financial Management* have established strong policies on reserve levels for our major operating funds. It is important to remember that such reserves are established to address immediate and dramatic fiscal difficulties. A “Rainy Day” fund can be effective at providing the City a few months’ relief, but is ill-equipped to address the structural shortfall seen in the current budget. With this in mind, the budget includes contingency appropriation for emergency events, but does not anticipate use of reserves to address recurring expenses.

Taxes, Rates and User Fees

In light of current economic realities, the budget attempts to minimize impacts on Peoria citizens. The FY 2010 recommended budget assumes no tax increases for the upcoming year. Likewise, no rate increases have been projected for City water and wastewater services. No rate adjustments are expected for residential and commercial solid waste customers as well.

Organizational Change

In times like these, it is important that the City establishes a solid organizational foundation; one that finds ways to deliver core services in the most efficient manner. It is my hope that we will adapt ourselves to better respond to the changing needs of our community.

Over the last months, the executive leadership has been examining ways to modify our department structure. The resulting organizational restructure attempts to integrate similar functions, creating real opportunities for improved efficiency. Moreover, the organization is configured to better respond to the Council’s key policy goals.

Most notable among this new organizational structure is the consolidation of key activities. For example, all engineering functions will be merged into one department. Also, the operations and administration for the Public Works and Utilities departments will be combined. Previously, long-term land use and transportation planning were housed in different areas. The new structure will bring these functions

together, while placing an increased emphasis on sustainability efforts. In an effort to streamline key development projects, the economic development function will be more closely aligned with the permitting function. A number of key public service departments, such as in Police and Fire services, will remain unchanged.

Also over the next few months, City staff will continue with their efforts to build an Organizational Strategic Plan. This plan is an important vehicle to help the organization focus on strategic priorities. In the next few months, we hope to locate shared organizational values, align our overall mission, and offer a collective vision of our organization over the next five years.

Budget Priorities

This year's budget is intent on providing the essential public safety services to Peoria citizens. It should be noted that there is no proposed change to the number of sworn police officer or firefighter positions. Very minimal changes are slated for the support functions in these areas as well.

As discussed earlier, the proposed budget reflects our response to the changing social environment. Funding for a comprehensive neighborhood enhancement effort will come into full effect. This includes an expansion of the Police Department's "B-4" program, the successful community policing pilot project undertaken over the last year. The budget also includes a ramped up "Community Works" program, which targets smaller capital improvements in various neighborhoods throughout the City. Funding is also continuing to maintain the highly successful neighborhood revitalization grant and traffic management programs. One-time funding for lot cleanup and foreclosure assistance has also been identified in the spending plan.

Another key initiative is to continue city support of youth-related activities and programs. Providing useful outlets for youths and teens can notably contribute to the community's quality of life. As a result, the budget as proposed will attempt to sustain comparable service levels for aquatics, after-school and summer youth programs. And in an effort to provide some monetary relief, the City does not intend to pursue fee increases to youth recreational programs in the upcoming year.

As discussed recently, the submitted budget will contribute toward the promotion of new initiatives on green building and sustainability. This includes funding for staff training, a sustainability speaker series and various public events. As the City prepares

for its update to the General Plan, such initiatives will help ensure that policies and practices will be in place to realize a sustainable future.

Capital Improvement Program

Each year the Council updates the Capital Improvement Program (CIP). The CIP provides a schedule of planned improvements over the next ten years, and identifies financing sources for capital projects over the entire period.

A number of key revenue sources have been affected by the recent economic downturn. Most notably is the City's secondary property tax levy, which is used to retire debt for general government capital projects. Early indications are suggesting that nearly a 40% drop in the citywide assessed valuation will occur over the next few years. Likewise, development impact fee revenue is expected to decrease markedly through FY 2012. While some federal stimulus funding may offset a portion of this, the loss in revenue capacity has required the City to reassess capital priorities.

With the resulting loss in growth-related revenues, and the overall slowdown in residential and commercial development, the capital plan is concentrating more resources toward preserving and maintaining our existing infrastructure. Important street and bridge maintenance programs are included in the spending program. Key sewer line repairs and line assessment programs are included as well.

One of the key Council goals is to position the City for long-term, strategic economic development opportunities. Within the ten-year capital program is funding to provide for key infrastructure improvements along the proposed Loop 303. This includes the Lake Pleasant widening project, various utility line improvements in the area, and support for freeway interchanges along the 303. Funding has been reserved to assist with improvements at the Peoria Sports Complex; with a placemark to assist with recommendations from the Sports Area Urban Design Plan. Funding is also recognized for the Oldtown area, including for streetscape enhancements on 84th Avenue, a significant remodel of the Peoria Community Center, and an umbrella of projects related to the proposed southern Community Park. New to the capital plan is funding for the study, design and development of an alternative truck route solution in the northwest area of the city.

Conclusion

In these times of heightened uncertainty, we must be thoughtful of all those that are impacted. Families, businesses and workers are all facing difficult challenges and choices over the next few months. But this can also become an ideal time to look forward. By working together, becoming more strategic in our approach, and more coordinated in our structure, I believe the City can emerge from this trying economic period.

I would like to take a moment to thank the City Council for their guidance and support throughout the development of this proposed budget. In addition, I would like to thank the Budget Department staff, our Deputy City Managers, Department Directors, the Human Resources Department staff, and all of the employees of the city who have contributed by creativity and sacrifice to make the FY 2010 budget a reality.

Sincerely,



Carl Swenson, City Manager



