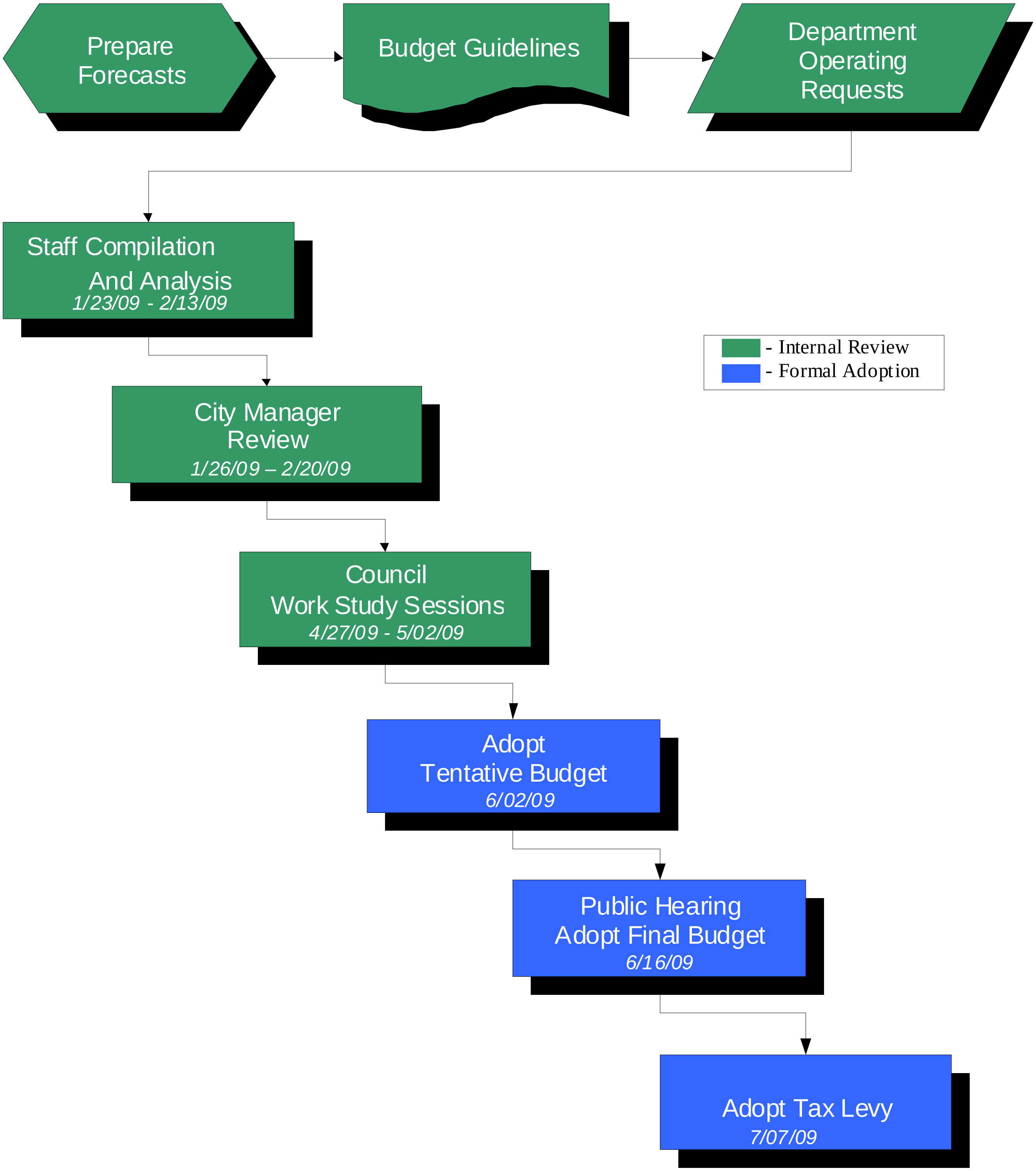
Budget Process



Budget Process

Overview

Beginning at their annual workshop in September of 2008, the City Council identified their critical priorities for the fiscal year. After a review of the current financial condition with assessment of the current economic state, and a discussion on the long-term financial plan, Council developed their 24-month policy goals. These goals, conveyed in six broad policy statements, provided key policy directives and goals to the City Manager for consideration during the fiscal year (FY) 2010 budget process. Amidst the challenging economic climate, the FY 2010 budget adhered to City Councils' goals and continued to integrate sustainable solutions implemented during FY 2009. The 10-year Capital Improvement Program is balanced and there are no proposed increases to property tax rates, utility rates, nor adjustments to residential and commercial solid waste rates.

In October, 2008, the City Manager conveyed this budget direction to City department heads and budget experts. These department managers and supervisors best understand their programs' ongoing needs as demonstrated when they successfully responded to "scrubbing" the projected budget shortfall of $6 million from operating budgets in FY 2009. For FY 2010, City management progressed to a strategic approach and evaluated services in all areas across the City. By utilizing performance management tools, departments distinguished core and non-core services. This resulted in "retooling" efforts to fund essential functions needed to provide the City's quality services.

Individual departments develop their divisional budgets at the line-item level. These departments forecast year-end estimates, and formulate the next year's request. Budget staff conducted training in October to inform staff about changes in budget policies, and to assist them in entering their budget data onto the City network database system.

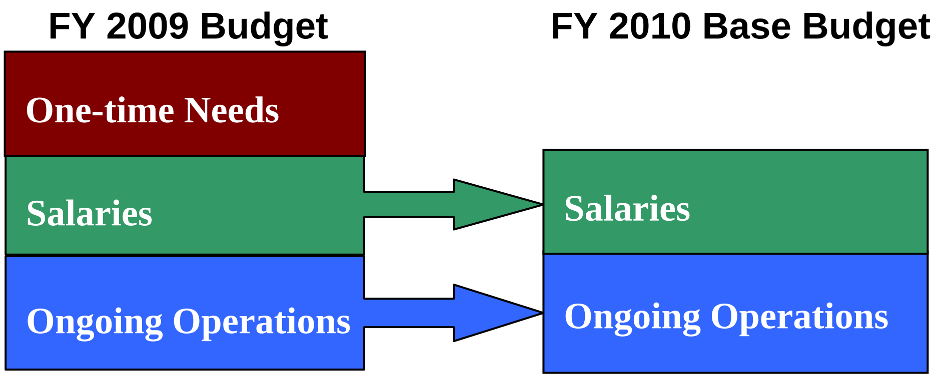
As stated in the City's "Principles of Sound Financial Management", the City has a "**balanced budget"** which is defined as having ongoing revenues to meet the ongoing expenditures of the City. In addition, the balanced budget will not use one-time (non-recurring) sources to fund continuing (recurring) uses, postpone expenditures, or use external borrowing for operational requirements. The "retooling" efforts departments carried out for FY 2010 amounted to a reduction in base budgets of $9 million within the general fund.

Base Budget Objectives

For FY 2010, a "**base budgeting**" method was utilized throughout the organization. This expenditure-controlling method promotes fiscal conservatism, while helping to maintain existing service levels throughout the organization.

With base budgeting, divisions are allocated a target base expenditure amount to support all ongoing operations for the fiscal year. Allocations are based on the prior year appropriation (reflective of any base budget adjustments made for the mid-year "scrub") for that division. Departments are free to shift allotments for non-salary items within the target base amount.

Calculation of a Base Budget



All personnel costs are calculated and established separately by the Budget Office. The office then includes sufficient appropriation for each division to support all existing full and part-time staff through the next fiscal year.

In some cases, the allotted base budget is not sufficient to support existing department operations. At other times, departments would like to promote a new or expanded program. Conversely, in acknowledgment of decreased revenue streams, reductions to budgets may need to be considered. In the case where additional funding is desired, departments may submit a "supplemental" request for **additional** resources. On the other hand, departments may submit a "supplemental" request to **reduce** the budget. All supplemental requests are closely reviewed and must compete for limited funding if applicable. The approved requests are then incorporated into the department base budget.

The City has attempted to create incentives for department staff to save funds for future needs within the agency. As a result, departments not expending their budget appropriation during the year may request a **carryover**. This allows for any savings achieved through efficiencies this year to be utilized for one-time uses in the next year. Department managers justify carryover requests by proposing uses of funds that are directly related to the needs of the City Council and community. The appropriation for these funds may be used as a one-time source in the upcoming fiscal year's budget.

Budget Review

Once divisions submitted the base, supplemental, and carryover budget requests, budget staff undertook extensive reviews of various cost factors, as well as individual account activity. Throughout this time, Budget staff closely analyzed and resolved outstanding issues during a series of evaluation sessions with the departments. From there, the Executive Management Team conducted reviews through the months of January and February 2009. These processes ensure that the initial base budget with appropriate reduction or supplemental packages meet City needs and priorities. The City Manager's recommended balanced budget, delivered with an overview of the City's financial condition, was presented to the entire City Council. The Council Budget Study Sessions were undertaken this year from April 27th through May 2nd. Upon Council's revisions to the Manager's recommended budget, the Budget Office then finalized the proposed tentative budget.

Budget Adoption

After the initial study sessions, the proposed budget was presented to Council for tentative adoption on June 2, 2009. The adoption of the tentative budget sets the maximum appropriation for the fiscal year. The budget was then transmitted to the general public in the form of a newspaper insert and public hearing notices. After completing public hearings, the Council adopted a final budget and tax levy consistent with the City Charter and State law. As depicted in the following calendar, the FY 2010 final budget was adopted on June 16, 2009 and the property tax levy on July 7, 2009.

FY 2010
BUDGET CALENDAR

	Date
City Council Annual Workshop-Goals and Priorities Established	09/06/08
Mid-Year Financial Review and Long Range Forecast to City Council	11/18/08
City Manager Budget Kick-off and Training with Departments Begins	11/24/08
Base Budget Estimates, Additional and Reductions due to Budget Office	1/23/09
Budget Department Staff Review of all Budget Submittals	1/23/09-2/13/09
Department Review Sessions with City Management	1/26/09-2/20/09
City Manager's Recommended Budget	4/18/09
Council Budget Study Sessions	4/27/09-5/02/09
Adopt Tentative Budget	6/02/09
Hold Public Hearing on Budget & Property Tax Levy	6/16/09
Adopt Final Budget	6/16/09
Adopt Property Tax Levy	7/07/09

State Law

All funds within the City have been set up with expenditure appropriation in the budget. In Arizona, state law requires an adoption of the tentative budget which sets the maximum spending appropriation for the City. Once this amount is set, the City cannot spend over that amount for the fiscal year.

The State of Arizona imposes an expenditure limitation for the annual budget appropriation in municipal governments. The limitation requirements appear in both the State constitution and the Arizona Revised Statutes. Should the State-imposed limit not allow for sufficient funds to meet the City's needs, the budget law provides four options to potentially solve this problem:

- A local home rule (alternative expenditure limitation)
- A permanent base adjustment
- One-time Override
- A capital projects accumulation fund

The voters of the City of Peoria have adopted the Home Rule Option in 1989, 1993, 1997, 2001 and most recently in 2003. In the March 2003 General Election, voters approved the Permanent Base Adjustment, which allowed the City to continue appropriating funds beyond the state limit until a new base adjustment is necessary. The approved increase of $15 million to the base expenditure limitation was based on actual expenditures in recent years and forecasted expenditures and revenues available. This Permanent Base Adjustment increased the original 1979-80 base from $3,247,857 to a new base of $18,247,857. City estimates were calculated from current and anticipated levels of operations, maintenance and capital outlay.

The actual expenditure budgets adopted each year by the City Council will be the statutory limit and may vary from these amounts depending on the available revenues. Finance staff estimates that such an adjustment would allow the city to maintain sufficient spending appropriation for approximately 10 years. The approval of a permanent adjustment eliminated the need for voter approval every four years.

The maximum legal expenditure limit is $723,170,421 in Fiscal Year 2010. This compares to the total appropriation of $535,000,000 in the final budget adopted by Council. However, the City estimates that $241 million would be qualified for exclusions from the expenditure limitation. The budget includes funding for current needs and carryover allowances for the upcoming year.

Budget Amendment Policy

During the fiscal year, the budget is monitored continually by both the Budget Office and individual departments. The City may not exceed the total expenditure appropriation originally authorized by the City Council. However, the Council may amend the appropriations for a fund during the fiscal year. This may require a corresponding change in another fund to assure compliance with the total legal expenditure limitation.

Current City policy requires Council approval for transfer of expenditure authority between funds, all transfers of expenditure authority over $50,000, all transfers of funds to or from personnel accounts, and all transfers to or from capital outlay accounts. In addition, expenditures to be supported from reserves or contingency accounts also require City Council approval. The City Manager may authorize transfers within a fund up to $50,000.

Budget Basis

The City maintains its financial records in accordance with Generally Accepted Accounting Principals (GAAP) for governmental entities. The basic financial statements include government-wide financial statements as well as fund financial statements. The government-wide financial statements are prepared on a full accrual accounting basis and show governmental activities, business-type activities and a total for the government (excluding fiduciary activities). Governmental fund statements are prepared on a modified accrual basis of accounting. Proprietary fund statements are prepared on the full accrual basis.

Under the modified accrual basis of accounting, revenues are recognized when they are "measurable and available". "Measurable" means the amount can be determined and "available" means collectible within the current period or soon thereafter to pay liabilities of the current period. Expenditures are recorded when the related liability is incurred, except for unmatured interest on general long-term debt which is recognized when due, and certain compensated absences, claims and judgments which are recognized when the obligations are expected to be liquidated with the expendable available financial resources.

For Enterprise fund types, including the Water, Wastewater, Solid Waste, and Sports Complex Funds, financial records are maintained on an accrual basis of accounting. For budgetary purposes, the City does not recognize non-cash accounting entries, such as depreciation expense, in the Enterprise Funds. Governmental fund types include the General Fund, Special Revenue Funds, Capital Project Funds, Debt Service Funds and Trust and Agency Funds.

The City has attempted to minimize the differences between GAAP (modified accrual) reporting and budget (cash) basis reporting. Variances which have not been eliminated include: (1) non-cash entries such as depreciation and accrued employee compensated absences that are recognized for GAAP but not for budget, and (2) the 45-day encumbrance recognition for budget that is not GAAP. The Comprehensive Annual Financial Report (CAFR) is prepared after the close of each fiscal year and reflects how well the City has met its budget plan after the aforementioned differences are recognized.

Performance Management

The City of Peoria is focused on continually improving operational performance. The organization is accountable to its residents by demonstrating progress toward the achievement of goals, objectives and performance measures within every service delivery area. The City has employed a number of performance management practices to make informed decisions on operational needs and resource allocation.

During the FY10 budget process, Departments identified and evaluated their core services, key operational goals and objectives and performance indicators. In addition, a number of major operating departments completed a Strategic Business Plan to address changes in the economy and reduced workload in specific service areas. Multi-year performance measurement data, coupled with cost of service analysis, ensured that the recommended FY10 budget addressed the business needs of the city while focusing on quality and effective service delivery to the citizens.

Since January 2006, the City of Peoria has taken a lead role in the Arizona Consortium for Performance Management. This consortium, sponsored through the International City/County Managers Association (ICMA) Center for Performance Management, includes the membership of 13 other jurisdictions across the state. Data is collected from these partners on a number of municipal service areas and provides a regional snapshot of performance data, level of service analysis and overall operational analysis.

Budget Summary

The City of Peoria's FY 2010 annual budget appropriation totals $535 million. The Operating Budget totals an estimated $207.4 million, a decrease of 11.3% from the prior year. A summary of uses is provided below.

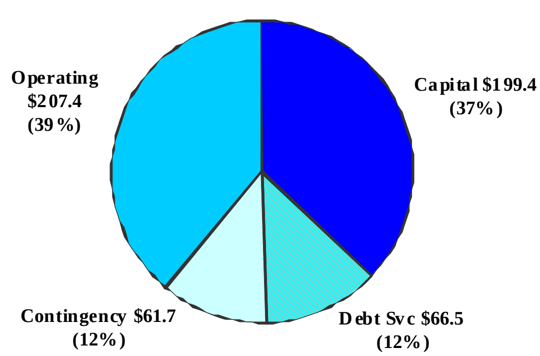
Total Budgeted Uses
In Millions

Description	FY 07	FY 08	FY 09	FY 10	%Change Previous Year
Operations	$202.0	$229.3	$233.9	$207.4	-11.31%
Capital	353.3	356.6	340.5	199.4	-41.43%
Debt Service	59.2	54.6	52.8	66.5	25.90%
Contingencies	39.5	49.4	52.8	61.7	16.75%
Total Expenditures	**$654.0**	**$690.0**	**$680.0**	**$680.0**	**-21.32%**
Transfers Out	17.5	24.9	17.7	32.5	83.6%

Expenditures

The budget is comprised of four major segments. The operating budget totals $207.4 million (39% of the total); with debt service at $66.5 million (12% of total). Approximately $61.7 million (12%) is also set aside for contingency accounts. The City's capital improvements for the fiscal year total $199.4 million. This represents nearly 37% of total FY 2010 budget.

City of Peoria
Summary of Expenditures
In Millions

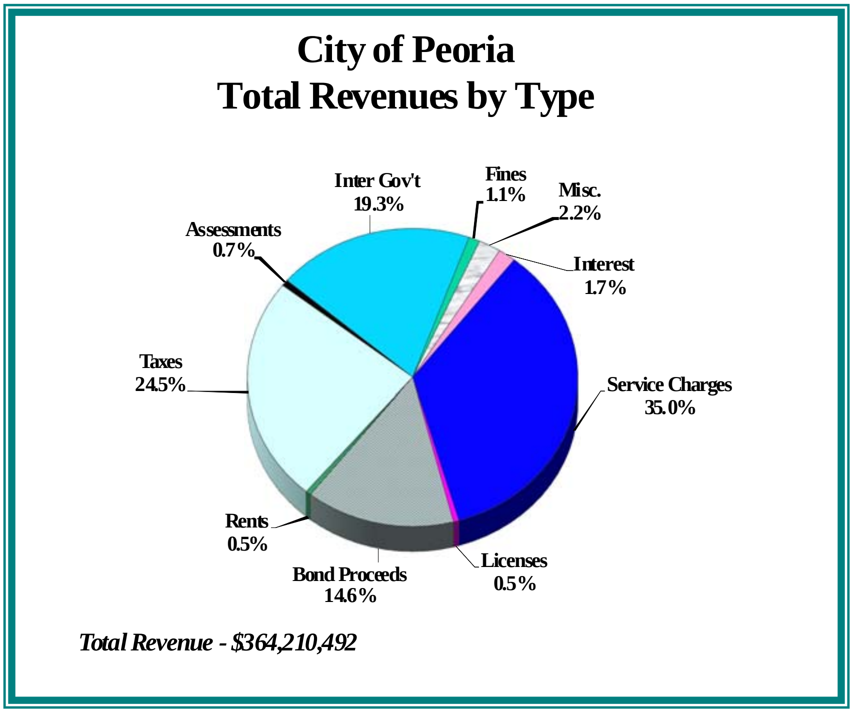


Total $535 Million

Revenues

The FY 2010 estimated revenues total $364 million, which represents a 24% decrease from FY 2009 budgeted revenues. Projected revenues are realized from a variety of sources, including sales tax collections, water billings and user fees. The decrease in estimated revenues is largely the result of the economic downturn, notably in the development related and sales tax revenues and lower interest rates on investments.

In FY 2010, the City anticipates revenue from charges for services at $127 million (35% of total), bond proceeds at $53 million (15% of total), and taxes at $89 million (24% of total). The remaining categories represent $95 million (26% of total).



Total Revenues by Type
In Millions

Description	FY 07	FY 08	FY 09	FY 10	%Change Previous Year
Fines, Licenses, Permits & Rents	$22.4	$8.9	$6.6	$7.8	17.1%
Bond Proceeds	166.8	159.8	124.2	53.1	-57.2%
Charges for Services	143.7	147.8	138.0	127.3	-7.7%
Intergovernmental Revenue	65.4	72.4	76.9	70.3	-8.6%
Taxes	82.9	102.9	101.3	89.1	-12.1%
Miscellaneous Revenue	14.2	18.8	21.6	10.4	-52.0%
Interest Income	10.2	13.4	8.8	6.2	-30.0%
Total Revenues	**$505.6**	**$524.0**	**$477.4**	**$364.2**	**-23.7%**

Financial Reserves

The City of Peoria's financial plan continues to emphasize the need for strong financial reserves. The collective ending balance for all funds is projected at $202.1 million, not including contingency appropriation.

There are many factors to consider when preparing a financial plan. Some of these factors include the fluctuation of revenues due to changes in the economic environment, the changes in population, and the changes in the political environment. The City plans on maintaining strong financial reserves. Such a position gives the City flexibility to provide the current level of services being offered to the citizens.

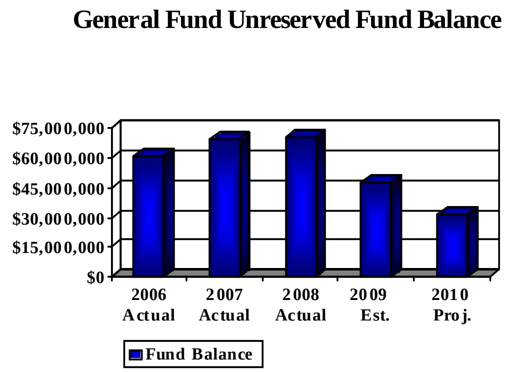
The chart below outlines the financial plan for FY 2010. The total sources are estimated at $769.6 million and total uses are estimated at $567.5 million, which includes a contingency/reserve of $61.7 million. While balances in several funds appear to be declining, this is largely due to planned drawdowns of available balance to support capital projects and one-time budget needs. At this point, the City is positioned to sustain fund balances at or near stated reserve requirements.

Financial Plan Summary
In Millions

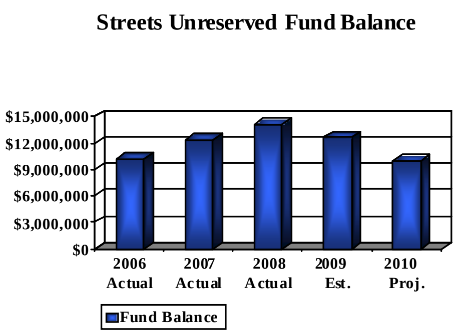
Fund Categories	Estimated Balance 7/1/09	Total Sources	Total Uses	Estimated Balance 06/30/10
General	$67.9	$198.5	$177.7	$20.8
Special Revenue	62.7	114.8	74.9	39.8
Enterprise	77.5	175.8	120.9	55.0
Internal Service	29.6	57.3	37.0	20.3
Trust, Agency, & Reserve	0.2	0.2	0.0	0.2
Capital Project	90.6	143.5	113.1	30.4
Debt Service	44.4	79.5	43.9	35.6
Total Budget	**$372.9**	**$769.6**	**$567.5**	**$202.1**

*Total Uses and Estimated Balance includes contingency appropriation.

General Government Fund Balance Analysis – Fiscal Year End

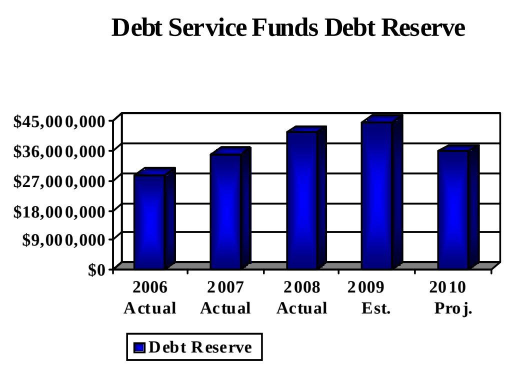


In the General Fund, the fund balance reflects the City's strong growth cycle over the past few years. The reserve goal is equal to the 35% of the average actual General Fund revenues for the preceding five fiscal years. The reason for the declining fund balance is the City utilizes additional funds above the reserve requirement to pay for one-time projects in the following fiscal year.



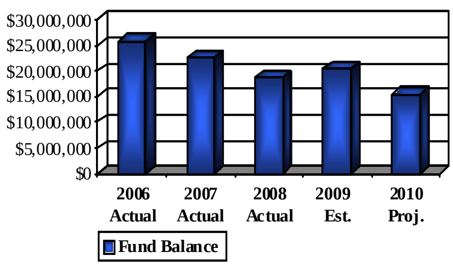
For the Street Operating Fund, a new transportation sales tax was approved by voters and effective as of January 2006. This will help support and maintenance in the Street Operating Fund. While the FY 2010 balance remains at healthy levels, future projections reflect a declining balance. We will continue to review this fund and make the necessary adjustments.

The reserve requirements are provided to adequately meet debt service payments in subsequent years. While maintaining a healthy reserve requirement as indicated in the **Principles of Sound Financial Management**, the fund balance in the debt service funds reflects a strong assessed value growth. The 10-year Capital Improvement Plan programs the use of any excess reserve.



Enterprise Fund Balance Analysis – Fiscal Year End

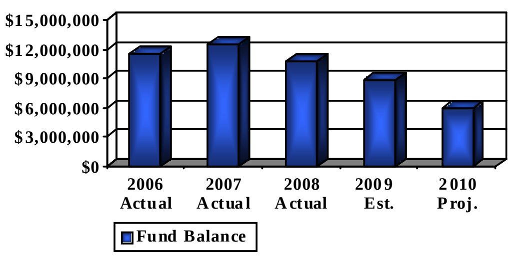
Water Unreserved Fund Balance



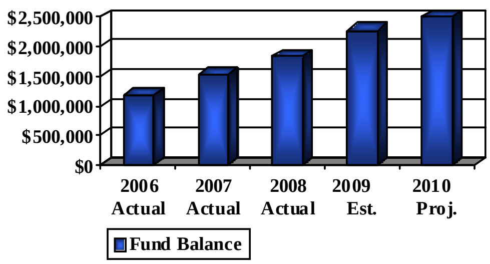
The targeted debt coverage ratio for the Water Fund is 1.5 times the debt service payments and the working capital goal is 50 to 75% of the operating revenues for the current fiscal year. The fund balance now reflects the full impacts of the operational costs for the Butler Water Reclamation Plant project which were included in the existing rates. There are no rate changes proposed for Fiscal Year 2010.

Wastewater Unreserved Fund Balance

The targeted debt coverage ratio for the Wastewater Fund is 1.5 times the debt service payments and the working capital goal is 50 to 75% of the operating revenues for the current fiscal year. There are no rate increases programmed for Fiscal Year 2010.



Residential Sanitation Unreserved Fund Balance

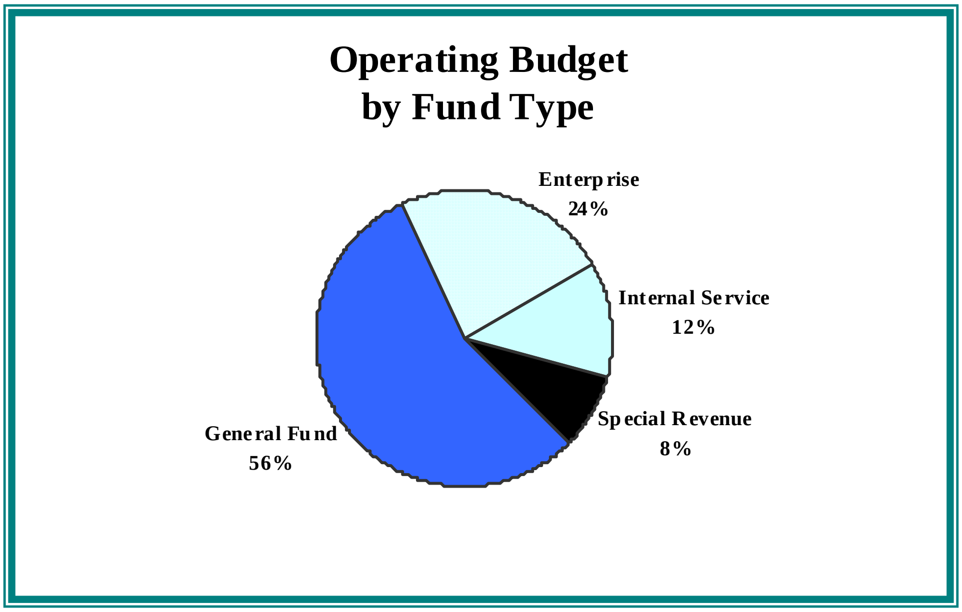


The Residential Sanitation has continued to stabilize after some significant operation requirements which caused this fund balance to decrease over the past few years. The targeted goal for working capital is 20% of actual operating revenues in the current fiscal year. There are no rate increases proposed for FY 2010.

Operating Budget

The FY 2010 operating budget of $207.4 million is a decrease of $26.4 million, an 11.31% drop from last year's $233.9 million operating budget amount. Based on the City's projected revenue estimates, the FY 2010 operating budget can be balanced without any increase to City taxes or utility rates.

The General Fund makes up **56%** of the total operating budget and is the largest component of the City's organization. Other fund categories include: Enterprise Funds (**24%**), Internal Service (**12%**), and Special Revenue (**8%**).



Notable Budget Changes

As stated in the City Manager's Budget Message, this budget was developed being mindful of the serious downturn in the economy. The goal of this budget is to reduce spending, while being responsive to the needs of our citizens by maintaining the basic core service levels – all within the context of a structurally sound budget. This was accomplished through process improvements, modification of the organization, and reductions of ongoing budgets without negatively affecting core services.

Staffing Summary

Every year, City of Peoria departments assess their organizational units to ensure we meet the needs of the community while continuing to provide efficient service. In FY 2010, the reality of the downturn in the economy was a strategic factor contributing to the decrease in revenue streams. In recognition of this, overall personnel costs were analyzed and measures to control the growth in this areas were implemented early in the process. During FY 2009, many vacant positions were frozen and work duties were shifted to continue service delivery in core areas. Management staff were not given their scheduled salary pay increase in January. For FY 2010, a pay freeze was enacted for all employees. Even with these savings, it was necessary to reduce the workforce.

Overall, the FY 2010 budget has 62 fewer positions throughout City departments than the year before. Most of the positions had been vacant since the previous year. Twenty-five individuals elected to sign up for the City's Retirement Incentive Program. Throughout the reduction efforts, most of the remaining individuals in filled slots were reassigned elsewhere in the organization. Efforts were continued to work with the handful of individuals that had not yet been reassigned.

The reduction in force did not affect the provision of public safety services and there were no changes to the number of sworn police or firefighter positions.

Total staffing authorization for benefited positions was granted for 1,197.07 FTEs.

A summary and detail of the City's full-time benefited positions can be found under the "Schedules" section of this book in Schedule 6 and Schedule 7.

Department Summary

City of Peoria departments were quick to address reduced revenue projections and resulting budget shortfalls in FY 2009 and FY 2010. Departments were challenged (and were successful) to find reductions of ongoing budgets without negatively affecting core services.

The Police Department reduced ongoing budgets by 3.43% with no impact to core services. In FY 2010, the Park Rangers and Code Compliance Officers are now housed within the Police Department. In addition, the vast majority of supplemental requests were proposed with revenue offsets through the successful application for grant funds, utilization of forfeiture funds, or other revenues (non-General Fund) to help fund supplemental additions. The Redlight Enforcement Program one-time request was funded with the revenue generated by this program. The budget includes additional one-time funding for Professional Development and Leadership Training and a Police Activities League Program (PALS).

The Police Department believes that it is very important to continue the School Resource Officer Program in our local high schools. In order to augment the program, the Department recommended a grant proposal for school resource officers. This request is contingent upon receiving grant funds from the U.S. Department of Justice COPS Hiring Recovery Program.

The Fire Department's ongoing operating base budget reduction amounted to 5.07%. This decrease will have no impact in the delivery of the Fire Department's essential services. Consistent with the goal to provide core services and efficiencies, the supplemental requests for a Records Management System and funds to cover the CAD cost increase were approved for funding. Grant money was proposed to fund the supplements for the Electronic Patient Care Report System and the bulk of the cost for the Fire Boat.

A high priority in Community Services is to continue our youth and recreational programs without fee increases to the citizens of Peoria. The Community Services budget also includes all the equipment and supplies required to operate the new branch library. This budget also makes possible additional playground shade structures in a number of parks, and renovates deteriorating playground surfaces.

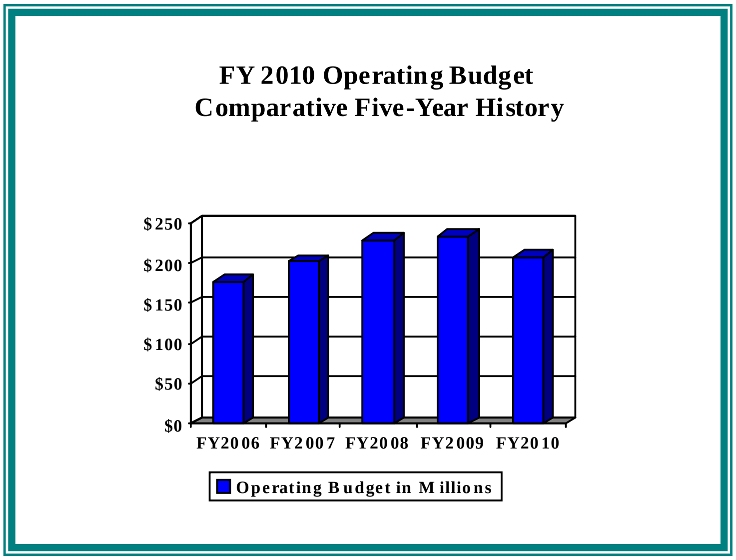
The Community Development Department budget includes $100,000 to continue the highly successful Neighborhood Grant Program, where neighborhood associations may receive funding for neighborhood improvements. This program was well received by the public, and was also identified as a Council priority.

Operating Budget History

	Budget FY 2006	Budget FY 2007	Budget FY 2008	Budget FY 2009	Budget FY 2010
GENERAL FUND					
Mayor & Council	$795,021	$1,230,802	$1,169,727	$1,223,500	$1,189,388
City Manager	1,311,812	2,076,745	2,283,208	2,304,732	1,815,379
Office of Communications	1,110,353	2,166,707	2,860,546	2,511,335	989,923
Engineering	4,585,969	5,403,420	6,141,779	6,203,459	4,505,845
Economic Development Srvs.	445,572	523,081	662,706	1,265,001	4,084,281
Human Resources	1,784,111	2,680,823	2,711,781	2,960,278	2,788,243
City Clerk	803,962	1,086,098	1,117,210	1,330,739	1,148,103
City Attorney	2,095,582	2,950,260	3,057,601	3,071,732	3,003,500
Municipal Court	1,279,029	1,897,407	2,406,104	2,240,510	2,292,519
Non-Departmental	10,958,123	1,832,824	1,507,844	1,248,355	1,851,654
Finance	9,467,436	9,330,685	11,288,758	11,438,336	9,552,989
Management and Budget	0	954,381	1,244,413	1,165,440	1,003,663
Planning and Sustainability	5,030,954	6,374,611	6,803,766	6,485,802	2,228,799
Police	25,276,594	31,121,898	34,845,425	37,227,285	37,629,801
Fire	13,969,091	18,454,333	20,679,498	21,987,381	20,025,671
Community Services	14,893,403	19,758,637	21,231,849	22,392,891	20,222,311
Public Works	400,108	429,930	516,440	540,799	631,252
Half –Cent Sales Tax & Other	434,600	430,100	299,600	299,600	229,600
	$94,641,720	$109,816,346	$120,828,255	$125,897,175	$115,192,921
SPECIAL REVENUE					
Streets Funds	$8,666,155	$9,878,048	$10,576,831	$10,731,837	$9,522,672
Housing & Comm. Devpmt	2,114,749	1,970,395	2,236,227	2,059,766	1,994,379
Transit	1,228,758	1,414,205	1,503,819	1,551,849	1,437,142
Grants & Miscellaneous	2,527,227	2,694,306	2,157,292	3,085,271	4,172,490
	14,536,889	$15,956,954	16,474,169	17,428,723	17,126,683
ENTERPRISE FUNDS					
Water Fund	$18,706,861	$20,489,642	$22,842,719	$23,746,845	$22,522,063
Wastewater Fund	8,368,988	9,349,463	12,027,420	12,805,031	10,378,843
Enterprise Reserves	2,166,248	3,195,226	3,017,121	3,856,627	2,537,328
Solid Waste Funds	8,309,163	9,527,221	13,775,977	11,157,184	9,228,794
Sports Complex	4,476,711	4,637,814	6,147,636	5,095,273	4,497,802
	42,027,971	$47,199,366	57,810,873	56,660,960	49,164,830
INTERNAL SERVICE FUNDS					
Fleet Maintenance	$3,806,795	$4,214,717	$5,108,446	$5,867,199	$5,025,534
Fleet Reserve	2,046,735	2,355,936	3,014,773	5,066,903	1,021,333
Insurance Reserve	3,678,059	3,569,663	3,015,485	2,800,176	2,561,966
Facilities Maintenance	5,202,580	5,922,048	6,947,330	6,472,236	6,378,392
IT Operations	6,778,259	8,257,699	9,388,139	9,271,418	8,902,491
IT Reserve	1,915,057	1,089,041	1,615,073	1,844,506	365,450
IT Projects	2,072,082	3,214,396	4,889,289	2,519,910	1,651,095
	$25,499,567	$28,623,500	$33,978,535	$33,842,348	$25,906,261
TRUST, AGENCY & RESERVE	$32,400	$32,400	$33,600	$33,600	$30,600
CAPITAL/DEBT SERVICE	809,800	$383,800	$175,109	$ -	$ -
TOTAL	177,548,347	$202,012,366	$229,300,541	$233,862,806	$207,421,295

Operating Budget Five-Year History

In FY 2010, the City's operating budget is $207.4 million, representing an 11.31% decrease from the operating budget of $233.9 million of the prior year. The decrease in the funding level reflects fiscal discipline during the current economic decline in relation to the slowdown in development activity and a goal to focus on maintaining basic core services. In total, the operating budget also includes $3.0 million in one-time expenditures.



Grant Funds

The City applies for various federal, state and local grants to supplement other funding sources in a variety of programs. Some of these grant programs, like Community Block Development (CDBG) are ongoing programs, although an application must be submitted each year to continue the funding. Other grants like the Heritage Fund Grant are one-time, specific project grants. Highlights of the FY 2010 major grants are summarized below.

Low Income Housing Funds

The City is responsible for administering the subsidized housing programs funded through the Federal Department of Housing and Urban Development (H.U.D.) Grants. The Housing Funds consist of Low Income Public Housing and Section 8. The City now contracts the administration of both of the housing programs to Coordinated Community Services of Arizona. This not-for-profit agency has a proven track record with various local and federal housing programs, and will lend greater efficiencies to the residents served by these programs. FY 2010 ongoing housing program budgets total $1.24 million. The primary revenue source is Federal subsidy through H.U.D. and reimbursements from other Housing Authorities. The remainders of the revenues are interest and miscellaneous revenues. Total FY 2010 budgeted Housing revenue is estimated at $1.10 million.

Community Development Block Grant (CDBG)

The Community Development Block Grant Program (CDBG) is federally funded through the Department of Housing and Urban Development (H.U.D.). The FY 2010 CDBG budget totals $ 1,493,916. These monies will be used for various housing rehabilitation projects, handicap housing assistance and a portion of the community theater project. Funding is also set aside for non-profit agencies who have applied for assistance with their eligible programs from the City.

HOME

The HOME grant is also federally funded from H.U.D. This program is designated specifically for the revitalization of low-income housing. The FY 2010 budget for the HOME grant is $416,971 and will be used to rehabilitate substandard housing stock of low income and special needs residents.

State Forfeiture

These monies or other assets are confiscated through criminal prosecution under the State Asset Forfeiture Statutes. The monies are held by the County Attorney's Office until disbursed for authorized expenditures. For FY 2010, the City has budgeted expenditures of $331,532. These funds are used by the Police Department and the City Attorney’s office for training, supplies and equipment.

Internal Service Funds

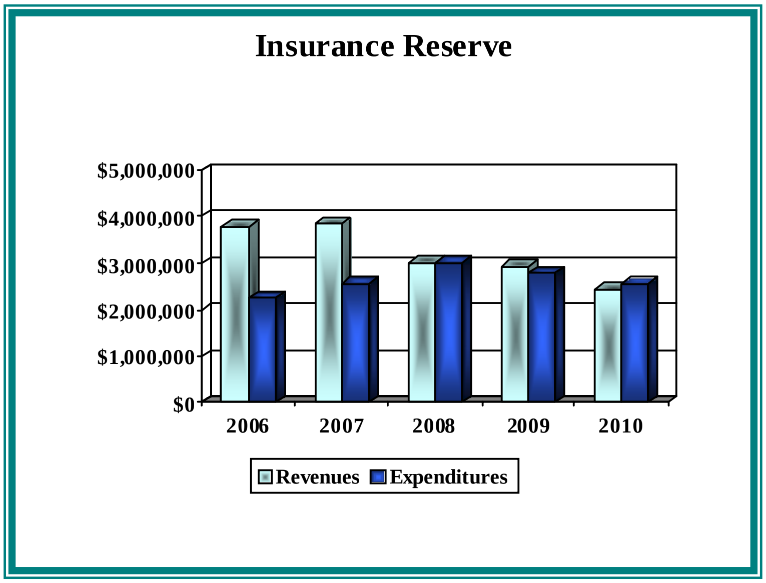
The Internal Service Funds are a group of funds that account for services provided to other divisions and departments of the City government. The Internal Service Funds consist of Fleet Replacement Reserve, Insurance Reserve, Facilities Maintenance, Fleet Maintenance, Information Technology (IT) and IT Replacement Reserve. These funds are financed by service charges to all other funds, departments and divisions of the City that employ their services.

Fleet Replacement Reserve

The Fleet Replacement Reserve account is for purchases of City vehicles and accumulates funds to replace vehicles as scheduled. Charges to the other departments are calculated based on the estimated cost of replacement and estimated useful life of the vehicles assigned to the department. Equipment reserves for enterprise operations are now maintained in separate replacement funds for their designated vehicles. In Fiscal Year 2010 the Fleet Reserve Fund anticipates revenues from service charges of $2,442,771 and transfers in of $289,800 for the purchase of any new vehicles that were approved in the supplemental process. Total expenditures are budgeted at $2,866,422, which includes carryover from FY09 at $262,333.

Insurance Reserve

The Insurance Reserve collects service charges from all departments/divisions to pay the insurance premiums and other insurance costs incurred by the City. The departmental service charges were calculated on a number of pertinent factors such as square footage of facility space occupied, number of employees, past claims history of each division and a workers' compensation insurance type risk factor for each division's employees and are updated each budget year. This fund includes a contingency reserve of $1,000,000. The total budget for FY 2010 is $2,561,966.



Facilities Maintenance

Facilities Maintenance, including Facilities Administration and Custodial Services, is a division within the Public Works Department. Facilities Maintenance provides for the maintenance and operation of most municipal facilities. The costs of this division are allocated through service charges to the other divisions, based on square footage of occupied space, maintenance records and custodial requirements of each division. Specific requests for maintenance, capital repairs or remodeling that are not part of the normal maintenance budgeted by the Facilities Maintenance Division are directly charged to the requesting division. The FY 2010 appropriation totals $6,378,392.

Fleet Maintenance

As a division of the Public Works Department, Fleet Maintenance is responsible for maintenance and operation of the City's fleet of vehicles and machinery. Fleet Maintenance uses a direct billing system to charge the other city departments based on the actual services provided to that department during the fiscal year. Fleet Maintenance is also responsible for purchasing new vehicles and tracking fuel for the city fleet. The Fleet Maintenance Fiscal Year 2010 operating budget is $5,025,534.

Information Technology (IT)

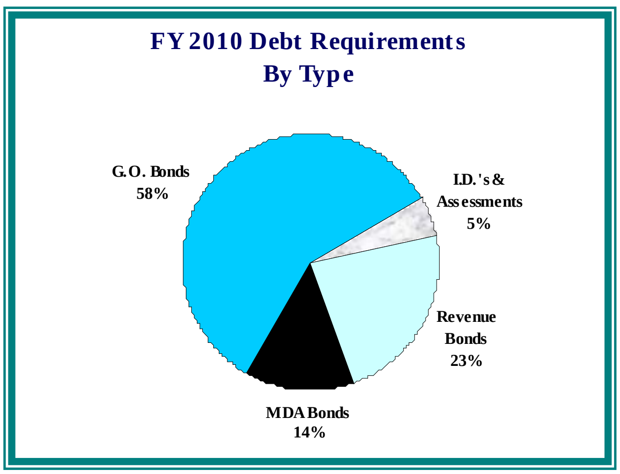
The Information Technology Department is responsible for most of the information-based technology systems and services of the City. IT service charges, allocated to the user departments, are calculated for each division using factors such as the number of computer terminals and number of peripheral units. The City maintains a sophisticated local area network that provides distributed data and application servers, an Internet gateway and City web page, financial and payroll functions, discrete law enforcement and judicial networks, as well as specialized applications and data warehousing for the City. In order to protect the hardware investments, the City is budgeting for server warranty extensions at a cost of $50,000 in FY 2010. The total budget for IT operations in fiscal year 2010 is $8,902,491 and $1,651,095 for IT projects.

Debt Service

Bond financing is a primary source used to finance long-term capital projects, especially capital infrastructure. The City's debt plan is an integral tool for one of the main financing sources of the Capital Improvement Plan. Outstanding debt, capacity limitations and cash flow analysis servicing capabilities of the City are all reviewed as a part of the capital budgeting process, while the annual debt service payments are incorporated into the operating budget. Depending on the need and the type of project being financed, several types of bonds (as described below) are available. More detail on planned debt service for FY 2010 may be found in Schedule 8 of the "Schedules" section of this document.

Financing Sources

General Obligation (GO) Bonds require voter approval and are backed by the taxing authority of the City. These bonds are generally used to finance projects with strong public support and which do not themselves produce revenues. Arizona law limits the amount of GO bonds the City can have outstanding based on the assessed valuation of the property located within the City limits. Financing for water, sewer, storm sewer, lighting, street and traffic facilities, parks and open space preserves and recreational facilities projects is limited to 20% of the assessed valuation. Financing for all other projects, such as municipal buildings, is limited to 6% of the assessed valuation.

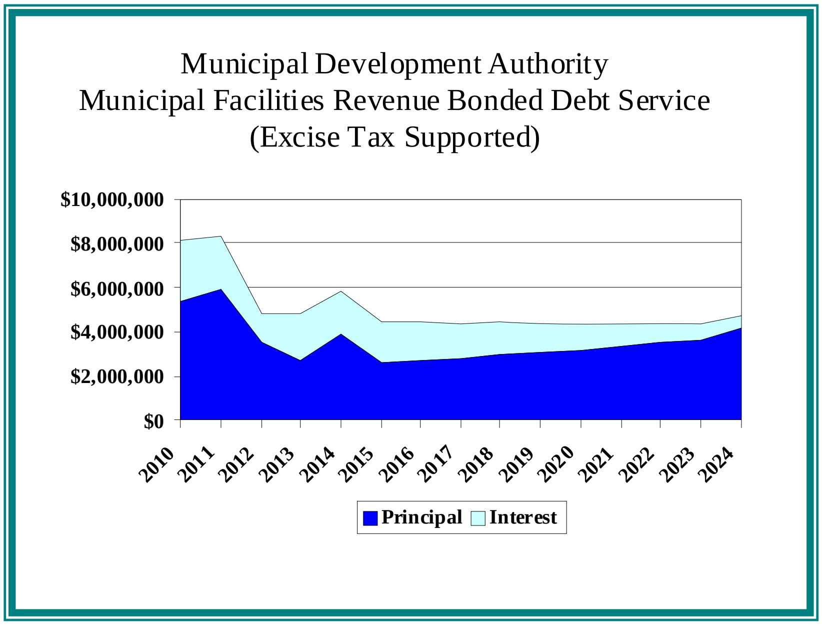


City's General Obligation
<u>Bond Rating</u>

Moody's	Aa3
Standard & Poor's	AA+
Fitch IBCA	AA

Periodically, the City has its general obligation credit reviewed by various national bond rating agencies. In February 2008, the City's GO Bond ratings were upgraded by Moody's from a rating of Aa2 to Aa3. Subsequently, in January 2009, Standard and Poors upgraded the City's GO Bond ratings from a rating of AA to AA+. These rating increases are significant and will generate considerable savings for Peoria taxpayers. The improved bond ratings also enable the City to receive favorable interest rates on future bond sales.

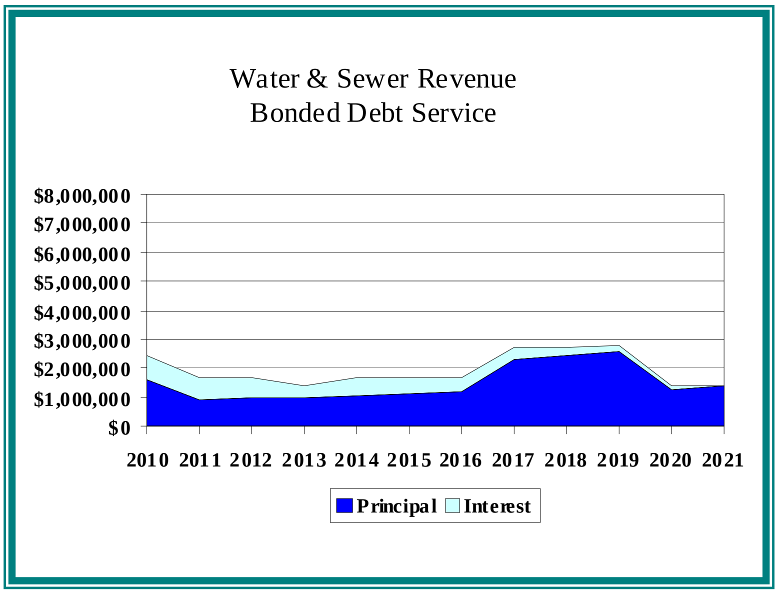
Municipal Development Authority (MDA) Bonds do not require voter authorization. These bonds are backed by a long-term lease agreement with the City that in turn is supported by a pledge of the City's sales taxes (and other revenue sources such as franchise taxes and state shared revenues). The amount of MDA Bonds that may be issued is limited only by the market's perception of the City's ability to repay the bonds. These bonds often have restrictive covenants requiring a reserve of pledged revenues equal to some multiple of the maximum debt service payment on the bonds. The Peoria Municipal Development Authority is a non-profit corporation created by the City as a financing mechanism for the purpose of financing the construction or acquisition of City Capital Improvement projects. A significant advantage of the MDA structure is that certain municipal capital needs can be financed without triggering statutory municipal debt bonding approvals.



MDA Bond Rating

Moody’s	Aa3
Standard & Poor’s	AA+
Fitch IBCA	AA-

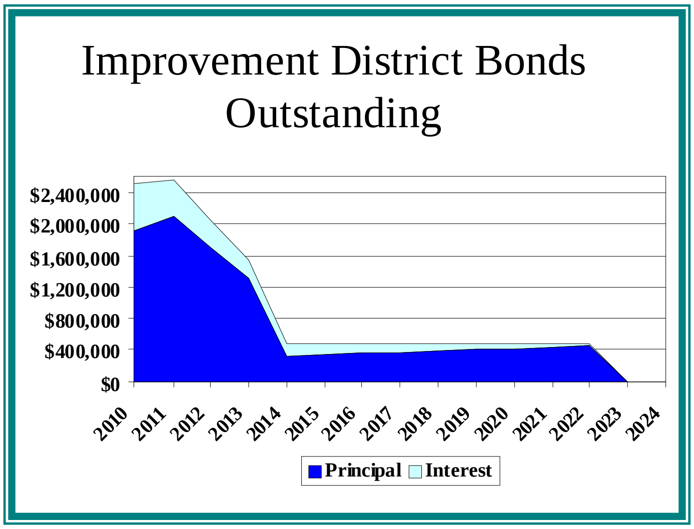
Revenue Bonds are generally used to finance projects that have an identifiable revenue source. Revenue bonds are often used to finance utility projects, backed by the user fees of the utility. Most Revenue bonds are applied to the City’s water and wastewater system. The City also has some outstanding Highway User Revenue Fund (HURF) bonds for street projects that are backed by a pledge of the HURF monies the City receives from the State. Revenue bonds do require voter approval, and are limited only by the ability of the revenue source to support the debt service.



Revenue Bond Rating

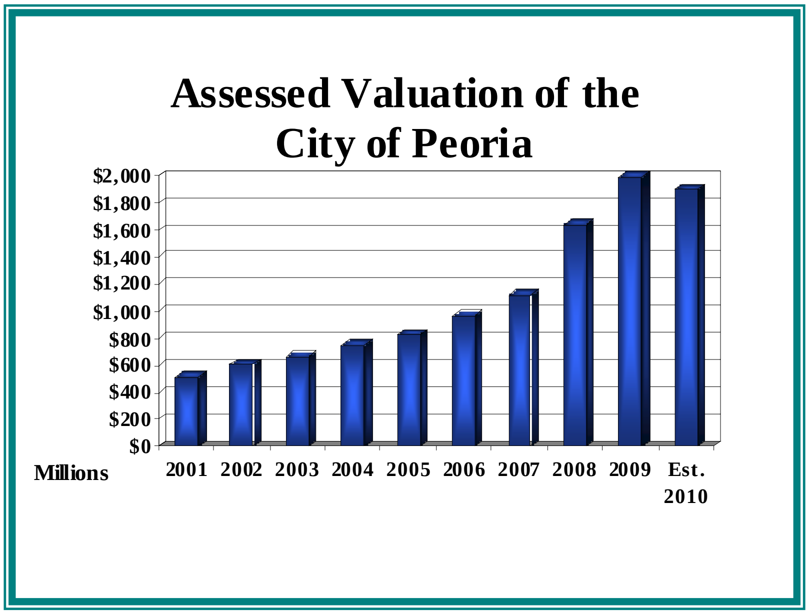
Moody’s	A2
Standard & Poor’s	AA
Fitch IBCA	AA-

Improvement District Bonds are used to finance projects where certain property owners will benefit more than the general public. A majority of the property owners within a proposed Improvement District must approve the formation of the district and the amount of indebtedness. These bonds are repaid by collection of property assessments levied on the property within the district.



ID Bond Rating

Moody's	A1
Standard & Poor's	A
Fitch IBCA	AA-



Debt Management

Proper debt management will provide for the protection and improvements of bond ratings, the maintenance of adequate debt service reserves, compliance with debt instrument provisions and required disclosures to investors, underwriters and rating agencies. These policy guidelines, as developed in the City's "**Principals of Sound Financial Management**" policies, are used when evaluating the purpose, necessity and condition under which decisions are made to issue debt. They are also meant to supplement the legal framework of public debt law provided by the Arizona Constitution, State Statutes, federal tax laws and the City's current bond resolutions and covenants.

All projects funded with General Obligation bonds or Revenue bonds can only be undertaken after voter approval through a citywide election. On the ballot in the November 2008 General Election, voters authorized bonds totaling $387 million, in order to fund the building of the infrastructure needed to support our City.

Financial Indicators

The City uses a number of measures to assess its long-term ability to support existing debt. Two of these measures are discussed below.

General Obligation Debt as a Percentage of Assessed Value

The city's ability to repay its long-term debt can be measured by the amount of debt outstanding as a percentage of assessed property valuation. An increase in long-term debt as a percentage of assessed valuation can mean that the City's ability to repay is diminishing. This is especially true when the government relies heavily on property taxes to pay its debt. Each year Maricopa County provides the assessed valuation of property to the city. An increase in property valuation strengthens the city's ability to finance long-term debt. The amount of debt issued and the ability to issue debt are a vital source in funding the city's Capital Improvement Plan. A reasonable level of debt burden is expected in order to meet the needs of a growing city. The City continues to maintain its debt level well below the levels mandated by the Arizona Constitution.

Ratio of Net General Bonded Debt
To Assessed Value and Net Bonded Debt Per Capita*

Year	2004	2005	2006	2007	2008	2009 est	2010 proj
Population	132,805	138,045	145,125	153,592	158,227	159,152	160,983
Secondary Assessed Value (Millions)	$750	$827	$964	$1,116	$1,642	$1,995	$1,895
Net Bonded Debt (Millions)	$46	$38	$27	$108	$ 90	$183	$183
%of Net Bonded Debt to Assessed Value	*6%*	*5%*	*3%*	*10%*	*5%*	*9%*	*10%*
Net Bonded Debt Per Capita	*347*	*276*	*186*	*704*	*567*	*1,149.8*	*1,136.74*

***Source: City of Peoria Annual Comprehensive Financial Report and Growth Trends**

Net Bonded Debt Per Capita

General obligation debt per capita relates debt outstanding to population changes. Long-term debt should not exceed the City's resources for paying the debt. As the population increases, infrastructure and capital needs along with long-term debt can be expected to increase, as is the case for the City of Peoria. Additional General Obligation bonds were issued to finance much-needed infrastructure. The City's ratio of debt per capita is expected to increase in FY 2010 due to the bond sales of just over $40 million. If general obligation debt is increasing as population stabilizes, this may indicate that the City's ability to repay debt service is diminishing. The City's population is expected to have increased 1.1% between 2009 and 2010.

The City's Debt Policy

- The overall debt management policy of the City is to ensure that financial resources of the City are adequate in any general economic situation to not preclude the City's ability to pay its debt when due.
- The City will not use long-term debt to fund current operations or projects that can be financed from current revenues or resources. The City will first attempt "pay as you go" capital financing.
- The City does not intend to issue bond anticipation notes (BANs) for a period longer than two years. If the BAN is issued for a capital project, the BAN will be converted to a long-term bond or redeemed at its maturity.
- The issuance of variable rate debt by the City will be subject to the most careful review and will be issued only in a prudent and fiscally responsible manner.
- Improvement District (ID) and Community Facility District (CFD) Bonds shall be issued only when there is a general City benefit. Both ID and CFD bonds will be utilized only when it is expected that they will be issued for their full term. It is intended that Improvement District and Community Facility District bonds will be primarily issued for neighborhoods desiring improvements to their property such as roads, water lines, sewer lines, street lights and drainage. The City will review each project though active involvement of City staff and/or selected consultants to prepare projections, review proforma information and business plans, perform engineering studies, analyze minimum debt coverage and value to debt ratios and other analysis necessary to consider the proposal against specific criteria.
- Refunding bonds will be measured against a standard of the net present value debt service savings exceeding 5% of the debt service amount of the bonds being refunded, or if savings exceed $750,000, or for the purposes of modifying restrictive covenants, or to modify the existing debt structure to the benefit of the City.
- The City shall comply with all requirements of Title 15.1 Arizona Revised Statues and other legal requirements regarding the issuance of bonds and certificates of the City or its debt issuing authorities.
- The City shall employ the **Principles of Sound Financial Management** in any request from a City agency or outside jurisdiction or authority for the issuance of debt.
- All departments will provide notice of all significant events and financial and related matters to the Chief Financial Officer and Director of Finance for the City's annual disclosures to the municipal markets, financial statements and bond representations.
- The City will maintain regular contact with rating agencies through meeting and visits on and off-site. The City will secure ratings on all bonds issued if economically feasible.

CURRENT DEBT CAPACITY ANALYSIS
For Fiscal Year 2010

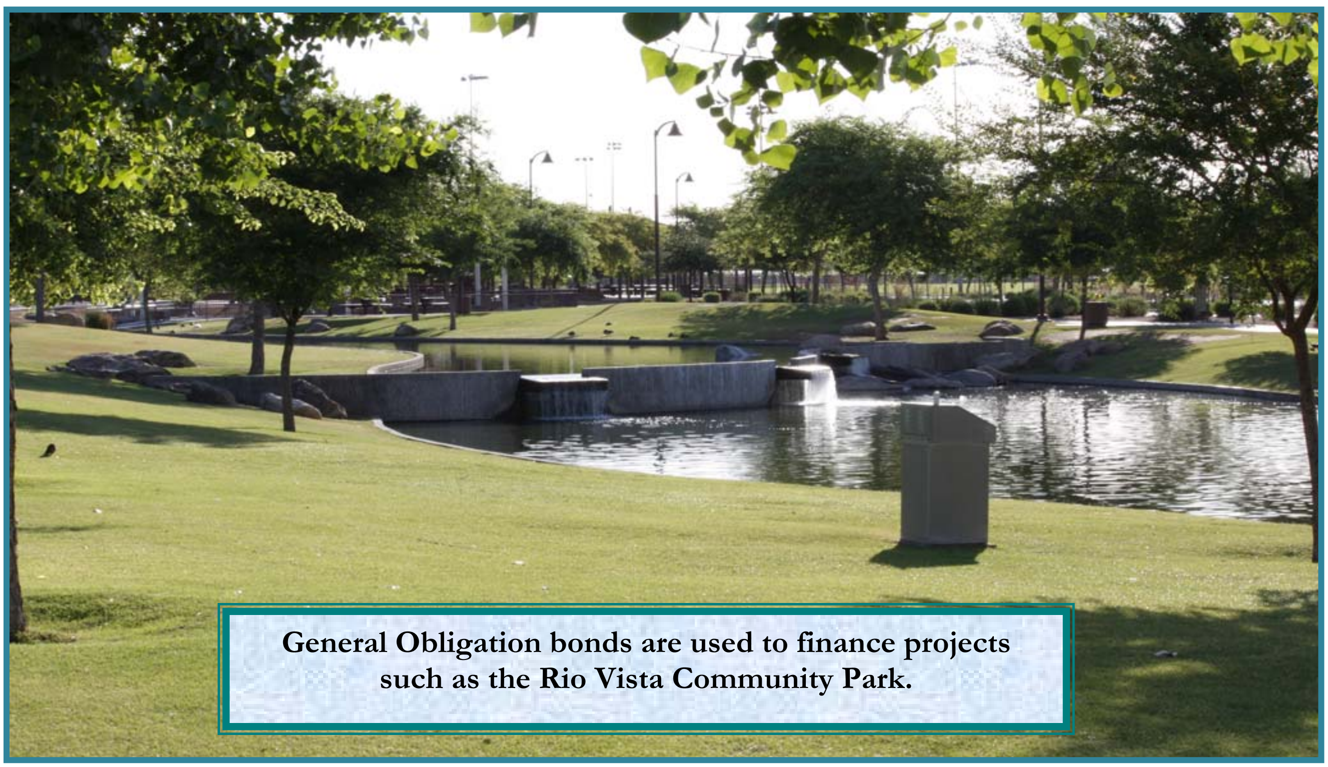
20% Limitation
Water, Sewer, Lighting, Parks
Open Space and Recreational Purpose Bonds

FY 2010 Secondary Assessed Valuation	$1,895,163,851*
Allowable 20% Bonds Outstanding	$379,032,770
Less 20% Bonds Outstanding	(182,585,910)
Unused 20% Debt Capacity	$196,466,860

6% Limitation
All Other General Government Purpose Bonds

FY 2010 Secondary Assessed Valuation	$1,895,163,851*
Allowable 6% Bonds Outstanding	$113,709,831
Less 6% Bonds Outstanding	(4,560,000)
Unused 6% Debt Capacity	$109,149,831

*Estimated from Maricopa County Assessor

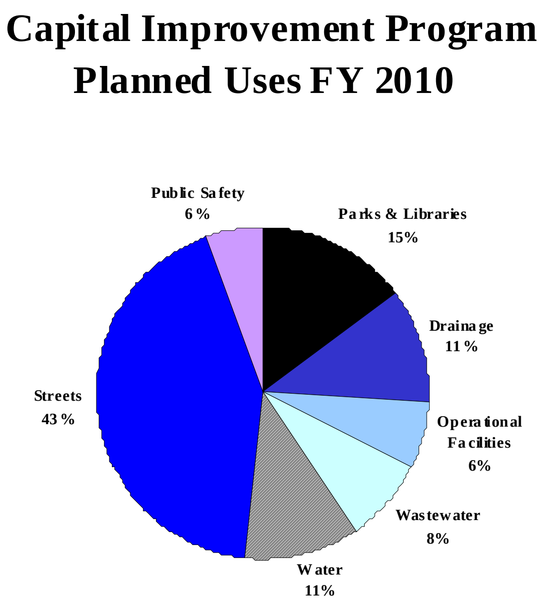


General Obligation bonds are used to finance projects such as the Rio Vista Community Park.

Fiscal Year 2009 Capital Program

The total capital budget for Fiscal Year 2010, as detailed on Schedule 10 and in the Capital Projects section of this document, is $199.4 million. The capital budget was based on the city's first year of the 10-year Capital Improvement Plan (CIP). The CIP in total is a long-range document that identifies necessary capital projects within the City of Peoria.

The CIP is a balanced plan, which matches funding sources to all expenditures within all years of the plan. In total, the CIP lists $612.4 million in planned expenditures over the next 10-year period. For detailed project information, refer to the Capital Projects Section of this document. The City also publishes a separate Capital Improvement Program document.



Funding Sources

Funding for capital projects in FY 2010 will be supported through a number of revenue sources. The largest portion of funding results from the planned sale of Revenue or General Obligation bonds. Voters have recently approved these bonds in 1990, 1994, 1995, 2000 and 2005. In the November 2008 bond election, voters approved over $378 million in new bonds for a wide variety of projects.

Another major source of funding is derived from the City's expansion fees. This refers to impact fees paid by developers as part of the building permit process. Both State statute and City financial policy notes that expansion fees should only fund those projects which are a direct result of new development.

FY 2010 Capital Improvement Projects

The Capital Improvement Plan (CIP) is the City's adopted plan for capital projects. This is an essential element of the City's plan to extend services and facilities to a growing community. This 10-year program is closely aligned with the City's General Plan, and the Council's 24-month policy Goals. Many of the recommendations brought out in specific area master plans are also addressed in the capital plan. The total for the 10-year plan is $612.4 million, while projects in the plan for FY 2010 total $199.4 million. Below is a list of other capital projects in the FY 2010 Capital Improvement Program.

- Communication Radio System Citywide upgrade at $6.1
- Community Center Building addition with LEED certification at $8.7 million
- Beardsley Road from Lake Pleasant Road to 87th Avenue and on 91st Avenue from Union Hills Drive to Beardsley Road for construction of 24-inch waterline at $6.2 million
- Lake Pleasant Parkway: Westwing to Loop 303 for demolition, design and construction at $4.9 million
- Deer Valley Road between 83rd Avenue to 91st Avenue for drainage improvements at $4.5 million

Operating Impacts

Many capital projects will require increased operating funding upon completion. Such ongoing costs have been estimated in the CIP, which will enable the City to fully anticipate the future operating needs to support these projects. Estimated operating impacts for the 10-year capital improvement plan are outlined in the following graph by project type. It should be noted that the costs identified below have been incorporated into the City's long-range operating models, though dollar approvals must be reviewed during the operating budget process.

Project Type	FY 2010	FY 2011	FY 2012	FY 2013	FY 2014
Drainage	8,693	8,693	8,693	8,693	13,193
Op Facilities	11,160	11,160	11,160	11,160	161,160
Parks	408,284	745,582	829,066	825,066	825,066
Public Safety	-	-	86,808	86,808	116,808
Streets	218,689	361,132	434,017	452,517	453,517
Traffic Controls	198,000	198,000	213,000	213,000	213,000
Wastewater	9,230	9,230	9,230	11,255	11,255
Water	111,084	135,613	184,538	245,642	280,642
Total	**$ 965,140**	**$ 1,469,410**	**$ 1,776,512**	**$ 1 ,854,141**	**$ 2,074,641**