

CITY MANAGER BUDGET MESSAGE

Fiscal Year 2011

To Mayor Barrett and Members of the Peoria City Council,

I am pleased to provide you with a recommended FY 2011 Annual Budget and Ten-Year Capital Improvement Program for the City of Peoria. These spending plans reflect a continuing commitment to provide a high level of service to our residents, while preserving our organization's long-term financial viability.

The proposed budget totals \$455 million, which represents a 15% spending drop from the prior year. Within this, the General Fund budget totals \$106.5 million, a drop of 7.4%. The City's capital budget alone will drop 30%, for a total of \$139.3 million.

The 10-year capital program totals \$522 million, a 15% decrease from last year's program. While considerably smaller in size, this nonetheless represents a significant investment in public facilities and infrastructure over the next decade.

With the protracted economic downturn, Peoria's government continues to face an environment of diminishing revenues. Yet at the same time we remain committed to providing quality services to our residents. With this in mind, the development of this budget proved to be a tremendous undertaking. The City staff put considerable effort into developing fiscally responsible solutions for managing the budget gap.

The guiding principles for this budget are the City Council's 24-month policy goals. Their policy statements offer clear and thoughtful direction for approaching community expectations. The following broad policy priorities are reflected throughout the recommended budget:

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

The submitted budget also reflects feedback from our citizens. Results from the recent citywide resident survey show Peoria residents are eager to preserve the high quality of life enjoyed in their neighborhoods. With this in mind, we continue to focus on keeping Peoria communities healthy and viable. The submitted budget directs investments which strengthen the physical and social assets in our neighborhoods.

Peoria's Fiscal Situation

The City's revenues have continued to be impacted by the regional economy. With a distressed commercial real estate market, an inventory of residential units, and weak consumer spending activity, the City's base industries are expected to struggle over the next year. The result will be limited gains in revenue collections for the City.

Overall General Fund revenues are expected to decline 4% for next year. To make matters worse, recent state legislative actions call for the complete elimination of LTAF funding (lottery proceeds). This move itself will result in a loss of over \$800,000 annually to the City. A continuing decline in property values also has taken its toll, reducing the bonding capacity in the City's capital program.

Fortunately, the City has taken steps to soften the financial impact. By addressing our problems early, and by observing prudent fiscal practices, the City has minimized our financial exposure going forward. Nevertheless, the General Fund faces a structural shortfall of approximately \$7.5 million for the upcoming fiscal year.

Budget Approach

In this restrained environment, we find that with every round of reductions it becomes more difficult to maintain essential service levels. The budget before you includes numerous cost reduction and efficiency measures by City staff.

Since the summer of 2008, the City has been taking deliberate, progressively stronger steps to respond to the changing situation. That has continued in the current year, as we undertook a reorganization of city departments. The restructuring allows us to consolidate different functions, while maximizing existing resources. Also this year, the City offered a voluntary severance program to city employees, resulting in further annual savings in personnel costs.

Midway through our current fiscal year, reductions were made to departments' operating budgets, which included the elimination of vacant positions. Through these efforts, and by shifting work duties, we've been able to manage effectively without undermining service delivery.

This year, City departments were asked to apply a more strategic approach when evaluating their services. To begin, every work unit conducted a financial analysis to determine the true cost for all services they provide. Using this information, department directors engaged their staff to discuss trends, options and opportunities for addressing citizen needs. From there, department directors developed their vision and strategies that outline a work plan over the next few years. Departments are continuing to identify performance measures that help the organization base funding decisions on relevant and measurable outcomes.

I am proud of the effort put forth by our employees to find creative solutions to our budget problems. We have continued the successful practice of cross-functional teams to explore new and improved ways to do business. This year, city staff have reduced the number of consultant or other contracts where possible, bringing many of those activities "in-house". We have also implemented energy saving measures, extended equipment lives, changed training programs and merged communication efforts. Currently, the interdepartmental Revenue Action Team is also exploring new options for obtaining reliable sources of revenue, in ways that minimize the impact to the general Peoria resident. All told, the creative efforts of Peoria employees have resulted in over \$2.5 million in ongoing savings.

Workforce Management Strategies

All of these efforts have helped save the City from more dramatic measures. However, given our deteriorating revenue situation, the City will be forced to address the budget with further workforce changes. As a service-based organization, personnel costs represent 70% of the ongoing operating budget. To fully balance our budget will require further changes to our workforce level.

Once again, the budget reflects very little growth in compensation-related expenses. Fortunately, through efforts to self-insure city medical and workers compensation programs, we expect to experience limited increases to our health care costs for FY 2011.

Overall, the FY 2011 budget proposes 59 fewer positions than in FY 2010 (5% of our workforce). This includes 22 employees who have opted for the city's voluntary severance program. Another 30 were vacant positions that have been frozen in the recent months. This leaves seven currently filled positions that are scheduled for reduction in the proposed budget.

These reductions come from across all levels of the organization. Similar to last year, it is our hope that many of the individuals in filled positions can be placed elsewhere in the organization. That said, we will make sure that everyone subject to this reduction in force will be treated with the utmost dignity and respect, and will be afforded appropriate 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, and does not anticipate use of reserves to address recurring expenses.

Taxes, Rates and User Fees

In recognition of the difficult economic circumstances, every effort was put forth to limit the financial burden placed on our residents. As a result, the FY 2011 recommended budget assumes no tax increases for the upcoming year. No rate adjustments are expected for residential and commercial solid waste customers. Utility rates for the City water and wastewater services remain constant as well. However, initial staff forecasts suggest moderate rate increases would be required in these areas in the subsequent fiscal year. Lastly, no fee increases for our residents are included in the proposed budget.

Organizational Development

In today's volatile environment, an organization must be thoughtful and intentional about its direction. With this in mind, City staff has developed a more strategic approach in the way we do business. The Organizational Strategic Plan, developed 100% by City employees, provides each employee insight into our long-term vision,

organizational values and day-to-day service standards. More importantly, it provides a common foundation upon which each department can develop particular goals, strategies and performance measures.

In following up on our goals, we will continue to cultivate a performance management culture using relevant data to make informed decisions. Performance measures act much like a report card, reflecting what progress the city has made toward achieving its goals. Over the next year, we will offer regular updates on the status of our efforts, and continue to respond to our community's service needs.

Budget Priorities

Now more than ever, we are called upon to preserve our community's excellent quality of life. This starts with maintaining our essential public safety services to Peoria citizens. Once again, there are no proposed changes to the number of sworn police officer or firefighter positions.

Over the last few years, there has been a concentrated effort to utilize a "community-based" approach to policing. The consolidation of code enforcement and park ranger activities into the Police department have helped to empower these important functions. The proposed budget continues this trend, offering resources to continue neighborhood enhancement programs.

Also of note are a series of programs geared at preserving Peoria neighborhoods. The successful "Community Works" program will continue, offering small, targeted capital improvements in ways that make an immediate difference. Also, one-time funds were used to provide important renovations to several neighborhood parks. The recommended budget also calls for continuing the Neighborhood Grant program, which partners with neighborhood associations to offer localized improvements. The successful Neighborhood Pride revitalization program continues for its 14th year, offering support to individual property owners in making improvements.

The City's leadership has worked hard to preserve youth-related programs and activities. City recreation programs have offered useful outlets for youths and teens in our community. The City's AM-PM, Aquatics and Summer Recreation programs continue to be affordable and appealing activities. While budget reductions were required in these areas, all efforts were made to maintain the same high level of

service. As stated earlier, the proposed budget does not include any increases to recreation fees for residents.

A critical element of the City Council's 24-month policy goals is to advance economic development efforts which will promote the long-term economic prosperity of the area. This is addressed through a multi-pronged approach, which directs funds and locates one-time dollars to promote business attraction to Peoria. Within the operating budget, resources were set aside to further marketing efforts to attract health-care and higher education opportunities. Within the capital plan, various investments will help advance the recent master plans for the Oldtown and Sports Complex/Entertainment District area.

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. The most recent data suggest citywide assessed valuation will ultimately drop more than 40% over the next few years. Other key financing sources for the CIP, namely transportation sales tax and development impact fees, have also decreased significantly over the last few years. With less available resources, the 10-year CIP has been reduced nearly 50% since FY2009—from \$1 billion to \$522 million.

The significant loss in revenue capacity has been cushioned by federal stimulus funding, as well as earlier-than-anticipated receipt of county transportation sales tax reimbursements. This has allowed the city to accelerate key projects in the first few years of the capital program, most notably Lake Pleasant Parkway, the Agua Fria Truck Road Reliever, and Community Park #2 and related roadway, utility, and drainage projects.

The proposed plan allocates more than \$5 million in FY2011 to economic development purposes. This includes funding for the rehabilitation of commercial properties in Old Town and for the assembly of land to expedite

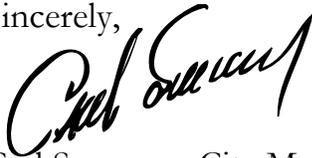
redevelopment in the area. Funding is also included for improvements to the Entertainment District, with the goal of creating a distinct sense of place and a brand identity for this major economic and fiscal center for the City.

Conclusion

Our community is in the midst of change, and our organization is responding. Three years ago, our focus was placed on managing growth to our community. Now, we must grapple with how best to preserve the excellent quality of life in our community. Going forward, we will continue to engage with our citizens, partner with our stakeholders, and strategically invest in efforts to strengthen our community.

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 2011 budget a reality.

Sincerely,



Carl Swenson, City Manager

