



Long-Range Forecast

The City has an important responsibility to its citizens to carefully account for public funds, to manage its finances wisely, and to plan for the adequate funding of services desired by the public. The City's financial goals are broad, fairly timeless statements of the financial position the City seeks to attain. The City's overall financial goals are:

- To deliver quality services in an affordable, efficient, and cost-effective basis, providing full value for each tax dollar.
- To maintain an adequate financial base to sustain a sufficient level of municipal services, thereby preserving the quality of life in the City of Peoria.
- To have the ability to withstand local and regional economic fluctuations, to adjust to changes in the service requirements of our community, and to respond to changes in Federal and State priorities and funding as they affect the City's residents.
- To maintain a high bond credit rating to ensure the City's access to the bond markets and to provide assurance to the City's taxpayers that the City government is well managed and financially sound.

Achieving these goals not only helps the City to enhance its financial health, it also enhances the image and credibility of the City with the public, bond rating agencies, and investors. The City

achieves these goals through its strict adherence to fiscal management policies.

FINANCIAL POLICIES

The City's budget is closely aligned with the financial policies established by the Peoria City Council. The Principles of Sound Financial Management are intended to establish guidelines for the City's overall fiscal planning and management. The policies support the continued financial strength and stability of the City of Peoria as reflected in its financial goals.

Fund Balance Objectives

Fund balance is an important indicator of the City's financial position. Adequate fund balances are maintained to allow the City to continue providing services to the community in case of economic downturns and/or unexpected emergencies or requirements.

General Fund. The City of Peoria's unassigned General Fund balance will be maintained to provide the City with sufficient working capital and a comfortable margin of safety to address emergencies, sudden loss of revenue or operating needs, and unexpected downturns without borrowing. The unassigned fund balance is maintained in three different reserves:

- The City will maintain an "Emergency Reserve" of 10% of the average actual General Fund revenues for the preceding five fiscal years. The Emergency Reserve is for unexpected, large-scale



events where damage in excess of \$250,000 is incurred and immediate, remedial action must be taken to protect the health and safety of residents.

If used, funds must be approved by City Council and the City shall strive to restore this reserve the next fiscal year.

- The City will maintain an “Operating Reserve” with an upper goal of 15% of the average actual General Fund revenues for the preceding five fiscal years. The Operating Reserve is intended for unexpected events whose impact exceeds \$500,000, such as a failure of the State to remit revenues to the City, unexpected mandates, unexpected loss of State Shared revenues, continuance of critical City services due to unanticipated events, or to offset the unexpected loss of a significant funding source for the remainder of the fiscal year.

If used, funds must be approved by City Council and the City shall strive to restore this reserve within two fiscal years.

- The City will maintain a “Budget Stabilization Reserve” with an upper goal of an additional 10% of the average actual General Fund revenues for the preceding five fiscal years. The Budget Stabilization Reserve may be used to provide funding to deal with fluctuations in fiscal cycles and operating requirements that exceed \$500,000.

If used, funds must be approved by City Council and the City shall strive to restore this reserve within three fiscal years.

The funds in excess of the stated goals should not be used to support recurring operating expenditures, however may be considered to supplement

“pay as you go” capital outlay expenditures or pre-pay existing debt.

Half-Cent Sales Tax. The Council has established a special one-half (½) cent sales tax designated primarily for debt service, reserves, and capital needs. These funds must be recorded and expended separately. The one-half (½) cent expenditures and reserves are prioritized as follows:

- First Priority - The debt service for Municipal Development Authority (MDA) bonds for which the payment source is one-half cent sales tax revenues including administrative, accounting and legal costs connected with the bond payment.
- Second Priority – Fund Balance.
 - ✓ Half-Cent Sales Tax debt service reserve should be at least \$1,000,000 for outstanding bonds being paid from the one-half cent sales tax.
 - ✓ Half Cent Sales Tax reserve goal is 35% of the average actual revenues for preceding five fiscal years .
- Third Priority – Capital, economic development, and community promotions expenditures.
- Fourth Priority – Specific City operational expenditures may be identified by Council through the annual budget process to be funded through the one-half cent sales tax revenues.

Enterprise Funds. Government enterprises generate revenue to recover the cost of providing certain services including water, wastewater, and solid waste. User charges are established to recover the cost of providing these services. Accounting systems must be established to separate these reve-



nues and expenses. The City's financial policies establish targets for the enterprise funds as follows:

- The debt service coverage ratio of 2.0 times the amount of the debt service payments, exclusive of expansion fee revenue.
- A minimum cash reserve fund balance for the water and wastewater operating funds equal to 25% of the actual operating expenditures for the current fiscal year.
- The City will maintain a "Rate Stabilization Fund" in water and wastewater equal to 5% of the average actual revenues for the preceding three fiscal years. The Rate Stabilization Fund may be used to moderate significant rate increases.
- The City will maintain a "Debt Stabilization Fund" in water and wastewater with an upper goal of 50% of the maximum annual debt service payments in the following five years. The Debt Stabilization Fund is intended to provide additional security to insure the City's ability to meet debt service obligations.
- The City will maintain an "Asset Maintenance Fund" in water and wastewater with an upper goal of 2% of the enterprise fund infrastructure assets. The Asset Maintenance Fund may be used to provide funding for the repair and maintenance of critical infrastructure.
- A minimum cash reserve fund balance for the solid waste operating funds equal to 20% of the actual operating expenditures for the current year.

Streets Fund. The City's Streets Fund supports most activities related to transportation within the City. This includes all street maintenance, traffic

signal operations, and street signing activities. Any transit-related operations, however, are supported through a separate Transit Fund. The primary source of revenue for the Streets Fund is collections from the State Highway User Revenue Fund. This includes revenue from the sale of gasoline, diesel fuels and other transportation-related fees. A 3/10 of one cent (0.3¢) sales tax specifically designated for transportation generates additional revenue for the fund.

Transit Fund. The City's Transit Fund supports all public transit services operated by the City of Peoria, including the citywide Dial-a-Ride bus system, and the City Travel Reduction and Clean Air programs. In the past, the majority of funding for transit operations was derived from the state's allocation of Arizona Lottery proceeds, termed the Local Transportation Assistance Fund (LTAF), but this changed when the State of Arizona stopped the distribution of the LTAF funds in February 2010. The Transit fund is currently being subsidized by the Transportation Sales Tax fund.

Fiscal Planning

The City of Peoria identifies and allocates resources among numerous and complex competing needs. The primary vehicle for this planning is the preparation, monitoring, and analysis of the City's budget. It is increasingly important to incorporate a long-term perspective and to monitor the performance of the programs competing to receive funding. The fiscal planning process includes the following:

Annual Budget. The City will establish a balanced annual operating budget. Current operating expenditures, including debt service, will be funded with current revenues. The budget will not postpone expenditures, use one-time (non-recurring) sources to fund ongoing (recurring) uses, or use external borrowing for operational requirements.



Long-Range Forecasting. The City will annually update a five-year long-range forecast, incorporating both projected revenues and expenditures for the City's major operating funds. The five-year revenue forecast will only include revenues that are anticipated to be sustainable over the five-year period. Expenditure projections should include anticipated operating impacts of the adopted capital improvement program.

Insurance Reserves. Insurance reserves shall be maintained at a level which, together with any purchased insurance, will adequately indemnify the City's capital assets and its elected officials, officers and directors against loss. When cost effective, the City will further control its exposure to risk through the use of "hold harmless" agreements in City contracts, and by requiring contractors to carry liability insurance.

Replacement Funds. Provisions will be made in the annual operating budget for sufficient maintenance and replacement dollars to ensure that all capital acquisitions, computer hardware and software, and other equipment are properly maintained and replaced in accordance with approved capital and equipment replacement schedules.

Capital Improvements

The City Manager will submit a ten-year Capital Improvement Program for review by the City Council, pursuant to the timeline established in the budget preparation schedule. The program will be updated annually and include the cost of construction and operating expenditures. No capital improvement projects will be authorized or awarded until the funding sources have been established to finance the project.

When current revenues or resources are available for Capital Improvement Projects, consideration will be given first to those capital assets with the

shortest useful life, and for assets whose nature make them comparatively more difficult to finance with bonds or lease financing.

Control Measures and Compliance

Management must ensure compliance with the legally adopted budget. In addition, purchases and expenditures must comply with legal requirements and policies and procedures set forth by the City.

- The City's annual financial statements and bond representations shall fully disclose all significant events and financial obligations and other related issues as provided by the departments to the Chief Financial Officer.
- Accounting and budgeting functions will comply with standards and guidelines issued by the Governmental Accounting Standards Board, the National Council on Governmental Accounting, the American Institute of Certified Public Accountants, and the Government Finance Officers Association.
- The City shall conduct a review of its development impact fees on a regular basis. Periodically, the City will also recalculate the full costs of activities supported by user fees to identify the impact of inflation and other attendant costs and recommend adjustments where necessary.
- The City shall comply with all state and federal regulations concerning financial management and reporting.

Debt Management Policy

The Debt Management Policy provides for the preservation and eventual enhancement of the City's bond ratings, the maintenance of adequate debt service reserves, compliance with debt instrument covenants and provisions, and required dis-



closures to investors, underwriters, and rating agencies.

The City utilizes long-term debt to finance capital projects with long useful lives. Financing capital projects with debt provides for an “intergenerational equity”, as the actual users of the capital asset pay for its cost over time.

Long-Term Debt

- The City will not use long-term debt to fund current operations or smaller projects that can be financed from current revenues or resources. The City will first attempt to utilize “pay-as-you-go” capital financing and/or the use of operating funds or impact fees where applicable.
- 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.
- The term of any bond or lease obligation issue will not exceed the useful life of the capital project/facility or equipment for which the borrowing is intended.

Short-Term Debt

The City does not intend to issue commercial paper or bond anticipation notes for periods longer for two years, or for the term of a project.

LONG-RANGE FORECAST

According to the Government Finance Officers Association, there are four critical principles which overlay a good budget process:

1. Establish broad goals to guide government decision making.

2. Develop approaches to achieve goals.
3. Develop a budget consistent with approaches to achieve goals.
4. Evaluate performance and make adjustments.

To properly apply these principles requires timely and accurate information regarding the expected conditions and events which can shape our community in the future.

The **Long-Range Financial Forecast** is developed annually at the start of the City’s budget process. This forecast offers the City Council and management an extended outlook on the flow of expected revenues and expenditures, and helps to define the critical issues and priorities for the upcoming fiscal year.

Throughout the country, governments have wrestled with the issues of a changing environment. Shifts in demographic and economic conditions, as well as changes in societal values, all impact how governments operate. This is especially notable in communities such as Peoria, where the City must continually assess its ability to support important programs and services well into the future. By evaluating important trends and economic conditions, the City is better able to gauge our ability to provide services over an extended period of time.

To assist with this evaluation, the City of Peoria Management and Budget Department has formulated automated forecast models for each of its operating funds. The models attempt to balance planned or anticipated resources against the expected demands for service in the community. The Long-Range plan is designed to address a number of recurring issues, such as:



- How will Peoria meet the challenges of growth in the future?
- What is the impact of potential citizen initiatives and legislative actions which affect Arizona cities?
- How will the City respond to adverse economic or emergency conditions?
- How do we deal with cost increases that exceed the rate of inflation?

These and other questions are incorporated into computer models, which in turn project financial trends for a five-year planning period.

Study Approach and Assumptions

After an extensive review of issues and events which impact our city, the Management & Budget staff presented a “most likely” scenario to Council in January of 2011. Based on this information, Council utilized the results of the long-range forecast to develop guidelines for the FY 2012 budget process. To be useful, a financial plan must establish a balance between expected service activities and the City’s ability to support these activities. As a result, useful financial forecasts must include much more than simple exported statistical data. Great care must be given to assessing the long-term impacts of events and conditions.

Financial Projection

The financial projection in the upcoming five-year period is based on a number of meaningful economic and demographic factors, as well as a series of presumptions on expected operational needs. The Management & Budget Department has compiled a set of cost and revenue-related assumptions for developing a financial forecast. These assumptions can strongly influence the results of the forecast model, and must be closely analyzed to ensure

the accuracy of the study. Among the primary assumptions utilized in the forecast are economic growth rates, retail sales activity, state-shared revenues, census population, and residential development activity.

Scope of Study

The FY 2012 Long-Range Financial Forecast includes a narrative discussion on the long-range models for each of the operating funds. Specifically, the Management & Budget Department staff undertook extensive reviews of the following funds:

General Fund. The General Fund supports most general government activities, including public safety, development services, parks and recreation and general government functions. The fund is supported by various revenue sources, including sales and property taxes, user fees and state-shared funding.

Streets Fund. The Streets Fund provides for much of the City’s street and traffic operations. The fund is largely supported by the State’s Highway User Revenues (fuel taxes) as well as the City’s 3/10 of one cent transportation sales tax.

Transit Fund. The City’s Dial-a-Ride and fixed route transit systems are all funded out of the Transit Fund. This fund is currently being subsidized by the Transportation Sales Tax fund since the State of Arizona stopped the distribution of the Local Transportation Assistance Fund (LTAF) funds.

Water Fund. The City’s water operations act as a separate enterprise, relying solely on water rates to support their activities.



Wastewater Fund. The City's sewer collection and disposal operations also act as an enterprise, supported by wastewater rates.

Solid Waste Fund. The City's residential and commercial solid waste functions provide for the collection and disposal of refuse within the City of Peoria. The funds rely on user fees to pay for its operations.

Sports Complex Fund. The Sports Complex fund includes monies to support the maintenance, operation and debt requirements related to the City of Peoria Sports Complex. The City's share of all ticket, rental and concession revenue collected from the complex are placed into this fund. Additional financial support is provided by the City's Half Cent Sales Tax Fund.

Economic Outlook

The local economic outlook is based on several expert forecasting sources, including those from Elliott Pollack, R.L. Brown, Marshall J. Vest, and economists at the Greater Phoenix Blue Chip Consensus. In addition, city staff has undertaken assessments of commercial and residential development activity in Peoria. Over the last three years, aspects of Arizona's economy experienced steep declines. All indications suggest that overall the state economy will see very limited growth over the next twelve months. Other measures of economic conditions bear out the severity of the economic slowdown. Consumer spending continues to be restrained, affecting the large retail sector in the region. With lackluster employment growth, indications point to limited economic growth over the next few years. The impact of the economic situation, along with expected cost trending, have all been incorporated in the City's financing models.

Within Peoria, the housing and retail sectors appeared to have stabilized, albeit at a much lower base level. Store-to-store sales in the large retail category are very comparable to last year. The large inventory of homes on the resale market will continue to limit home values on the market. Within the commercial real-estate sector, the area is experiencing notably high vacancy rates on various classes of properties. This will further depress market conditions in the foreseeable future. For purposes of the five-year forecast, the Management & Budget Department anticipates low inflation for the planning period. The study of all the indicators also reflects minimal construction activity for the study period.

Operational Impacts of Capital Plan

Within the City of Peoria Capital Improvement Program, an extensive effort by City staff is undertaken to assess the operational impacts of new facilities. In addition, City master plans are also utilized to assess future operational needs. The recurring costs identified in these plans are incorporated into the City's long-term financial models.

The City's Police Department is committed to maintaining its response levels, while continuing its community-based functions for existing areas. Based on that department's operational plans, additional sworn officers and civilian positions will be needed in the future to respond to these demands. Costs to support communication systems and computer-aided dispatch systems have been incorporated into the long-range forecast.

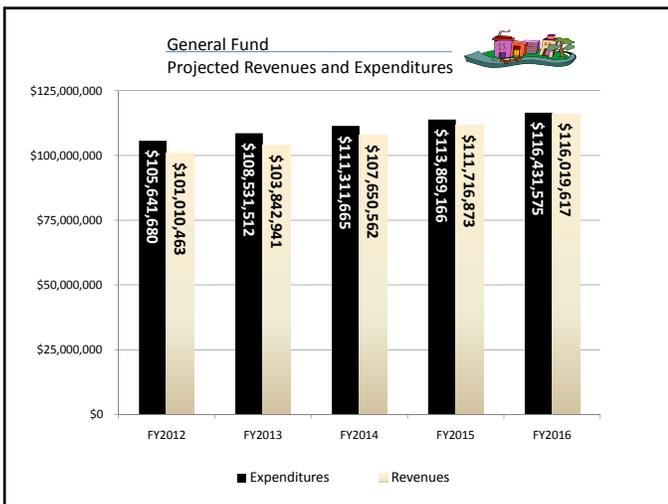
The City's Fire Department will be pressed to maintain its four-minute response time for rural areas of the City. Development trends will be closely monitored to ensure additional firefighters and support staff needs are addressed when appropriate in both the northern and western reaches

of the City’s planning area during the latter part of the forecast period.

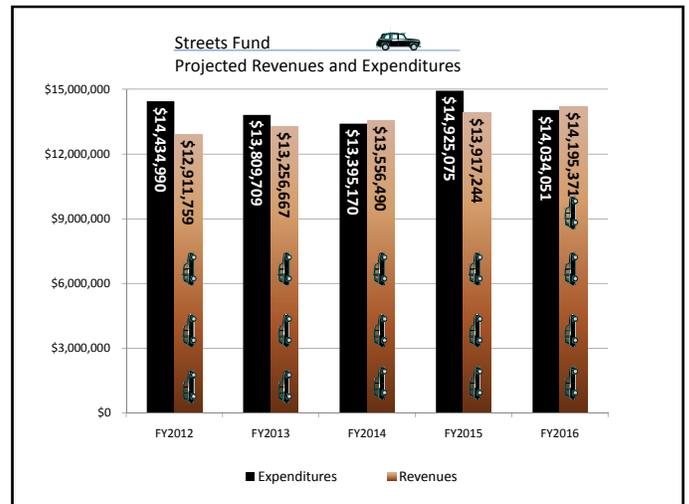
The Community Development Department will continue the highly successful Neighborhood Grant Program, where neighborhood associations may receive funding for neighborhood improvements throughout Peoria. The Community Services Department plans include continuing the connection of trails, opening new neighborhood parks and in 2013 opening a new community park. Costs to support these projects as well as all CIP projects are incorporated in the long-range forecast.

Forecasts of Major Operating Funds

General Fund. The City is thoroughly examining ongoing General Fund requirements and revenue streams over the next few years to ensure current service levels can be sustained. This should enable the City to maintain a strong unreserved fund balance, while further continuing the practice to fund a number of capital projects on a “pay-as-you-go” basis. However, the growth in planned expenditures is expected to exceed the growth in revenues through much of the planning period. For the planning period FY2012-FY2016, the structural deficit has been closed in this budget by reducing ongoing expenditures and identifying additional ongoing revenues.



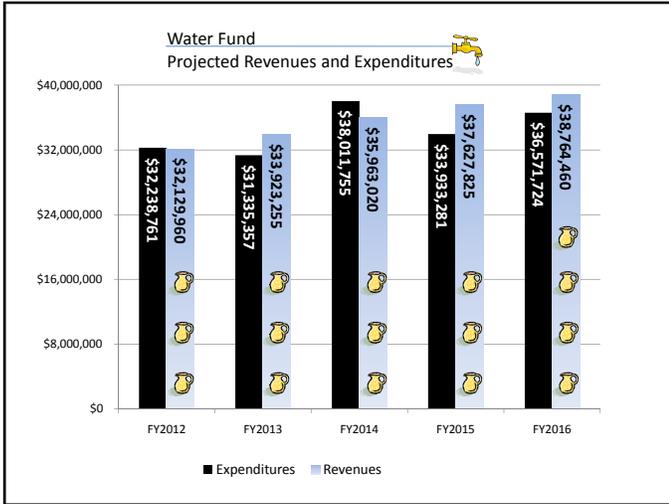
Streets Fund. The City’s Streets Fund consists of proceeds from numerous sources, with HURF as its primary revenue source. Arizona’s Highway User Revenue Fund (HURF) is comprised of revenues including gasoline tax and motor vehicle license taxes and registration fees. These funds are collected and distributed to the State Highway Fund and to local governments. Additionally, contributions from the 0.3¢ transportation sales tax have helped to stabilize this fund. This will allow the Streets Fund to remain financially independent through the planning period.



Water Fund. The City of Peoria provides water service to approximately 47,800 accounts within the city limits. All costs for water service are accounted for in the City’s Water Fund. The fund is responsible for capital facility needs, debt service payments and operating costs for water service-related activities.

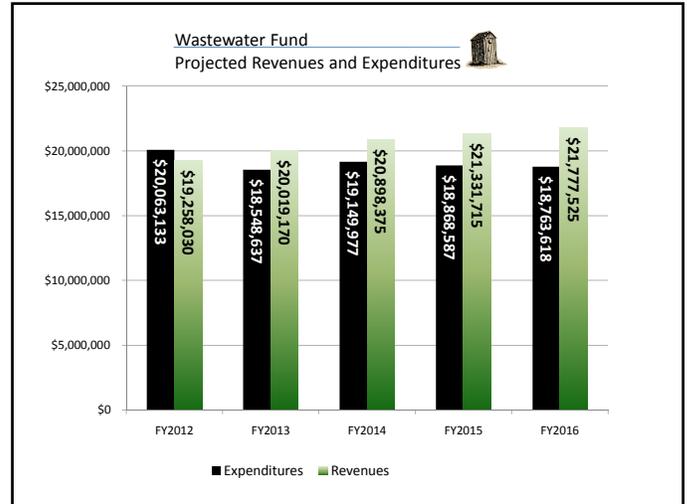
The water utility implemented cost reduction strategies and adjusted its capital improvement plan to respond to a challenging budget environment. After an extensive review of the water rate structure and system, the City plans to adjust water user fees in FY2012 and change the pricing structure to ensure equity among users. The City will continue to meet the financial policies for cash

reserves and debt coverage. Forecasts indicate the Water Fund will be financially self-sustaining into the future; however, the forecast includes rate increases through FY2015.

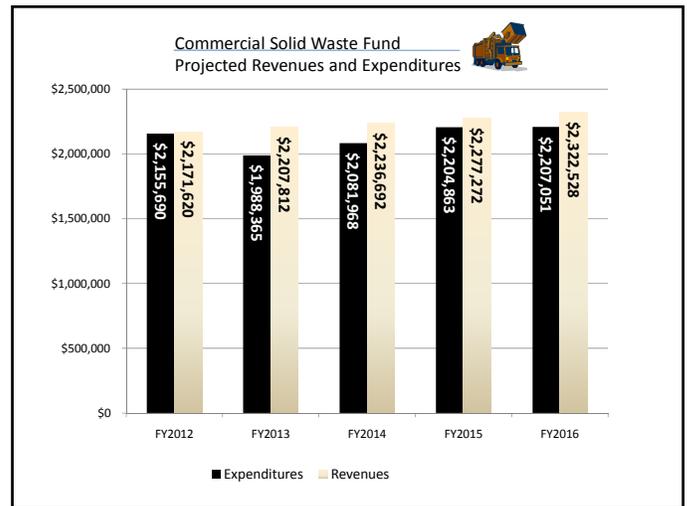


Wastewater Fund. The City provides wastewater services to approximately 50,800 accounts within the city. Costs for these activities are accounted for in the Wastewater Fund. The fund is responsible for supporting the operating costs, capital needs, and debt service requirements for wastewater-related facilities. The fund relies on wastewater service charges to support its activities.

The wastewater utility implemented cost reduction strategies and adjusted its capital improvement plan to respond to a challenging budget environment. After an extensive review of the wastewater rate structure and system, the City plans to adjust wastewater user fees in FY2012 and change the pricing structure to ensure equity among users. The City will continue to meet the financial policies for cash reserves and debt coverage. Forecasts indicate the Wastewater Fund will be financially self-sustaining into the future; however, the forecast includes rate increases through FY2014.



Commercial Solid Waste Fund. The Commercial Solid Waste operation offers both container and roll-off service to Peoria businesses and multi-family developments. Businesses within the City have the option of selecting between the City and private companies for their solid waste services. It is essential for the operation to maintain competitive pricing while also generating sufficient revenues to meet the City’s financial policies. The City does not plan to adjust Commercial Solid Waste user fees in FY2012. Forecasts indicate the Commercial Solid Waste Fund will be financially self-sustaining into the future.



Residential Solid Waste Fund. The Residential Solid Waste operation provides trash collection, recycling, and loose trash pickup for approximately 48,800 residential accounts within the City. The City's Residential Solid Waste operation is the sole provider of service for Peoria residents. The City does not plan rate adjustments to residential service fees for FY2012 and will continue to support its operating costs and meet the City's cash reserve targets. Forecasts indicate the Residential Solid Waste Fund will be financially self-sustaining into the future.

Transit Fund. The transit operation provides a citywide Dial-A-Ride demand response bus system, a City Travel Reduction Program and a Clean Air Campaign. After the FY2010 budget reductions in this area, the forecast stabilized but was highly reliant on state shared revenue from lottery proceeds (LTAF). Since February 2010, the State of Arizona has elected to stop the distribution of LTAF funds which is approximately \$855,000 per year to the City. Without the LTAF funding source, the City will need to carefully consider operational decisions and/or potential support from other sources to make this fund sustainable.

