Budget Summary

Beginning at their annual workshop in October of 2010, the City Council was provided updated information on the City's financial condition including an assessment of the current economic state and a discussion on the long-term financial forecast. Armed with this information, the City Council developed its 24-month policy goals, conveyed in six broad policy statements, which provided key policy directives to the City Manager for consideration during the FY 2012 budget process.

As in prior years departments utilized a more long-term approach to their operation and budget requests. Each department updated its operating plans which outline how they intend to meet service expectations within the available resources FY 2012.

In February and March, the executive management team met with department directors to review their proposed service plans. Discussion focused on how departments proposed to maintain core service activities, create operational efficiencies and continue to provide excellent customer service for our citizens.

In April, the city manager brought forward a balanced budget for review by the City Council. As stated in the city's "Principles of Sound Financial Management", a "balanced budget" 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.

FY 2012 BUDGET CALENDAR

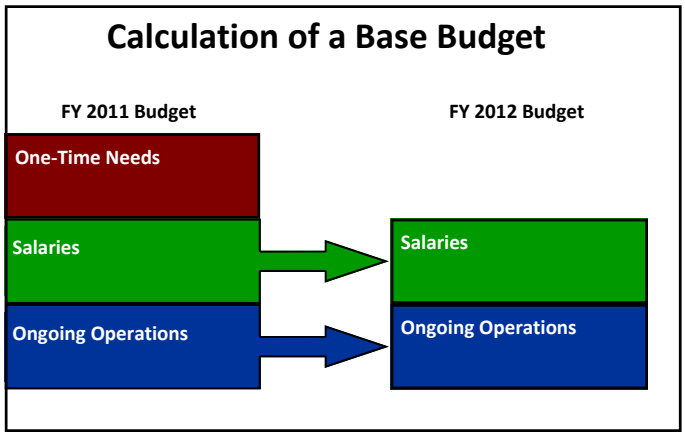
Activity	Date
City Council Annual Workshop—Goals and Priorities Established	October 22, 2010
City Council Workshop	January 28, 2011
Department Review Sessions with City Management	February—March 2011
City Manager's Recommended Budget	March 17, 2011
City Council Budget Study Sessions	April 7—April 15, 2011
Adopt Tentative Budget	May 17, 2011
Hold Public Hearing on Budget and Property Tax Levy	June 21, 2011
Adopt Final Budget	June 21, 2011
Adopt Property Tax Levy	July 5, 2011

BUDGET OBJECTIVES

For FY 2012, a "program and performance based budgeting" method was utilized throughout the organization. Departments were required to develop strategic operating plans focused on reducing operating budgets while still addressing Council's policy goals. This process focused budget reductions on less essential services without impacting core citizen services. Budgets were developed with a focus on providing "core" services to our residents and identifying the true cost of providing those services.

A key component to performance based budgeting is tying department performance data to long-term Council and organizational goals. With this in mind, departments were required to develop operating plans that identified key goals, and performance targets that tied their budget requests to desired outcomes.

In some cases, the allotted base budget is not sufficient to support existing department operations. 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, Management and Budget staff undertook extensive reviews of various cost factors, as well as individual account activity. Throughout this time, 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 February and March 2011. These processes ensure that the initial base budget with appropriate reduction or supplemental packages meets 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 7 through April 15. Upon Council's revisions to the manager's recommended budget, the Management and 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 May17, 2011. 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 shown in the calendar below, the FY 2012 final budget was adopted on June 21, 2011 and the property tax levy on July 5, 2011.

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 $703,909,330 in Fiscal Year 2012. This compares to the total appropriation of $460,000,000 in the final budget adopted by Council. However, the city estimates that $185 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 Principles (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.

A more strategic approach was utilized during the FY 2012 budget process. Each department addressed their operational needs through an update

to their operating plans. Departments identified and reaffirmed their core services, key operational goals and objectives and performance indicators. Multi-year performance measurement data was used to make financial decisions that ensured that the recommended FY 2012 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 a number of 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 2012 annual budget appropriation totals $460 million. The operating budget totals an estimated $207.3 million, a decrease of 1.57 percent from the prior year. The table and charts on this page and the following page provide a summary of the sources and uses of funds.

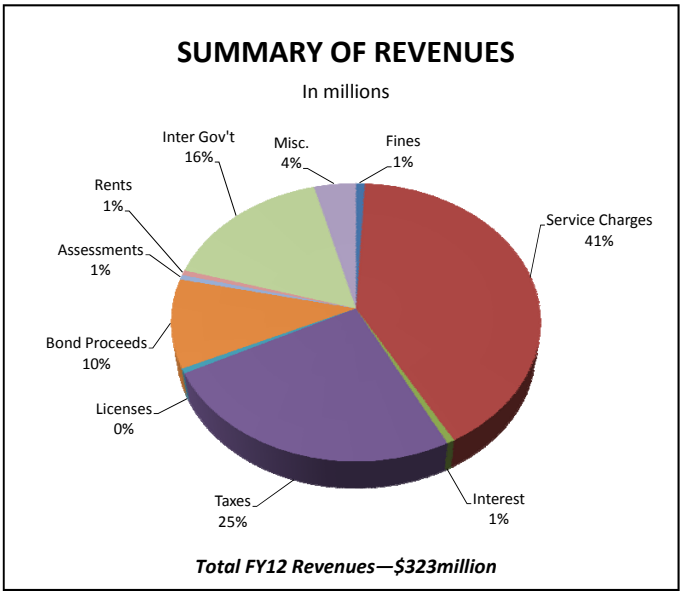
Revenues

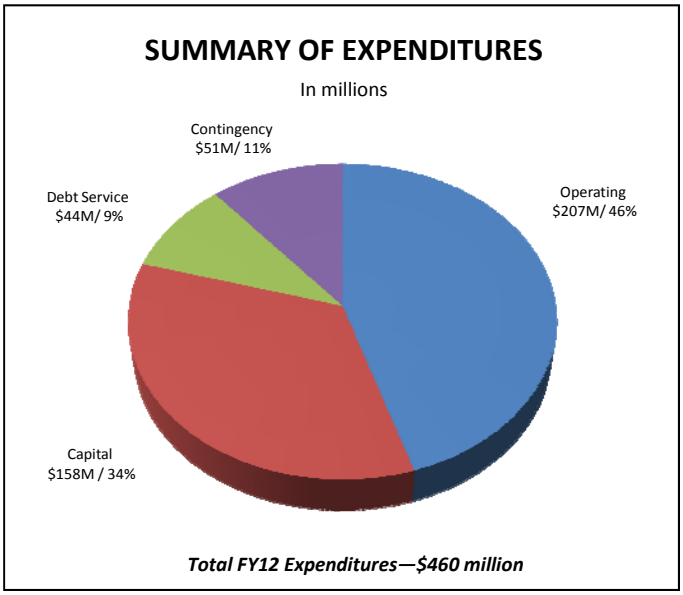
The FY 2012 estimated revenues total $323 million, which represents a 3 percent decrease from FY 2011 budgeted revenues. Projected revenues are realized from a variety of sources, including sales tax collections, water billings and user fees. The decrease in estimated revenues is largely the result of the economic downturn, notably in development-related revenues and lower interest rates.

In FY 2012, the city estimates revenue from service charges at $132 million (41 percent), taxes at $81 million (25 percent), and intergovernmental revenues at $53 million (16 percent). The remaining categories represent $56 million (18 percent).

Expenditures

The $460 million budget is comprised of four major segments. The operating budget totals $207.3 million (45 percent); with debt service at $43.6 million (9 percent). Approximately $51 million (11 percent) is also set aside for contingency accounts. Capital improvements total $158.1 million—34 percent of the total FY 2012 budget.





TOTAL REVENUES BY TYPE

In millions

Description	FY08	FY09	FY10	FY11	FY12	% Change
Fines, Licenses, Permits & Rents	$8.9	$6.6	$7.8	$5.8	$6.4	10.3%
Bond Proceeds	$159.8	$124.2	$53.2	$26.2	$33.3	27.2%
Charges for Services	$147.8	$138.0	$127.4	$125.3	$132.4	5.7%
Intergovernmental Revenue	$72.4	$76.9	$70.3	$78.2	$52.9	-32.4%
Taxes	$102.9	$101.3	$89.1	$84.7	$80.8	-4.6%
Miscellaneous Revenue	$18.8	$21.6	$10.4	$9.3	$14.8	59.7%
Interest Income	$13.4	$8.8	$6.2	$3.4	$1.9	-43%
Total Revenues	**$524.0**	**$477.4**	**$364.2**	**$332.8**	**$322.6**	**-3.1%**

TOTAL BUDGETED USES

In millions

Description	FY08	FY09	FY10	FY11	FY12	% Change
Operations	$229.3	$233.9	$207.4	$204.1	$207.3	1.57%
Capital	$356.6	$340.5	$199.4	$139.3	$158.1	13.46%
Debt Service	$54.6	$52.8	$66.5	$57.4	$43.6	-24.06%
Contingencies	$49.4	$52.8	$61.7	$54.3	$51.0	-5.99%
Total Expenditures	**$690.0**	**$680.0**	**$535.0**	**$455.0**	**$460.0**	**1.10%**
Interfund Transfers	$24.9	$17.7	$32.5	$31.7	$22.8	-28.00%

FINANCIAL RESERVES

Peoria's financial plan continues to emphasize the need for strong financial reserves. The collective ending balance for all funds is projected at $238 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 in order to maintain the level of services being provided to Peoria residents and businesses.

The chart below outlines the financial plan for FY 2012. The total sources are estimated at $670 million and total uses are estimated at $483 million, which includes a contingency/reserve of $51 million. At this point, the city is positioned to sustain fund balances at or near stated reserve requirements.

FINANCIAL PLAN SUMMARY

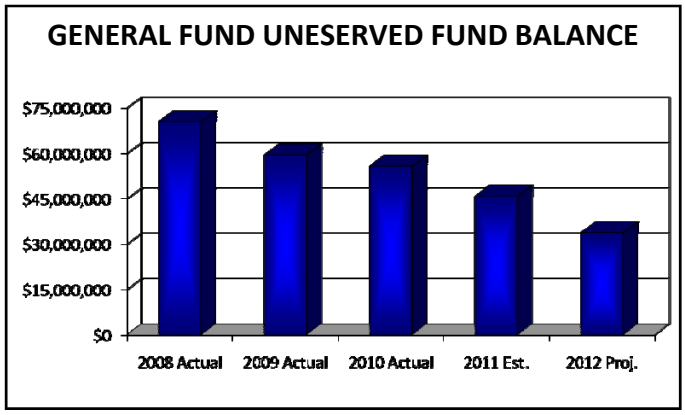
In millions

Fund Categories	Estimated Balance 7/1/11	Total Sources	Total Uses	Estimated Balance 6/30/12
General	$61.38	$118.73	$128.61	$51.5
Special Revenue	$77.72	$43.30	$49.21	$71.82
Enterprise	$69.66	$75.41	$86.84	$58.23
Internal Service	$19.51	$38.00	$39.40	$18.11
Trust, Agency, & Reserve	$0.15	$0.00	$0.03	$0.12
Capital Project	$62.46	$46.36	$101.03	$7.79
Debt Service	$33.52	$23.62	$26.66	$30.49
Total Revenues	**$324.42**	**$345.42**	**$431.78**	**$238.06**

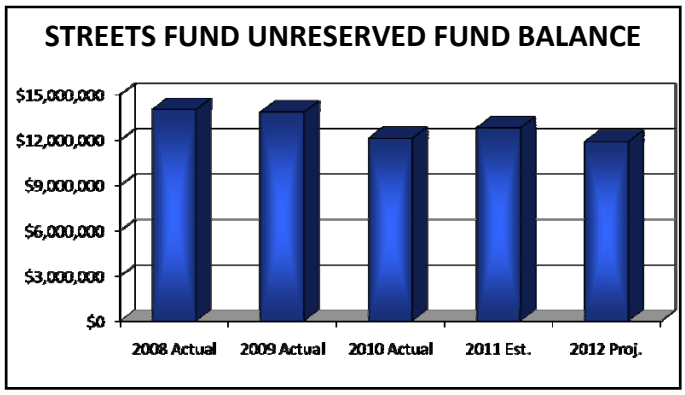
*Total Uses and Estimated Balance includes interfund transfers but excludes contingency appropriation.

Fund Balance Analysis

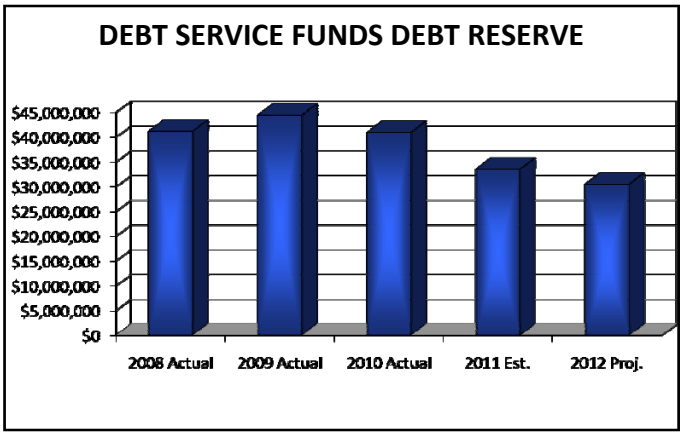
In the general fund, the fund balance reflects the city's strong growth cycle over the past few years. The reserve goal is equal to the 35 percent of the average actual general fund revenues for the preceding five fiscal years. The reason for the declining fund balance is the city utilizes additional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



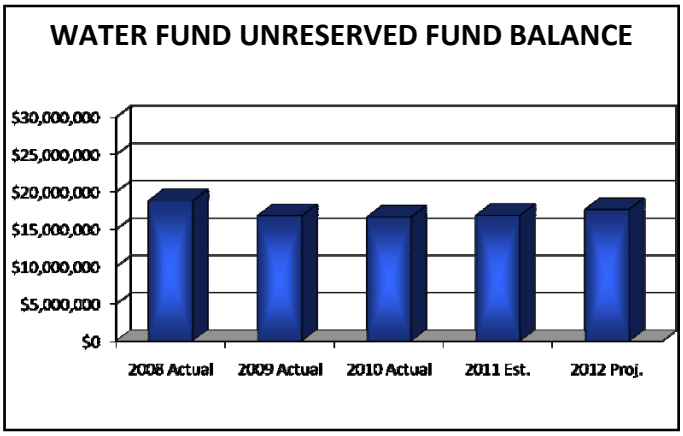
For the street operating fund, a new transportation sales tax was approved by voters and effective as of January 2006. This helped support and maintain the street operating fund. While the FY 2012 balance remains healthy, future projections reflect a declining balance. We will continue to review this fund and make the necessary adjustments.



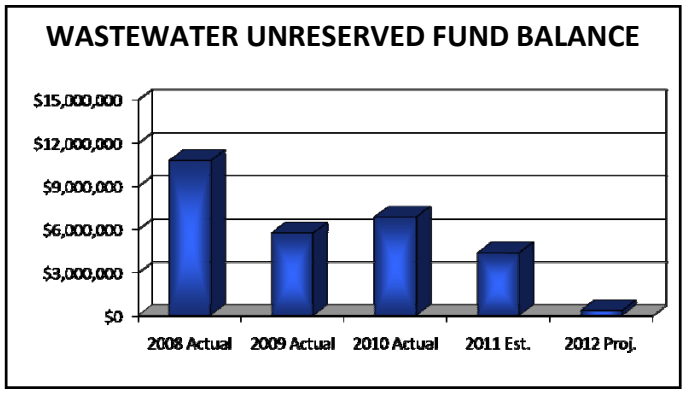
The reserve requirements are provided to adequately meet debt service payments in subsequent years. While maintaining a healthy reserve requirement as indicated in the Principles of Sound Financial Management, the fund balance in the debt service funds reflects a strong assessed value growth. The 10-year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



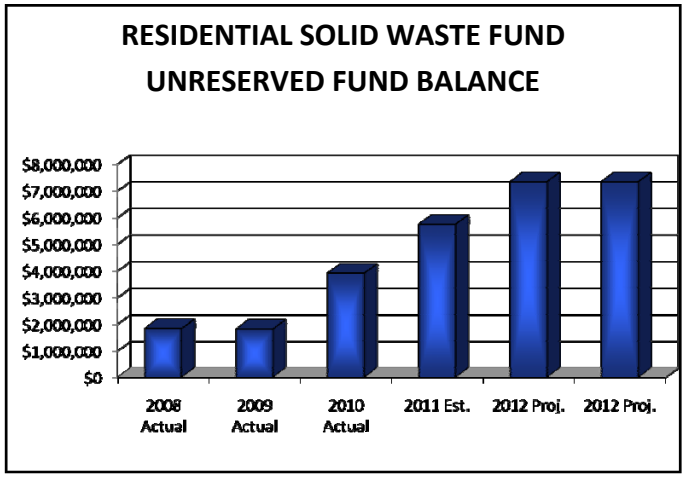
The targeted debt coverage ratio for the water fund is two times the debt service payments and the working capital goal is 25 percent of the operating expenditures for the current fiscal year. The fund balance now reflects the full impacts of the operational costs for the Butler Water Reclamation Plant project which were included in the existing rates. A rate increase of 4.59 percent to the average account has been proposed for Fiscal Year 2012.



The targeted debt coverage ratio for the wastewater fund is two times the debt service payments and the working capital goal is 25 percent of the operating expenditures for the current fiscal year. A rate increase of 4.59 percent to the average account has been proposed for Fiscal Year 2012.



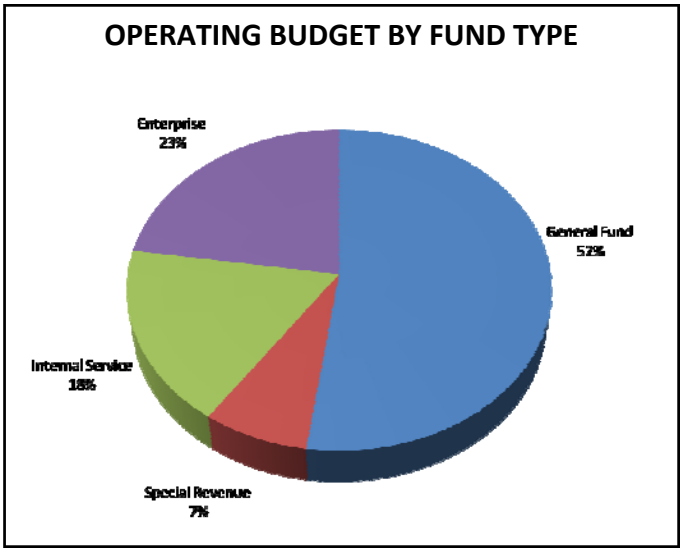
The residential solid waste fund has continued to stabilize after some significant operation requirements which caused this fund balance to decrease over the past few years. The targeted goal for working capital is 20 percent of actual operating expenditures in the current fiscal year. There are no rate increases proposed for FY 2012.



OPERATING BUDGET

The FY 2012 operating budget of $207.3 million is a increase of $3.26 million, a 1.5 percent gain from last year's $204.1 million operating budget amount. Based on the city's projected revenue estimates, the FY 2012 operating budget can be balanced without any increase to city taxes but will require an increase to the water and wastewater utility rates.

The general fund makes up 52 percent of the total operating budget and is the largest component of the city's organization. Other fund categories include: enterprise funds (23 percent), internal service (18 percent), and special revenue (7 percent).



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 2012, 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 2010 and FY 2011, many vacant positions were frozen and work duties were shifted to continue service delivery in core areas. For FY 2012, a pay freeze was enacted for all employees. Even

with these savings, it was necessary to reduce the workforce.

Overall, the FY 2012 budget proposes 35 fewer positions than in FY 2011. This includes 24 of the employees who have opted for the city's voluntary severance program. Recently frozen, vacant positions were also identified in the reduction count. The proposed budget also includes ten filled positions that are scheduled for reduction. However, through a series of organizational shifts, and by maximizing vacant positions, I am optimistic that over the next few months we will place all ten of these individuals. By consolidating duties and targeting efficiencies, we anticipate that these 35 position reductions will not notably affect services to residents.

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 1,100.72 FTEs.

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

Department Summary

City of Peoria departments aggressively addressed reduced revenue projections and resulting budget shortfalls. Midway through FY 2011, reductions were made to departments' operating budgets, which included the elimination of vacant positions. Through these efforts, and by shifting work duties, the departments have been able to manage effectively without undermining service delivery. For FY 2012, departments were challenged— and were successful— in finding reductions of ongoing budgets without negatively affecting core services.

The Police Department reduced ongoing budgets by 2 percent with no impact to core services. Since FY 2010, the park rangers and code compliance officers have been 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 Fire Department's ongoing operating base budget reduction amounted to 5 percent. This decrease will have no impact in the delivery of the Fire Department's essential services.

The City Council identified the advancement of economic development efforts which will promote the long-term economic prosperity of the area in their 24-month policy goals. This is addressed in the budget, which directs funds and allocates 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 Old Town and Sports Complex/Entertainment District area.

A high priority in Community Services is to continue our youth and recreational programs to the citizens of Peoria while minimizing fee increases. This budget also makes possible additional playground shade structures in a number of parks, and renovates deteriorating playground surfaces.

OPERATING BUDGET HISTORY

GENERAL FUND	Budget FY 2008	Budget FY 2009	Budget FY 2010	Budget FY 2011	Budget FY2012
Mayor & Council	$1,169,727	$1,223,500	$1,189,388	$647,390	$604,452
City Manager	$2,283,208	$2,304,732	$1,815,379	$2,285,551	$2,268,189
Office of Communications	$2,860,546	$2,511,335	$989,923	$1,229,693	$1,096,007
Engineering	$6,141,779	$6,203,459	$4,505,845	$3,841,411	$3,460,179
Economic Development Services	$662,706	$1,265,001	$4,084,281	$3,410,878	$3,328,911
Human Resources	$2,711,781	$2,960,278	$2,788,243	$2,396,210	$2,316,165
City Clerk	$1,117,210	$1,330,739	$1,148,103	$1,161,878	$960,843
City Attorney	$3,057,601	$3,071,732	$3,003,500	$2,910,018	$2,961,367
Municipal Court	$2,406,104	$2,240,510	$2,292,519	$1,990,676	$1,821,218
Non-Departmental	$1,507,844	$1,248,355	$1,851,654	$1,734,008	$1,847,136
Finance	$11,288,758	$11,438,336	$9,552,989	$8,835,680	$9,376,747
Management & Budget	$1,244,413	$1,165,440	$1,003,663	$913,113	$917,364
Planning and Sustainability	$6,803,766	$6,485,802	$2,228,799	$2,414,636	$2,131,843
Police	$34,845,425	$37,227,285	$37,629,801	$34,631,060	$35,205,043
Fire	$20,679,498	$21,987,381	$20,025,671	$18,541,790	$19,547,095
Community Services	$21,231,849	$22,392,891	$20,222,311	$18,971,981	$18,515,632
Public Works	$516,440	$540,799	$631,252	$549,037	$431,467
Half-Cent Sales Tax and Other	$299,600	$299,600	$229,600	$179,600	$1,521,813
SPECIAL REVENUE FUNDS					
Streets Funds	$10,576,831	$10,731,837	$9,522,672	$9,042,409	$8,951,788
Housing & Community Dev.	$2,236,227	$2,059,766	$1,994,379	$1,983,529	$1,647,884
Transit	$1,503,819	$1,551,849	$1,437,142	$1,006,618	$932,686
Grants & Miscellaneous	$2,157,292	$3,085,271	$4,172,490	$3,074,344	$3,707,788
ENTERPRISE FUNDS					
Water Fund	$22,842,719	$23,746,845	$22,522,063	$21,549,689	$20,701,422
Wastewater Fund	$12,027,420	$12,805,031	$10,378,843	$10,552,271	$10,332,275
Enterprise Reserves	$3,017,121	$3,856,627	$2,537,328	$1,720,982	$1,105,370
Solid Waste Funds	$13,775,977	$11,157,184	$9,228,794	$10,012,997	$10,388,016
Sports Complex	$6,147,636	$5,095,273	$4,497,802	$4,244,725	$,353,164
INTERNAL SERVICE FUNDS					
Fleet Maintenance	$5,108,446	$5,867,199	$5,025,534	$4,713,700	$4,672,721
Fleet Reserve	$3,014,773	$5,066,903	$1,021,333	$1,137,276	$1,391,998
Insurance Reserve	$3,015,485	$2,800,176	$2,561,966	$13,713,562	$16,912,922
Facilities Maintenance	$6,947,330	$6,472,236	$6,378,392	$5,471,678	$5,470,869
IT Operations	$9,388,139	$9,271,418	$8,902,491	$7,828,470	$7,702,572
IT Reserve	$1,615,073	$1,844,506	$365,450	$397,700	$525,000
IT Projects	$4,889,289	$2,519,910	$1,651,095	$976,596	$169,236
Trust, Agency & Reserve	$33,600	$33,600	$30,600	$30,600	$30,600
Capital / Debt Service	$175,109	$0	$0	$0	$0
TOTAL	**$229,300,541**	**$233,862,806**	**$207,421,295**	**$204,101,756**	**$207,307,782**

The Community Development Department budget includes $150,000 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 Change

In FY 2012, the city's operating budget is $207.4 million, representing a 1.6 percent increase from the operating budget of $204.1 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 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 the Community Block Development (CDBG), are ongoing programs. Other grants, like the Arizona Forestry Division's Forestry Community Challenge Grant, are one-time, project-specific grants. Highlights of the FY 2012 major grants are summarized below.

The city is responsible for administering subsidized housing programs funded through the United States Department of Housing and Urban Development (H.U.D.). The Housing Funds consist of Low Income Public Housing and Section 8. The city now contracts the administration of both of these housing programs to the Housing Authority of Maricopa County. This housing agency has a proven track record with various local and federal housing programs and lends greater efficiencies to the residents served by these programs. The FY 2012 housing program budgets total $981,000. The primary revenue source for these programs 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 2012 budgeted housing revenue is estimated at $656,000.

Bureau of Reclamation

The Utilities Division's Water Conservation Unit was awarded a water conservation grant for $30,000 from the Bureau of Reclamation. Funds will be used to support water conservation and landscape classes for adults and an education water conservation school program for children.

Arizona Governor's Office

The Fire Department and Police Department received $80,800 from the Public Safety Stabilization Grant Program administered by the Arizona Governor's Office. Grant funds were used to purchase upgraded license plate readers (police), and ATV and trailer (Fire).

U.S. Department of Housing and Urban Development

The Planning and Community Development's Neighborhood Revitalization Program was awarded a grant for $1,078,902 from the U.S Department of Housing and Urban Development's Neighborhood Stabilization 3 Program. The funds will be used to revitalize targeted communities.

Community Development Block Grant

The Community Development Block Grant Program (CDBG) is federally funded through the United States Department of Housing and Urban Development (H.U.D.). The FY 2012 CDBG budget totals $1,274,002. These monies will be used for various housing rehabilitation projects as well as housing assistance and social service programs. The city partners with many non-profit agencies to

provide critical programs to its residents with funding from this program.

HOME Grant

The HOME grant is also federally funded from H.U.D. This program is designated specifically for carrying out income eligible housing strategies through acquisition, rehabilitation and new construction. The FY 2012 budget for the HOME grant is $403,084 and will be used mainly to rehabilitate foreclosed housing stock, perform land acquisition and implement programs to assist eligible citizens with home purchases.

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 2012, the city has budgeted expenditures of $425,600. These funds are used by the Police Department and the City Attorney's Office for training, supplies and equipment.

INTERNAL SERVICE FUNDS

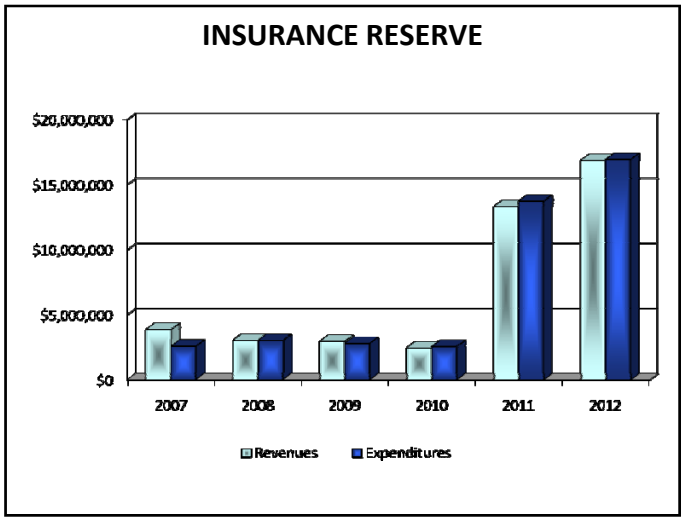
The internal service funds are a group of funds that account for services provided to other divisions and departments of the city government. The internal service funds consist of fleet replacement reserve, insurance reserve, facilities maintenance, fleet maintenance, information technology (IT) and 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 2012, the fleet reserve fund anticipates revenues from service charges of $1,487,871. Transfers of $204,000 for the purchase of any new vehicles were approved in the supplemental process. Total expenditures are budgeted at $2,141,998.

Insurance Reserve

The increase in the insurance reserve in FY 2012 reflects the city's efforts to self-insure employee medical costs. This will result in lower third party administrative costs. 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; these factors are updated each budget year. This fund includes a contingency reserve of $2,050,000. The total budget for FY 2012 is $16,912,922.



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 2012 appropriation totals $5,470,869.

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 2012 operating budget is $4,672,721.

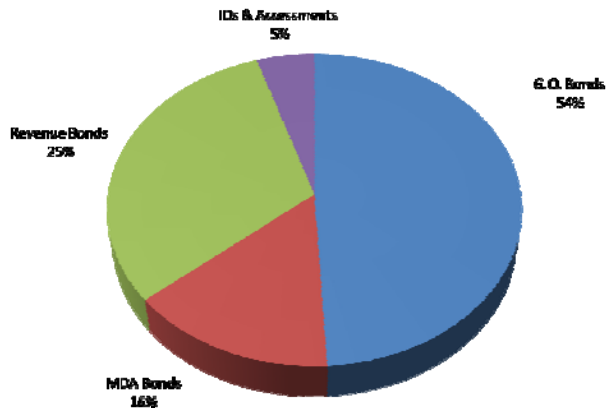
Information Technology

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 $25,000 in FY 2012. The total budget for IT operations in Fiscal Year 2012 is $7,729,083 and $169,236 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 are all reviewed as 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 debt (as described below) are available. More detail on planned debt service for FY 2012 may be found in Schedule 8 of the "Schedules" section of this document.

FY 2012 DEBT REQUIREMENTS BY TYPE



General Obligation Bonds

General obligation (G.O.) 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 that do not themselves produce revenues. Arizona law limits the amount of G.O. 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 percent of the assessed valuation. Financing for all other projects, such as municipal buildings, is limited to 6 percent of the assessed valuation.

Periodically, the city has its general obligation credit reviewed by various national bond rating agencies. In May of 2010, the city's G.O. bond ratings were upgraded by Moody's and Fitch IBCA. This upgrade is a reflection of the bond rating industry's increased confidence in the city's creditworthiness. The improved bond ratings will help the city to obtain favorable interest rates on future bond sales and thus will generate considerable savings for Peoria taxpayers.

G.O. BOND RATINGS	
Moody's	Aa1
Standard & Poor's	AA+
Fitch IBCA	AA+

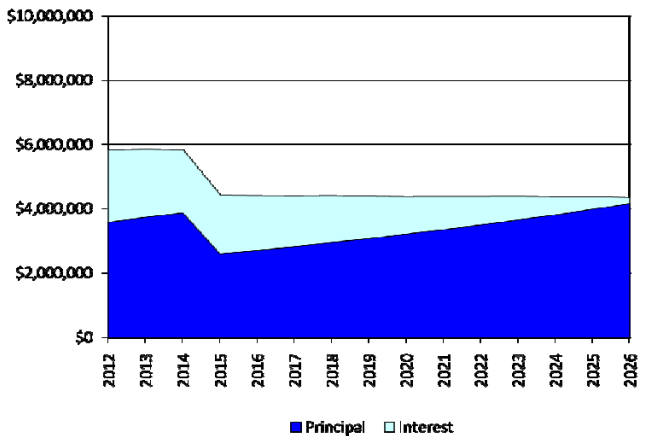
Municipal Development Authority Bonds

Municipal Development Authority (MDA) bonds do not require voter authorization. These bonds are backed by a long-term lease agreement that is supported by a pledge of the city's sales taxes (or 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 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 RATINGS	
Moody's	Aa2
Standard & Poor's	AA+
Fitch IBCA	AA

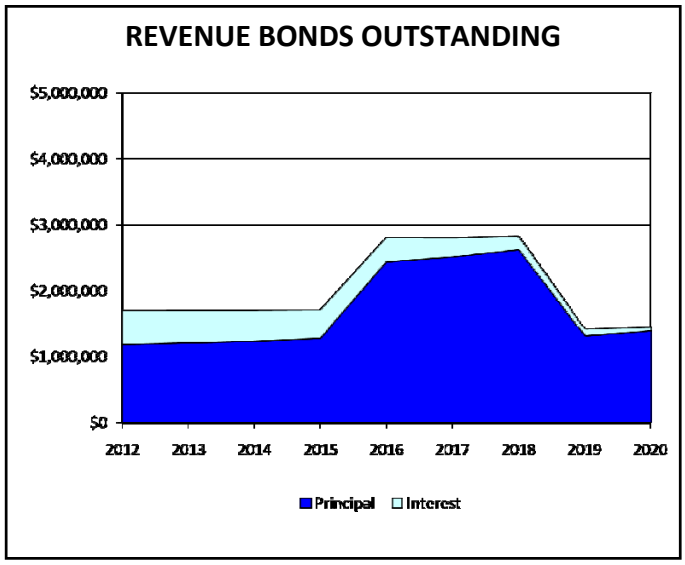
MDA BONDS OUTSTANDING



Revenue Bonds

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. Like G.O. bonds, revenue bonds require voter approval. Unlike G.O. bonds, however, revenue bonds are limited only by the ability of the revenue source to support the debt service.

REVENUE BOND RATINGS	
Moody's	Aa3
Standard & Poor's	AA
Fitch IBCA	AA

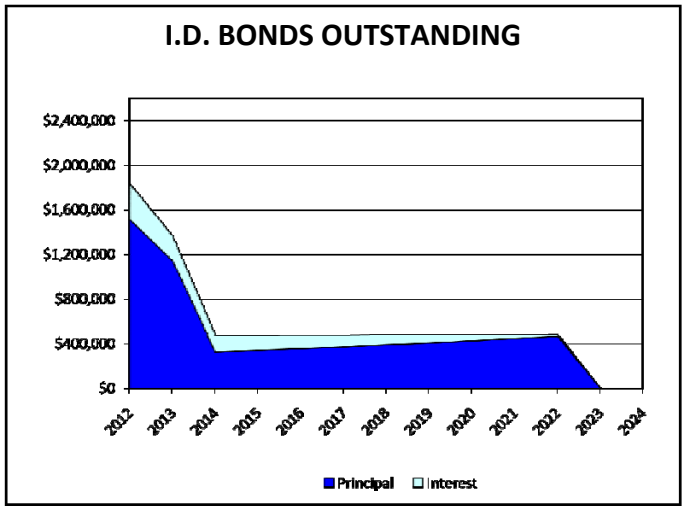


Improvement District Bonds

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.

I.D. BOND RATINGS

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



DEBT MANAGEMENT

Proper debt management provides for the protection and eventual enhancement of bond ratings; the maintenance of adequate debt service reserves; and compliance with debt instrument provisions and required disclosures to investors, underwriters and rating agencies. These policy guidelines, as outlined in the Principals of Sound Financial Management, 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 bond resolutions and covenants.

All projects funded with G.O. bonds or revenue bonds can only be undertaken after voter approval through a citywide election. In the last bond election held in November 2008, Peoria voters authorized bonds totaling $387 million to fund the building of needed infrastructure.

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. The city total assessed valuation is provided by Maricopa County each year. An increase in property values enhances the city's ability to finance long-term debt, while a decrease in property values has the opposite effect. The housing crisis of the last several years has cut into the city's debt capacity, ne-

cessitating downward adjustments to the amount of future debt planned for capital projects. The city maintains its debt level well below the levels mandated by the Arizona Constitution.

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 and the accompanying debt can be expected to increase, as is the case for the City of Peoria. If G.O. debt is increasing as population stabilizes, this may indicate that the city's ability to repay debt service is diminishing. The 2010 Census put the city's population at just over 154,000.

Debt Management Policy

The Principles of Sound Financial Management include the city's debt management policy. The following are excerpts from this policy:

- The overall debt management policy of the city will 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 to utilize "pay as you go" capital financing and/or the use of operating funds or impact fees where applicable.

- The city does not intend to issue commercial paper or bond anticipation notes (BANs) for periods longer than two years or for the term of a construction project. If CP or a BAN is issued for a capital project, it 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 the formation of the district demonstrates a clear and significant purpose for the city. 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 through active involvement of city staff and/or selected consultants to prepare projections, review pro-forma information and business plans, perform engineering studies, analyze minimum debt coverage and value to debt ratios, and conduct other analyses necessary to consider the proposal against specified criteria.

- Refunding bonds will be measured against a standard of the net present value debt service savings exceeding 5 percent of the debt service amount of the bonds being refunded, or if sav-

NET GENERAL BONDED DEBT TO ASSESSED VALUE / NET BONDED DEBT PER CAPITA

Description	2006	2007	2008	2009	2010	Est. 2011	Proj. 2012
Population	145,125	153,592	155,560	159,263	154,065	155,148	156,249
Secondary Assessed Value (Millions)	$964	$1,116	$1,642	$1,995	$1,895	$1,614	$1,276
Net Bonded Debt (Millions)	$27	$108	$90	$138	$150	$137	145
Pct. of Net Bonded Debt to Assessed Value	**3%**	**10%**	**5%**	**7%**	**8%**	**9%**	**11%**
Net Bonded Debt Per Capita	**$186**	**$704**	**$577**	**$867**	**$971**	**$885**	**$930**

ings 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 Statutes 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.

DEBT CAPACITY ANALYSIS

20% Limitation
(Water, Sewer, Storm Drain, Streets, Parks and Recreation Projects)

FY 2012 Secondary Assessed Valuation	$1,276,866,735
Allowable 20% Bonds Outstanding	$255,373,347
Less 20% Bonds Outstanding	($169,584,848)
Unused 20% Debt Capacity	$85,788,499

6% Limitation
(All Other General Government Projects)

FY 2012 Secondary Assessed Valuation	$1,276,866,735
Allowable 6% Bonds Outstanding	$76,612,004
Less 6% Bonds Outstanding	($2,535,000)
Unused 6% Debt Capacity	$74,077,004

- 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.