

CITY MANAGER BUDGET MESSAGE

Fiscal Year 2012

To Mayor Barrett and Members of the Peoria City Council,

I am pleased to provide you with a recommended FY 2012 Annual Budget and Ten-Year Capital Improvement Program for the City of Peoria. These spending plans reflect our commitment to provide a high level of service to our residents, while preserving our organization's long-term financial viability.

The proposed budget totals \$460 million, which represents a 1.10% spending increase from the prior year. Within this, the General Fund Operating Budget totals \$106.8 million, a change of 0.31%. The City's Capital Budget will increase 13.48%, for a total of \$158.1 million.

The 10-year capital program totals \$464 million, an 11.11% 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.

The City continues to weather through a protracted economic downturn. Given this backdrop, the development of this budget proved to be a tremendous challenge. This year, through a collaborative process, the City's department directors played a key role in developing thoughtful solutions for managing the budget gap. The result is a spending plan that meets the needs of our community, without compromising our financial future.

The guiding principles for this budget are the City Council's 24-month policy goals. Their policy statements offer clear and thoughtful direction for achieving 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

CITY MANAGER BUDGET MESSAGE

Fiscal Year 2012

Key among these Council goals is a focus on business development. At its workshop in January, the Council renewed its commitment to supporting job creation and private sector investment.

The submitted budget also reflects valuable feedback from our citizens. Results from last year's citywide resident survey highlighted the public interest in preserving neighborhood quality of life. This year's budget continues a focus on keeping Peoria communities healthy and viable. The submitted budget includes funding to strengthen the physical and social assets in our neighborhoods.

Peoria's Fiscal Situation

The City's revenue stream is largely influenced by overall economic conditions. Nationally, the American economy is slowly emerging from a serious recession. Yet in Arizona, the distressed real estate markets and muted consumer spending will likely curtail economic growth in our region. Within the City, property valuations continue to decline, lowering expected property tax collections for FY 2012. This impacts the City's capital improvement program, which relies on property tax to finance large, one-time capital projects. However, recent positive economic trends suggest that sales tax collections will be roughly 2% higher in the upcoming year. Overall, General Fund revenue is expected to remain flat, increasing slightly in subsequent years.

With projections showing limited revenue growth, budgets will continue to be tight in the foreseeable future. For FY 2012, the General Fund still faces a structural shortfall of approximately \$3.7 million. Additional uncertainty remains as a result of the State of Arizona's difficulty in managing its budget.

While a challenging situation, we are confident that our prudent fiscal practices and strategic budgeting approach prepare us well for the new fiscal year.

Budget Approach

This year more than ever, the recommended budget was developed through a "bottom-up" approach. Throughout the organization, workgroups and cross-functional teams worked diligently to locate potential cost savings. As ideas were put forward, department directors convened in budget strategy sessions to discuss their findings, and to develop collective recommendations to the executive management team.

CITY MANAGER BUDGET MESSAGE

Fiscal Year 2012

As part of our strategic budgeting approach, City departments conducted a financial analysis to determine the true cost for services they provide. Using this information, department directors engaged their staff to discuss trends, options and opportunities for addressing citizen needs. Department directors then crafted their work plans based on expected performance outcomes. On a quarterly basis, departments evaluate performance measures to help gauge the status of these expected outcomes.

Workforce Management Strategies

As a service-based organization, personnel costs represent 70% of the ongoing operating budget. Given this fact, our budget solution requires further changes to our workforce level.

Overall, the FY 2012 budget proposes 35 fewer positions than in FY 2011. This includes 26 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.

Once again, the budget reflects very little growth in compensation-related expenses. Through the hard work of an inter-disciplinary health benefits team, we expect to limit increases to our health care costs for FY 2012. Recently, the City was made aware of increased employer contribution rates to state retirement systems. These increases have been reflected in the submitted budget.

Going forward, we will continue to perform some organizational "fine-tuning", looking for more ways to optimize our existing workforce and better organize and deploy our employees to meet the changing needs of our dynamic city. As a result, we expect to again submit some budget reductions mid-year to promptly incorporate workforce changes.

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

CITY MANAGER BUDGET MESSAGE

Fiscal Year 2012

remember that much of these reserves are established to address immediate and dramatic fiscal difficulties. To address such emergencies, the budget includes contingency appropriation for crisis events, but does not apply any reserves to address recurring expenses.

Taxes, Rates and User Fees

Given the current economic climate, the budget as submitted strives to limit the financial burden placed on our residents. The FY 2012 recommended budget assumes no increase to property tax rates for the upcoming year. Likewise, the City Sales Tax rate remains at 1.8%.

Over the last year, departments were asked to review current user fees and charges to ensure that appropriate costs were assessed to those that benefit. A small number of recreation and development user fees have been adjusted to help recover the full cost of these individual services.

Within the City's water and wastewater funds, moderate rate increases are required. Despite a successful effort to minimize costs, the rate increases are needed to address growing cost pressures and capital requirements. It should be noted that these represent the first rate increases to customers in over three years.

No rate adjustments are put forward for residential and commercial solid waste customers. Overall, City of Peoria customers continue to enjoy relatively low utility rates among Valley communities.

Budget Priorities

The FY 2012 budget is structured to preserve our community's exemplary quality of life. This begins with a financial commitment toward essential public safety services. The budget proposes no change to the number of firefighter positions. While two sworn police officer positions have been frozen, other operational changes will serve to keep the same number of officers on the streets. This approach enables our new Police Chief to have flexibility to array his resources in the most effective fashion.

Going forward, I am looking forward to continuing our "community-based" policing approach, which proactively addresses potential neighborhood concerns, while

CITY MANAGER BUDGET MESSAGE

Fiscal Year 2012

establishing vital relationships with community leaders. These efforts will be supplemented with support for important neighborhood amenities.

The successful “Community Works” program will continue, offering small, targeted capital improvements in ways that make an immediate difference. The successful Neighborhood Grant program will continue its successful partnership with local associations to offer landscape and roadway improvements. The ever-popular Neighborhood Pride revitalization program continues for its 15th year, offering support to individual property owners in making improvements.

Peoria has long boasted premier youth-related recreation programs and activities. Various after-school programs, aquatic center activities, and special interest classes have long offered useful outlets for youths and teens in our community. While such services have been curtailed in other Valley cities, we have remained committed to providing affordable and enjoyable alternatives for Peoria’s young citizens.

As mentioned earlier, the City Council has articulated a series of important economic development policy goals in its 24-month plan. The FY 2012 budget offers funding to support various business attraction and retention efforts identified in the Economic Development Strategic Plan. Within the capital program are funds to promote targeted land assembly, commercial rehabilitation efforts, and future enhancements in the 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.

At \$464 million, the City’s 10-year capital improvement plan is smaller than in recent years. This reflects a slowdown in required financing of growth-related projects. Yet despite this trend, a series of high-profile projects are slated to begin in FY 2012. Projects such as the widening of Lake Pleasant Parkway (north of Dynamite Road) and Community Park #2 will largely complete the necessary system demands to support the population growth of the last several years. Going forward, more funds will be invested into preserving and maintaining our existing infrastructure.

CITY MANAGER BUDGET MESSAGE

Fiscal Year 2012

Also included in the capital budget are a series of projects that will help enliven the municipal campus. The Centennial Plaza project, timed with the Arizona centennial, and housed in between structures at the Municipal Complex, will offer a more passive, culturally rewarding experience for residents. Coupled with the new City Art gallery and café area at City Hall, these projects will help create another important focal area in the Oldtown district.

Conclusion

As with many Peoria residents, the last three years have been very challenging for our organization. Yet, as this budget suggests, we are hopeful that the most difficult period is behind us. We will continue to work closely with Peoria citizens, our community partners, and the business community to 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 Management and 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 2012 budget a reality.

Sincerely,



Carl Swenson, City Manager

