



October 1, 2008

The Honorable James E. Ardis
Members of the City Council
City of Peoria, Illinois

Dear Mayor Ardis and City Council Members:

It is our pleasure, on behalf of your administrative team, to present the preliminary budget for fiscal year 2009. It is not our intention to present this as the "administration's budget," submitted for the modification and approval of the Council. Rather, we view this as the first step in working together to formulate a budget that reflects your priorities and our abilities. The City of Peoria's budget is its business plan – it is a document and process that translates your vision for our community into the day-to-day operations of government.

The preliminary FY2009 Budget currently shows a deficit of approximately \$2.2M. This gap is based on projected FY2009 expenditures of \$174,450,764 and projected funds of \$172,267,601. As has been discussed over the past few years, the rise in expenses has been generally outpacing the rise in revenues. The Finance Department is still awaiting final budget numbers regarding the City's health care contract and Fire and Police pensions. Once those numbers are received, we will have a clearer picture of our budget situation and can begin discussing options.

This preliminary version also does not include \$772,788 represented by six budget exceptions. The exceptions are either mandated by Federal, State, or Local regulations; collective bargaining agreement; negotiated contract; or a basic services necessity:

• Police PEHP Plan	\$165,175
• Community Messaging System	\$ 9,550
• 2010 Census	\$ 5,000
• Fire and Police Commission Exam Materials	\$ 95,619
• Fuel Increase	\$300,000
• Road Salt Increase	\$197,444

Our common goal is a balanced final budget.

Earlier this summer, the City Council charged staff with creating a budget process that was more transparent; better aligned with Council priorities; and more receptive to public input. Both the staff and Council have worked diligently to fulfill that promise. Budget information has been posted on-line, significant public input has been sought and received, and more citizen involvement will be included in future budget conversations. Staff has also reformulated the Community Investment Plan (CIP) to more clearly reflect needs, immediate and long-term costs, and sources of funding.

The City Council has clearly expressed its vision for Peoria: To create a community that is safe, affordable and attractive. It is the mission of your administrative team – from the City Manager to individual line staff – to employ high-performance government to make this vision a reality. This includes providing excellent customer services to citizens, visitors and businesses, and never stopping in our quest to continually improve.

In order to execute this mission, the City of Peoria provides services in six core areas:

- Public safety that protects our quality of life;
- Services to neighborhoods that improve affordability, safety and attractiveness;
- Infrastructure that supports citizens, visitors and the business community;
- Progressive and comprehensive land use that helps Peoria manage its growth and development;
- Attention to the economy, so that businesses flourish and our citizens are gainfully employed; and,
- Stewardship of tax dollars and other public resources.

This preliminary budget represents a “maintenance” approach to services, especially within the operating budget. No new positions are added in any department. Budget increases for salaries are tied to contractual obligations, and increase for management staff are set at 3.5%. Increases for materials, supplies and contracts are modest. Your staff has dedicated itself to “living within its means.” City departments continue to be asked to provide more service in a quicker time frame with similar or even less resources. However, true to the spirit of Peoria, your City government continues to deliver on its promises.

The competition among worthy needs is always most present in the City’s Community Investment Plan (CIP). This year 138 projects representing nearly \$50M in FY2009 costs were submitted for consideration. Since the City’s total funding available for the upcoming year is limited to approximately \$23M, many very difficult decisions had to be made. Each and every project that was submitted had merit and represents a true need in our community. To help better categorize projects according to need, staff utilized a priority sorting matrix borrowed from Hampton Beach, VA. Once given a priority category (Level 1, Level 2, or Level 3), staff looked at each request to determine what level of funding, if any, should be included in the FY2009 CIP. You will notice a new format for requests that places all information on one page and clearly indicates specific costs, funding sources and impact (if any) on the operating budget.

The administrative team focused exclusively on the FY2009 budget, and selected projects that represented immediate needs; programs in which Council has placed a high priority; replacement of items that incurred high maintenance costs; and purchases that assist staff provide excellent service to citizens. The FY2009 Community Investment Plan includes many worthy and exciting projects that will help ensure Peoria’s quality of life. Some examples include:

- \$1.5M for a new aerial ladder truck and a new fire engine;
- \$200,000 for infrastructure improvements around the new Glen Oak School;
- \$48,000 to replace the Police Department’s bomb squad armored vests;
- Continued funding (\$800,000) of our Combined Sewer Overflows project;
- \$125,000 for improvements to the area of Lake and Sheridan; and,
- \$825,000 for the Pennsylvania Avenue traffic circle.

The difference between requests and available funding was most obvious in the “capital” portion of our Community Investment Plan. Requests totaling \$25.2M were submitted for only \$9.7M of available funding. We would like to draw your attention to two very important aspects of the resulting decisions:

1. When a project was recommended for no funding in FY2009, or if only part of the request was included, staff has not re-allocated the balance to any of the out years. As is evident in looking at the enclosed budget pages, the years of FY2010 through FY2013 already represent a level of required funding that will exceed sources in those years. Adding denied requests would simply increase that problem. We feel it important that staff and Council together discuss substantial changes to the CIP process in early 2009, well before budget discussions for FY2010. Together, we will need to focus on building a process that allows all of us to adequately plan for the future.
2. Due to the funding constraints, some very significant capital projects were left off the FY2009 CIP. These five projects alone totaled \$5,164,500 – 53% of the total available in capital funds:
 - City Hall Restoration - \$1,505,000 in FY2009 plus \$1,775,000 in the out years;
 - Sheridan Triangle Restoration - \$650,000 in FY2009 plus \$3,450,000 in the out years;
 - West Main Street Infrastructure - \$300,000 in FY2009 plus \$6,450,000 in the out years;
 - Weaver Ridge Pavement Reconstruction - \$1,390,000 in FY2009 (nothing in out years); and,
 - Hollyhedges/Devereux Streambank Stabilization - \$1,319,000 in FY2009 (nothing in out years).

These five projects represent very pressing needs for our community, and yet funding them would prevent us from accomplishing other important work such as replacing an aging fire and police fleet. These types of projects also represent an opportunity to begin a discussion about how we fund significant projects that have very long life spans. The standard practice in Peoria has been to fund smaller amounts for a number of years to either prepare for a significant project (i.e. design engineering in advance of construction) or start a “savings account” for the project, knowing that the big dollar amount in the future may be unattainable. This has ultimately led to higher prices since labor and material costs rise over the years. Even more importantly, the process has often created unrealistic, unfulfilled expectations in the community, particularly those most associated with the project.

Rather than accruing enough funds to essentially “pay cash” for these projects, we would suggest that Council consider utilizing our bonding capacity to provide funds now, but finance the cost over the next twenty years. Future CIP budgets could include the payments on those obligations, a policy that would allow work to be accomplished when it was needed without crowding out other important projects.

The work of the City of Peoria is broad, and while this preliminary budget begins to balance revenues and expenditures, it also addresses competing demands for service within the community. The core functions of government listed above each play an important role in the life and success of our community. In the coming weeks, staff will work with Council to demonstrate the level of resources dedicated to each area and join in conversation about priorities.

We would like to take this opportunity to personally thank the entire staff of the City of Peoria, each of whom works tirelessly to serve our community. We would especially like to thank all of the departments and their budget team representatives for their efforts in developing this budget. Our thanks also extend to the Mayor and City Council, who continue to provide leadership and direction for our community. The Council should be congratulated on this transition year of making substantial changes to the budget process to be more open, more inclusive of the public, and achieve better alignment of staff with Council goals.

Our shared goal has been, and will continue to be, developing a balanced final budget. Working together over these next few weeks, we are confident that we will succeed.

Sincerely,

Henry Holling
Interim City Manager

James R. Scroggins, CPA
Finance Director/Comptroller