Conceptual Options for Addressing the FY2010 Budget

Over the past few weeks, staff has begun researching possibilities for reducing the projected FY2010 budget shortfall. Staff is seeking Council direction and partnership on whether these concepts are worthy of further pursuit. The list below is by no means exhaustive and staff welcomes additional ideas by Council, employees, businesses and citizens. Some of these solutions would have a one-time impact on the budget, though most have an impact that improves the City's long-term structural issues. While not every idea is likely to be implemented (or should not be implemented together), some combination of these steps may be required.

Cost Cutting Ideas

FY2010 Wage Adjustment

The FY2010 preliminary budget estimate includes total wage increases across departments that equal $3,922,001.53. This figure is arrived at by increasing represented employee salaries by 4.75% and exempt employee salaries by 3.5%. The figures are merely estimates and do not account for fluctuations between individual employees.

Employee compensation is an important part in attracting and retaining a high-quality workforce that provides excellent service to the citizenry. Except for around 80 exempt employees, wage increases are the result of collectively-bargained cost-of-living increases and salary step increases. Asking City employees to partner with the Council to lessen the impact of salary increases would have an immediate impact on the FY2010 budget. While wages would not likely be frozen or grown at a slower pace for longer than one year, a partnership on this issue now would help decrease foreseen deficits in coming years.

The table below shows the impact of wage increases on the budget and how lesser wage increases would minimize the gap.

	2010 Budget Deficit	Difference
Current (4.75% represented, 3.5% management)	$ (10,046,998.78)	
2.5% Salary Increase Only	$ (8,207,885.14)	$ 1,839,113.64
1% Salary Increase Only	$ (6,958,118.26)	$ 3,088,880.53
No Salary Increase	$ (6,124,997.26)	$ 3,922,001.53

Questions:

1. Should the administration begin a dialog with City employees on wage rate increases?
2. Which level of increase is most achievable?
3. What is Council willing to offer to employees to counter a slowing or elimination of wage increases?

Furloughs

Closely related to wage adjustments is the concept of furloughs whereby employees take unpaid leave. Staff has calculated that for every 8 hours of work the entire 800-person workforce is furloughed, the City saves $200,000. Instituting a mandatory furlough is likely subject to collective bargaining.

Furloughs present two other issues. First, many of the services provided by Peoria employees are employee-strength related. For example, the Emergency Communications Center needs a certain number of people on hand to answer phones. Fire equipment must be manned by a minimum number of personnel. There would be no money saved by replacing an employee's regular wage with one being paid overtime. Given the number of employee positions this might impact, without some other arrangement, furlough days would probably equal much less than $200,000 each.

Second, instituting a furlough is only a short-term, stop-gap method. Even if $1 million could be saved through 5 furlough days, the impact is only for one year. Unless repeated in the out years, the structural budget issues re-emerge in 2011. Furloughs can, however, be useful to meet a one-time shortfall or bridge the final budget gap.

An alternative may be to offer voluntary unpaid leave to employees. Recently, Naperville offered each employee to take up to three weeks of unpaid vacation. The request was subject to approval. The goal was to accumulate 2080 hours, the equivalent of one full time employee. Requests were due to supervisors by a date certain and management had the right to cancel the program if 2080 hours was not reached.

Questions:

1. Should the Administration pursue the formulation of a voluntary or involuntary furlough program?
2. How should critical manpower needs be handled?

<u>Voluntary Separation Initiatives</u>

In 2003, the City offered an Early Retirement Incentive (ERI) to employees who participate in IMRF. Given the size of that program and the current state of repaying, another pension ERI is not recommended. An alternative, however, would be to offer employees a different financial incentive that might prompt retirement or voluntary separation. The incentive could be structured as a cash buy-out (payable as a lump sum or over time) and/or some help with medical premiums. The incentive could be offered solely to "retirement eligible" employees or to everyone. The goal would be to induce a number of voluntary separations, with every position then subject to review for filling. Some employees, such as public safety employees, would need to be replaced immediately, but likely at a lower cost. Other positions could be completely eliminated, possibly resulting in some departmental reorganization, or held open for a period of time. One significant consideration is the cost of paying out accrued time (sick, vacation).

A number of communities have offered an incentive like this with good results:

- Decatur (IL) offered *all* employees a package that consisted of one week's salary for every two years of service, pay out of all accrued time, and one of three options to help with medical coverage. Decatur's City Manager reported to the local paper that the package was well-received and should result in their target being reached.
- St. Charles (IL) offered one of two packages to retirement-eligible employees:
    - One week of severance pay for every one year of service, up to a maximum of 12 weeks. In addition, one year of health insurance will be provided at the same cost the City charges to current full-time employees.

    - One week of severance pay for every one year of service, up to a maximum of 8 (eight) weeks. In addition, two years of health insurance will be provided at the same cost the City charges to full-time employees.
- Carpentersville (IL) offered retirement-eligible IMRF employees $12,000 a year for 5 years in exchange for early retirement.
- Winston-Salem (NC) offered retirement-eligible employees a one-time, lump sum payment of $20,000. Of the 105 employees eligible, 43 took the package. The city's administration will hold all positions open for 6 months to recoup costs and then decide which to fill or eliminate.

Questions:
1. Should the Administration investigate further a voluntary separation package?
2. What should the parameters of such a package be?

Service Cuts/Layoffs
Every City employee provides a service, either directly to citizens or internally to other employees and departments. Since personnel costs compromise nearly 80% of the operating budget, it is difficult to trim a budget deficit without eliminating staff. However, in order to eliminate staff, Council needs to decide which services to reduce or eliminate altogether.

Layoffs are not an inexpensive option. First, layoffs tend to target the most junior, and hence least well-paid, employees. From an efficiency standpoint, this often leaves higher-paid employees doing the work that would ordinarily be provided by lower salary employees. Second, under a new law passed by Congress early this year, any employee "involuntary separated" before December 31, 2009 is entitled to maintain their health insurance under the COBRA law, with the employer paying 65% of the premium cost. (Under the old law, separated employees had to pay 100% of the premium cost, plus a 2% administrative charge.) While separating employees would not be required to take this option, they have the right to the insurance for 18 months for themselves and 36 months for their dependents. This additional cost is on top of the cost of providing unemployment compensation. Since the City is self-insured and consequently does not pay for unemployment insurance, it needs to reimburse the State directly as unemployment compensation is paid to separated employees. In the recent past, Congress has shown a willingness to extend unemployment benefits for longer periods of time.

While voluntary separations (through an ERI, for example) are less costly, eliminating positions or leaving them temporarily unfilled still means a reduction in services.

Questions:
1. How best can the City determine those services that it may be able to review for reduction?

Medical Premium Increase
Currently, City employees pay 10% of the total cost of medical premiums to participate in the PPO Plan and 6% to participate in the HMO and High Deductible Plan. This percentage is adjusted to higher amounts for dependents. Most employees are enrolled in the "PPO Blue Plan". The annual costs of the PPO plan are below:

Type of Coverage	Cost			Percentage	
	Total	City	Employee	City	Employee
Single	$ 7,369.56	$ 6,632.60	$ 736.96	90.00%	10.00%
Member +1	$14,739.12	$12,528.25	$2,210.87	85.00%	15.00%
Family	$20,045.16	$16,773.79	$3,271.37	83.68%	16.32%

If the rate at which employees participated in the base premium cost were raised by 5% for all types of coverage, the City would save an estimated $811,000 in FY2010 (based on 2009 premium costs). A family membership in the PPO would cost the employee $408.92 each month vs. the current rate of $272.61. Medical premium contributions levels are approved by the Joint Labor-Management Health Care and are subject to collective bargaining agreements.

The Human Resources Department is also investigating the cost savings associated with allowing employees to opt out of the City's health insurance plan. Having a larger pool often means being able to negotiate for better prices, but there may be some benefit to allowing those with medical coverage available elsewhere (i.e. through a spouse) to leave the plan altogether.

Questions:
1. What is the target for the employer/employee portion of medical premium payment?
2. Should employees be allowed to "opt out" of medical coverage?
3. What can be offered to employees in consideration of greater premium payments?

Capital Budget
Peoria is not unique in its financial position. One method being used by other municipalities is to reduce the size of their capital budgets. For FY2009, Council approved a Community Investment Plan that funded $21,434,873 worth of projects. Of that amount, only $8,908,895 was in discretionary spending (funding sources not strictly limited to capital projects). It is important to note that this amount represented only 55% of the project funding ($17M) identified by staff and Council.

Questions:
1. What should be the size of the discretionary portion of the FY2010 budget?
2. What priorities should be established to ensure the agreed-upon amount is best spent?
3. What other revenue sources (local MFT, utility taxes, etc.) should be used to increase the CIP fund?

Use of HRA Taxes
The primary and obligated use of the proceeds of the Hotel-Restaurant-Amusement Tax is to pay down the Civic Center bonds. Annually, any revenue remaining after bond payments is apportioned by agreement to the Civic Center Authority, Peoria Area Convention and Visitor's Bureau, ArtsPartners and other community organizations. Many communities use their HRA taxes to support operating or capital projects.

Questions:
1. Beyond its obligations to the Civic Center debt, how should the City utilize the revenue collected from the HRA taxes?

Increasing Revenue

Staff is confident that a number of the cost-cutting options listed above are realistic and achievable and will have a significant impact on the anticipated budget deficit. However, a gap the size of $10M may need to be closed with some increased revenue. Below are some estimates on the amount of funds that could be raised through various means. Some of these ideas have been offered by and discussed by Council in the past. Others are merely exploratory concepts that need further research.

Questions:

1. Which revenue sources should staff explore further?

Property Tax

Each $.01 added to the levy raises $200,000. The owner of a $200,000 house would pay $6.60 more in property taxes annually per penny.

Package Liquor Tax

Staff estimates that a 2% tax on package liquor would raise about $700,000 annually.

Parking Tickets

Currently, parking ordinance violators pay a $10 fine, $30 if late. If the $10 fine was raised to $15 (with no change in the late fee), staff estimates an additional $90,000 in revenue annually.

Water Utility Tax or Franchise Fee

A 5% utility tax or franchise fee placed on the use of water would yield approximately $1,200,000 each year. Staff believes that the utility tax would be the easier route, since the City's home rule authority allows it to impose such a tax. A franchise fee would need to be negotiated with Illinois American Water and likely need to be approved by the Illinois Commerce Commission.

Home Rule Sales Tax

Peoria's sales tax rate is currently 8% (10% for restaurant meals). As of January 1, 2010, that rate will be 8.25%. An additional .25% increase in the home rule sales tax would bring in an estimated $3,850,000 each year.

Garbage Fee

Currently, Peoria residential properties pay $6 each month in garbage fees. For every dollar the monthly rate is raised, the City would gain an additional $336,000 annually.

Local Motor Fuel Tax

The City currently collects $.02 per gallon of fuel sold. In 2008, this brought $856,000 in revenue to the City. For every penny added, approximately an additional $400,000 in revenue. According to City code, these funds are limited to "capital improvements, including street construction and rehabilitation, curb and gutter work, storm sewer, sidewalk and other street-related improvements." Consequently, an increase in the local MFT could be used to augment the Community Investment Plan budget or, by vote of Council to change the policy, utilized elsewhere in the budget.

Arrest Fee

Staff is working with the City's state legislators to investigate options to create a municipal "arrest fee" that might be attached to court costs. If allowed, a $20 fee would generate $180,000 each year if 9,000 individuals were arrested. (9,393 individuals were arrested in 2008).

Vehicle Tax (Rough Estimates)

Under this concept, each resident's vehicle would be required to display a sticker. In 2000, the Census estimated that there were 44,000 households in Peoria. If each household had an average of 1½ to 2 vehicles, there may be between 66,000 and 88,000 cars registered in the City. The City would gross between $660,000 and $880,000 for every $10 of fee. There would be some offsetting costs for administering the program and might include at least one full time equivalent staff person and supporting costs for postage, printing, lists of registered vehicles from the Secretary of State, etc.

Stormwater Utility (Rough Estimates)

This fee, placed on the Greater Peoria Sanitary District bill, would be based on the number of "residential units" in the City. If the City has approximately 50,000 "residential units" (38,000 residential properties plus commercial properties), charging $2.00 per month per "residential unit" would generate about $1.2 million. There would be offsetting costs to develop and then to administer this program.

Parking Transaction Fee

This concept would add a small tax (e.g. $0.10) per parking transaction. This will depend on how many places in the City charge for parking, including City garages. This would collect some revenue from other private facilities that charge for parking. Much more research is required.