



## REQUEST FOR COUNCIL ACTION

**To: Honorable Mayor and Members of the City Council**

**From: Henry Holling, Interim City Manager**

**AGENDA DATE REQUESTED:** July 14, 2009

**ACTION REQUESTED: APPROVE A PLAN TO REDUCE THE FY2010 DEFICIT AND ADDRESS LONG-TERM STRUCTURAL ISSUES (REPLACEMENT COMMUNICATION).**

**BACKGROUND:** At its June 9, 2009 meeting, Council began discussing the FY2010 budget and a forecasted \$10,047,000 shortfall. Council was provided with a set of materials, including budget information, revenue trends, information from comparable cities, and a set of concepts for addressing the deficit. At the request of the Mayor, staff has outlined a plan that addresses both the immediate 2010 issues as well as long term structural issues.

The approach is based on the concept that the City of Peoria provides a valuable set of services to its citizens, businesses and visitors. It also acknowledges that the City, like every other public entity, cannot continue to offer the same set of services with increasing cost without either increasing revenue or scaling back the number or level of services. Both the revenue and expense halves of that equation need to be fully explored by Council, armed with the professional opinion of staff and the feedback of the general public. However, the financial crisis is upon the City now and some actions must be taken quickly to relieve pressure and provide space for larger conversations to be held.

**The City's administrative leadership has crafted a three-phase plan that creates a framework for the restructuring of City government.** The first phase includes a number of steps that should be taken between now and September 1, 2009. The second phase includes some of the traditional budget steps (creation of capital and operating budgets), but is based on the level of success achieved in the first phase. The third and final phase is the longer term process of restructuring the City organization. This will require an intense, Council-driven focus on the quantity, type and level of services offered by the City. All three phases commit the City to a process of rethinking its services and restructuring at every opportunity so that expenses match revenue.

*Phase 1 (July 1, 2009 – August 31, 2009)*

**Step 1 – Wage Freeze.** Over the past few years, the City Council and management have negotiated in good faith to remunerate its employees fairly. The contracts in place represent an honest exchange of work for wages, and allow the City to attract and retain quality employees. However, scheduled increases will have a tremendous impact on the 2010 budget (about a \$3 million increase in salaries and \$1 million increase in benefits).

All City employees realize this impact and may be willing to forego cost-of-living raises and step increases in 2010. Employee unions will likely want to see some concessions in exchange for the wage freeze. One may be that no employees will be involuntarily separated while the freeze is in effect. A “no layoff” provision would limit immediate and sweeping operational changes, but staff estimates that at least 50 employees would need to be laid off to account for the \$4 million saved in a potential freeze. Even at that point, another \$6 million worth of adjustments would still

need to be made to close the deficit, which would likely include further layoffs. Negotiating a wage freeze is the surest method of addressing a large portion of the shortfall. Furthermore, agreeing to a one-year freeze reduces the projected 2011 budget deficit by \$4,100,000, the 2012 deficit by \$4,300,000 and the 2013 deficit by \$4,500,000.

Staff will begin negotiating with each of the City's nine bargaining units on this issue. This negotiation will take place over next few weeks. Results would be shared in Executive Session (if needed) and at the August 11 City Council meeting.

**Step 2 – Voluntary Separation.** Many local and national entities, including Peoria County, are implementing “Voluntary Separation Initiatives” as a method of trimming payroll. These packages typically combine a cash payout (based on years of service) with some medical insurance assistance. A City of Peoria package, as currently contemplated, would not include the purchase of service years for pension purposes. One-time costs associated with the offered package could be paid for through current unrestricted and medical reserve funds.

The goal of a Voluntary Separation Initiative would be to entice a significant number of employees to leave the employ of the City. As each position is vacated, the impacted Department Head would consult with the City Manager to determine if the position could: 1) be eliminated altogether; 2) remain vacant for 6 months or longer; or 3) be refilled with a new employee at the lower end of the pay scale. Success will be based on a commitment to restructuring internally within departments. This restructuring will need to be based on clear guidance from Council on which services the City should provide and at what level. The goal of the program would be to permanently reduce headcount by at least 5 FTEs (about a \$500,000 year-over-year savings) and save an additional \$250,000 over the final three months of 2009 and first three months of 2010.

All employees are being surveyed between July 6 and July 10 regarding their interest level in such an initiative (see attached). Staff will analyze survey results during the week of July 13.

Staff will design a Voluntary Separation Initiative and seek Council approval of its elements and timeframe at the July 28, 2009 meeting.

**Step 3 – Revenue Adjustments.** The City of Peoria receives revenue that is used to aid a number of affiliated, though separate, organizations. Given the fiscal issues being faced, the use of these resources should be examined and possibly altered. Staff is recommending adjustments to three revenue sources: Hotel-Restaurant-Amusement (HRA) tax, Public Service Grants and the portion of the City's property tax levy that supports the Peoria Public Library.

- In 2009, \$8,175,600 is budgeted in receipts from the HRA tax. This fund is used first to pay debt obligations on Civic Center bonds. The remainder is split, by agreement, between the Civic Center (\$2,363,297 budgeted for 2009), Convention and Visitors Bureau (\$865,750) and Arts Partners (\$75,000). Staff recommends that, at a minimum, funding for Arts Partners is eliminated in 2010. Making this decision soon will allow Arts Partners nearly 6 months to raise replacement funds. Council may also wish to consider altering the distribution of HRA taxes to the other two entities.
- Each year, the City of Peoria is allowed to reserve 15% of its CDBG allocation for use in “Public Service” activities. This amount – usually between \$285,000 and \$300,000 – is distributed after a competitive application process with recommendations made by the Human Resource Commission. In 2009, 22 local groups received funding, ranging from the Boys and Girls Club to Planned Parenthood. While the funds have been put to good use, they can also be used for other CDBG eligible activities, including funding the Police

Department. At Council's discretion, this \$300,000 could be used internally in 2010 to fund those services that other entities do not provide.

- Of the \$1.38 of property tax levied by the City of Peoria, \$.34 is levied on behalf of the Peoria Public Library for operations (this is separate from the \$.10 levied for library construction bonds). Over the past few years – including the contingency plan approved in April 2009 – the Library has not been asked to reduce its budget. The City Council could inform the Library that its levy next year will be less and ask them to make operational adjustments. A 5% reduction in the Library's operating budget would move approximately \$350,000 of property tax revenue into the City's general fund. This change would not impact the current library expansion and renovation project. Again, a decision on this early allows the Library administration time to prepare.

Combined, these three suggestions would have an impact of approximately \$725,000 in 2010 and every year beyond.

Staff will begin discussions with impacted organizations and place the decisions on the July 28, 2009 or August 11, 2009 Council agenda.

**Step 4 – Revenue Increases.** Staff is confident that nearly 80% of the 2010 shortfall can be solved by reducing expenses. The remaining 20% could be bridged by increasing revenue in a few areas. In its June 9, 2009 packet, staff outlined a number of revenue options. At this point, staff would recommend implementing the following:

- Staff estimates that implementing a 5% water utility tax would collect approximately \$1,200,000 per year. An attractive element of this revenue source is that it would be borne equally by all elements of Peoria, including non-profit institutions such as hospitals and schools. If implemented by Council to begin October 1, 2009, an additional \$300,000 in revenue would be realized in 2009.
- The City could eliminate free landscape waste hauling from its next waste hauling contract (or extension of existing contract) and save approximately \$1,200,000 in 2010. While not technically a revenue increase, this change does shift the burden from the general fund to a newly established revenue stream. Individual residents would pay for this service to either the City or the vendor itself. The City would create this new system over the Winter for implementation in the Spring.

Staff will begin working on these ideas and bring final action to Council at the August 11, 2009 meeting.

*Phase 2 (September 1, 2009 - December 31, 2009)*

If the Phase 1 suggestions are adopted and successful, the City will still need to address a budget shortfall of between \$2.5 million and \$4 million. This remainder will be addressed through structural changes within the organization and will be based on clear guidance on the number and level of City services. A "structural change" is defined as a fundamental and permanent change in what the City does and how it does it. There are three elements to this strategy:

**Step 1 – Guidance on City Services.** The agenda for the July 14, 2009 meeting also includes the delivery of a document outlining and categorizing the services provided by the City. In order to craft the 2010 budget, the City Council will need to provide the administrative leadership with

clear guidance on which services the City must provide and which can be modified or eliminated.

A policy session to review and discuss City services and provide direction to staff should be held at the August 11, 2009 meeting or at a special meeting on August 18, 2009.

**Step 2 – Community Investment Plan.** For 2009, the City Council approved \$8,908,895 in unrestricted capital projects in the Community Investment Plan. These projects included equipment and vehicle purchases, building repairs, infrastructure improvements and other important initiatives. In preparing the 2010 CIP budget, staff will set a target of \$8,000,000 for projects funded through unrestricted sources (i.e. not Motor Fuel Taxes, Sewer Fees, etc.). Strict criteria will be put in place to identify projects that align with Council guidance on core services. Staff will bring a preliminary CIP budget to Council at a special meeting in late September.

**Step 3 – Operational Adjustments.** Departments will be challenged to craft internal operating budgets that total \$117,500,000 – approximately \$2,500,000 less than the current 2009 budget (approximately -2.0%). This reduced budget cannot include the savings gained from any wage freeze, but can include staffing adjustments resulting from voluntary separations. Based on guidance from Council on the mix of service, Departments might change the way they accomplish their work, alter the size or scope of contracts, and/or decrease certain line items. The savings will largely be permanent in nature and therefore will impact more than just the 2010 budget shortfall. Staff will present a preliminary operating budget to Council at a special meeting in mid October.

Many of the steps that have already been taken in 2009 represent examples of operational changes, all of which will be included in the 2010 budget plan:

- Creating flexibility with minimum shift strengths in the Police Department should save the City \$187,500 in 2009 and \$250,000 in 2010 and beyond.
- Offering dispatch services to Peoria County in exchange for prisoner bookings should save the City \$17,000 in 2009 and \$70,000 in 2010 and beyond.
- Eliminating overtime for minor report writing in the Police Department should save the City \$22,500 in 2009 and \$30,000 in 2010 and beyond.
- Making permanent the hiring freeze on the Administrative Specialist IV position in the Fire Department (through vacancy) will save approximately \$65,000 in 2009 and, with benefits, around \$95,000 in 2010 and beyond.

The numbers presented for capital and operating adjustments are merely preliminary targets. As the results from Phase 1 steps are realized and revenue and expense trends become clearer, those numbers might increase or decrease.

*Phase 3 (January 1, 2010 - December 31, 2010)*

With the immediate budget shortfall for 2010 addressed, and a great deal of progress on 2011 and beyond made, the City must focus resources on the restructuring of the organization. With every employee separation, the City will be forced to rethink how business is accomplished. While not every position can or should be eliminated, separations allow for re-organization, combination or elimination of some services. The entire focus must be on restructuring the organization – an effort that must be led by the City Council designing the process, engaging stakeholders, and ensuring the result aligns with the community's priorities.

At a higher level, the Council and administrative leadership must continue to challenge themselves to reduce costs. This can be accomplished through continued dialog and exploration with Peoria County and other governments about sharing services. It should include working with elected representatives at the State and Federal level to unburden the City from certain mandates. It must include partnering employees to keep costs down, reducing the cost of health care and shrinking the liabilities caused by Other Post-Employment Benefits (GASB 45).

A firm commitment to restructuring City government will serve as a productive framework for making both short-term and long-term decisions.

**FINANCIAL IMPACT:** None immediately, but the City must balance its FY2010 budget or risk depleting reserves.

**NEIGHBORHOOD CONCERNS:** Peoria's citizens are directly impacted by the decisions made regarding the 2010 and future budgets. Public feedback will be sought at each City Council meeting with a budget topic, through the open houses, and through the City's website.

**IMPACT IF APPROVED:** Staff will proceed with implementing the plan.

**IMPACT IF DENIED:** Staff will await different direction from the Council on ways to address the near- and long-term budget issues.

**ALTERNATIVES:** None recommended.

**EEO CERTIFICATION NUMBER:** Not applicable.

**RELATIONSHIP TO THE COMPREHENSIVE PLAN:** This effort is consistent with 6.A.3: "Address financial issues."

#### REQUIRED SIGNATURES

Department Director \_\_\_\_\_  
City Manager

Finance Director \_\_\_\_\_  
(Certification of Availability of Funds)

Corporation Counsel \_\_\_\_\_

City Manager \_\_\_\_\_