CITY OF PEORIA

REQUEST FOR COUNCIL ACTION

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

From: **Patrick Urich, City Manager**

AGENDA DATE REQUESTED: October 4, 2011

ACTION REQUESTED: RECEIVE AND FILE A PRESENTATION AND OUTLINE BY THE CITY MANAGER REGARDING THE PLAN TO ADDRESS THE FY2012 BUDGET.

BACKGROUND: Attached is a memorandum from the City Manager outlining the steps necessary to address the budget deficit for FY2012.

FINANCIAL IMPACT: Not directly applicable, but the strategy set forward will address the deficit situation in 2012 as well as address future structural deficits.

NEIGHBORHOOD CONCERNS: Not applicable.

IMPACT IF APPROVED: Not applicable.

IMPACT IF DENIED: Not applicable.

ALTERNATIVES: Not applicable.

EEO CERTIFICATION NUMBER: Not applicable.

WHICH CRITICAL SUCCESS FACTOR(S) FROM THE COMPREHENSIVE PLAN DOES THIS RECOMMENDATION IMPLEMENT?

1. Have an efficient government.

REQUIRED SIGNATURES

Department Director Patt Urich
City Manager

Finance Director James R Scroggins
(Certification of Availability of Funds)

Corporation Counsel Randall Ray

City Manager Patt Urich

Revised 5/17/2011

CITY OF
PEORIA

OFFICE OF THE CITY MANAGER

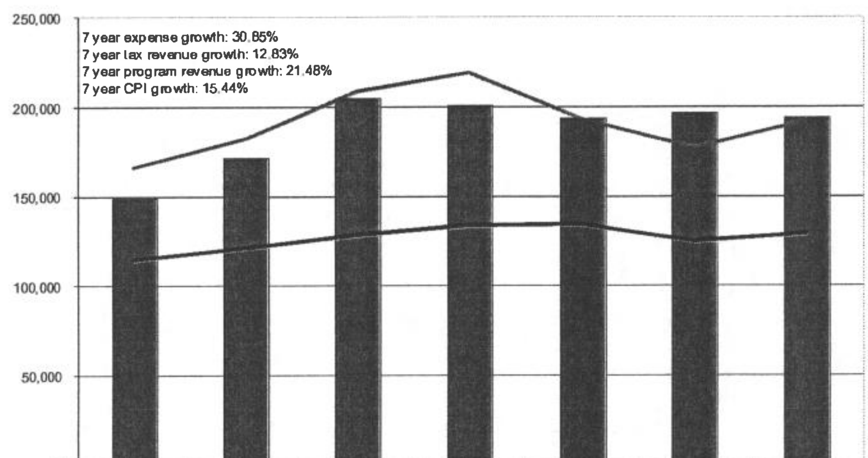
September 30, 2011

Dear Mayor Ardis and Members of the City Council:

Please accept this correspondence as the initial Fiscal Year 2012 Operating Budget memorandum. At the Special City Council Meeting on October 4, staff will outline the challenges facing the City from an operating perspective, and the proposed strategies to address the budget deficit in general terms. The Community Investment Plan (CIP) has been prepared for your consideration, and the staff has prepared several presentations regarding the recommendations in the CIP in detail. On Monday October 17, staff would request another Special City Council Meeting to fully present the options presented in this memorandum regarding the operating budget.

The table below takes the combined statement of cash flows from the last 7 Comprehensive Annual Financial Reports and plots the results. Due to the reporting in the CAFR, the Civic Center, Library and Springdale Cemetery are included. From 2004 to 2010 the expense base of the City Government has grown 31%, a rate nearly twice the rate of inflation. During that same period of time, tax revenue growth was only 13%; when indexed to inflation the tax base actually declined. Program revenues and state and federal grant revenues helped to close the gap by providing additional revenue, up 21% over the last 7 years. Due to the effects of the great recession, expenses have outpaced revenues for the last 3 years.

City of Peoria, Civic Center and Springdale
Tax Revenues and Expenses 2004-2009



	2004	2005	2006	2007	2008	2009	2010
Total Expenses	148,373	171,436	204,759	200,704	193,773	196,192	194,146
Program Revenues	51,966	61,665	80,896	85,421	59,368	52,642	63,129
Tax Revenues	114,003	120,644	128,127	133,242	134,058	124,288	128,635

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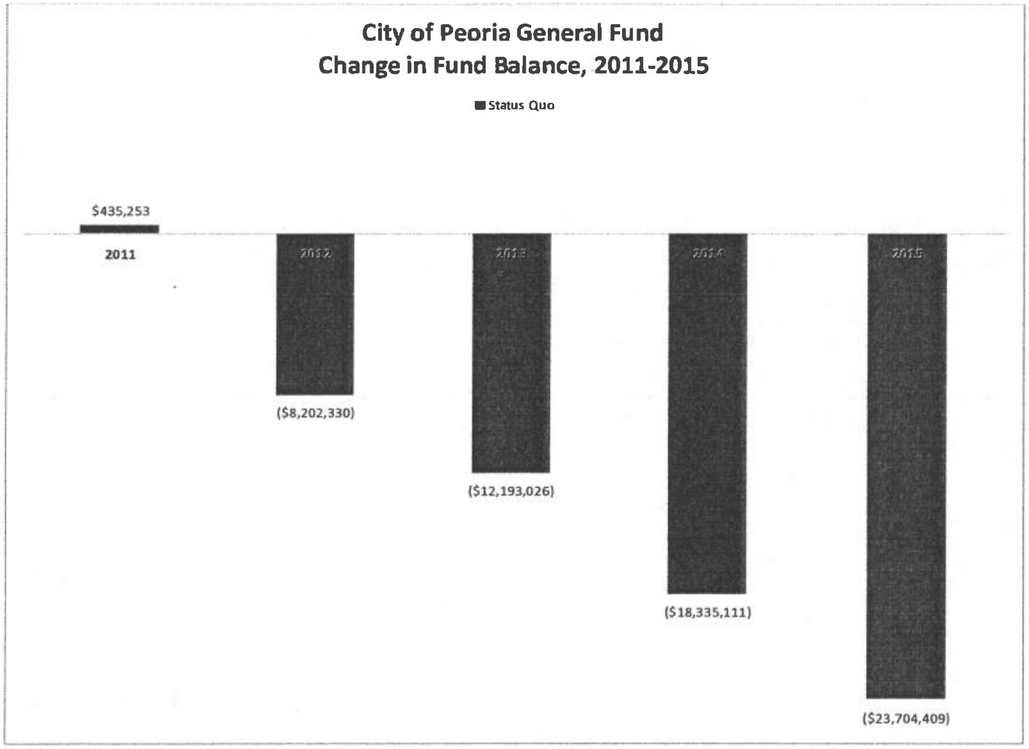
A smaller tax base has an adverse affect upon the City, but there are other internal and external cost drivers that hurt the financial performance of the City as well. Total personal services and benefits (the costs of salaries and wages, retirement and healthcare for all City employees) grew by 13% over the last 5 years. Benefit costs, notably retirement and healthcare expenses, grew 10 times faster than wages. Benefit growth is largely an external cost driver. Retirement plans for City employees are state mandated, and the recession took its toll on the funded ratio of these plans. Healthcare costs have grown at a pace similar to the rest of the nation, further burdening the budget.

Wage and benefit growth placed significant downward pressure on the retention of employees. In order to maintain a balanced budget, the City workforce was reduced from 787 full time equivalents in 2006 to 709 full time equivalents in 2011. If the City still employed the 78 positions reduced over the last 5 years, at the same benefit levels and salary growth experienced by the current employees, the budget would have increased another $10 million from its current budget.

Following the presentation of the First Quarter Financial Report, staff indicated that the budget deficit facing the City for 2012 was $9.6 million. Staff stated that a portion, or roughly $3.6 million, was a cyclical deficit caused by the still sluggish recovery. Sales tax growth has closed a portion of the cyclical deficit by $1.4 million as 2011 progressed. That rebound reduces the gap to $8.2 million, with $6 million representing a structural deficit. If nothing is done to address that structural deficit, it would grow to $12 million in 2013.

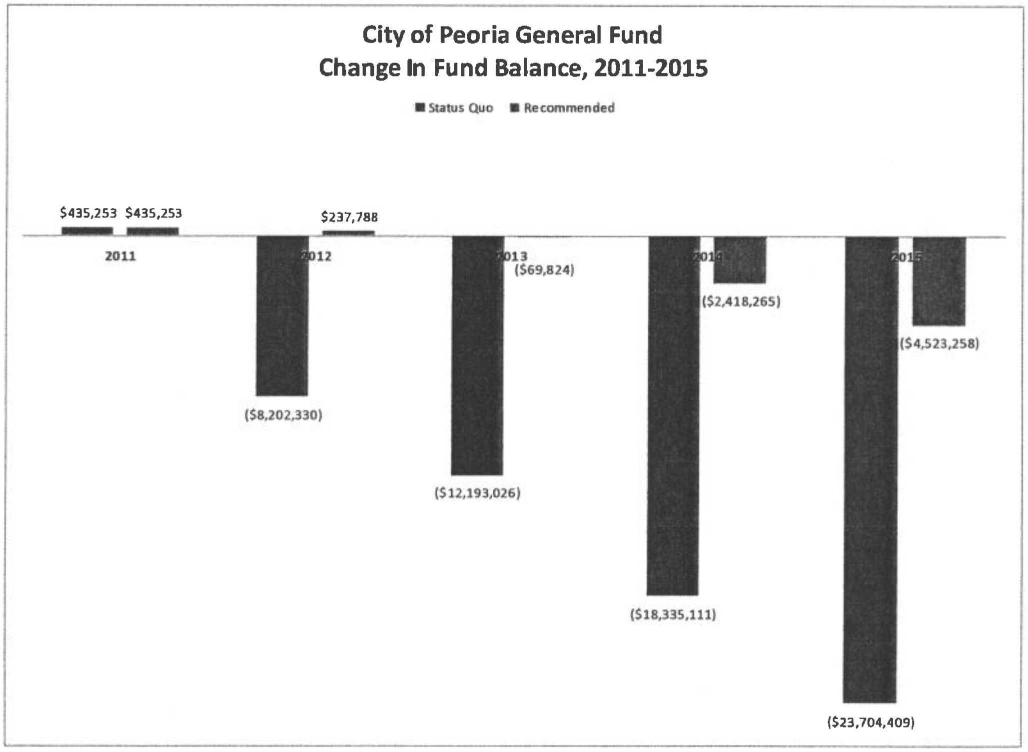


City Departments were asked to develop a 2012 budget with certain assumptions in place. Wage growth was assumed to follow contractual obligations for represented employees and a 3% increase for exempt employees. Departments were then asked to request the minimum of contractual services, supplies, and capital to perform their responsibilities. Following the departmental submissions, the deficit facing the City was still $8.2 million.

Several actions were undertaken during 2011 to address this budget deficit. The City Council established a Voluntary Vendor Cost Reduction Initiative. This new program was designed to allow the City staff to negotiate contract extensions with vendors if the vendor would willingly agree to a cost reduction. So far, the City has saved nearly $30,000 with vendors willing to reduce their fees, and several additional contracts are being negotiated.

Healthcare is an internal cost driver that can be reduced without compromising service delivery to the citizens. Our health plan currently has a larger employer cost and lower employee cost than national averages and a benchmark of municipalities. The Labor Management Healthcare Committee worked diligently over the summer to make significant changes to the health plan in order to reduce the growth in health care costs. Through plan design changes to increase deductibles, out-of-pocket maximums, co-pays, coinsurance and adopting a Medicare Advantage plan for post-65 retirees, the plan will save $2.7 million, reducing the budget deficit to $5.5 million.

In order to address the remaining $5.5 million deficit, staff has prepared a 3-phase approach. First, the City will have to implement a reduction-in-force (RIF) of 54 positions, totaling nearly $5 million of wage and benefit reductions. Given that 80% of the City's operating budget is made up of personnel costs, there is no solution other than to reduce the workforce. Several grants obtained in the Police and Fire Departments will prevent layoffs in these departments, meaning that the RIF will fall exclusively on all other non-public safety personnel and civilian personnel in the police and fire departments. This level of workforce reduction will have a dramatic impact on service delivery. The Operating Budget presentation on October 17 will outline the service reductions across the organization. With the proposed RIF plan, the structural budget deficit is addressed significantly as reflected in the chart below:



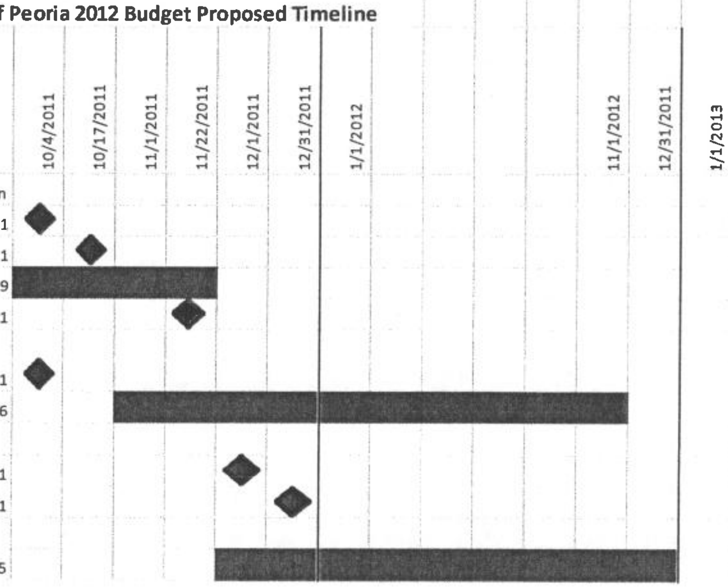
Second, to mitigate the impact of the RIF strategy, staff is recommending the adoption of an IMRF Early Retirement Incentive (ERI). ERI was developed by IMRF in order for municipalities to address significant budget issues. Through an ERI, both the City and its eligible employees purchase up to five years of service. Eligibility is defined as any employee who is at least 50 years old and has 20 years of service with an IMRF or reciprocal employer. Through the ERI, an eligible employee can retire, if he/she can afford it and is interested, as though they are 5 years older and have 5 more years of service than they actually do. The ERI is offered over a one year period (from November 1, 2011 through November 1, 2011); employees can retire at any point within that window. Implementing an ERI, however, provides the Council and Administration with flexibility. Every employee who elects to participate in the ERI creates an opportunity: If deemed essential to continued operations, the position can be filled by a new employee making a lower salary. The position could also not be filled, creating a greater savings than a layoff.

Finally, the third and most important phase of the operating budget plan is to restructure the organization and to reengineer processes so that the remaining, smaller workforce can effectively deliver a reduced set of services. Because of the large reduction in the workforce, most services will need to be reduced and some will need to be stopped altogether. The restructuring of the organization will include new reporting relationships, the consolidation of departments, and the identification of certain services that the City should look to partner with other governments like the County or seek to outsource to the private sector.

Implementation of all the second and third phases of this strategy will take time. The ERI window is open for a 12 month period, and the restructuring process could not occur beginning January 1. It will take time to undertake the appropriate due diligence on determining whether outsourcing or partnering with other governments will make the service more effective and efficient. Change can sometimes be disruptive. With the sheer size of the workforce reductions and the restructuring of the organization, 2012 will be very disruptive to the organization. However, with diligence and planning, the disruption can be minimized. For the sustainability of the organization, these changes have to occur. A proposed timeline would look something like the following chart:

City of Peoria 2012 Budget Proposed Timeline

	Start	Finish	Duration
Capital Budget Presentation	10/4/2011	10/4/2011	1
Operating Budget Presentation	10/17/2011	10/17/2011	1
Council Budget Deliberations	10/4/2011	11/22/2011	49
Budget Adoption	11/22/2011	11/22/2011	1
ERI Adoption	10/4/2011	10/4/2011	1
ERI Window Opens	11/1/2011	11/1/2012	366
RIF Notice to Employees	12/1/2011	12/1/2011	1
RIF Implemented	1/1/2012	1/1/2012	1
Restructuring Recommendations	1/1/2012	1/1/2013	365



On September 27, the City Council adopted a new Strategic Plan. Central to that plan are a new vision statement, five goals, and series of policy and management actions to achieve the goals. The proposed 2012 operating budget will begin to address a number of the actions identified in that Strategic Plan, including: sharing services with Peoria County; prioritizing City services; obtaining direction on an Early Retirement Incentive program; reducing health care costs; reviewing the format and process of the Community Investment Plan; and a City structure reorganization. Furthermore, since it is a spending plan, the document will describe how the resources of the City will be aligned towards achievement of the goals and actions the Council has approved.

Staff is fully prepared to discuss the Community Investment Plan and Early Retirement Incentive recommendations on October 4, and to present the operating budget and restructuring recommendations on October 17, 2011. If you have any questions in advance, please feel free to call.

Sincerely,

Patrick Urich
City Manager

2012 GENERAL FUND SUMMARY

	2009 Actual	2010 Adjusted Budget	2011 Budget	2012 Budget	2013 Budget	2014 Budget	2015 Budget
SOURCES							
LOCAL SOURCES							
CURRENT LEVY	$6,340,008	$6,652,792	$4,437,371	$5,456,891	$4,993,622	$6,106,750	$6,085,782
OTHER LOCAL SOURCES	$59,843,300	$64,702,261	$64,710,284	$57,580,900	$58,437,800	$59,309,000	$60,194,600
STATE SOURCES	$33,885,251	$36,032,976	$33,728,617	$35,750,851	$36,409,420	$37,342,865	$38,072,242
FEDERAL SOURCES	$172,788	$423,592	$80,276	$1,775,356	$1,852,426	$80,276	$80,276
OTHER FINANCING SOURCES							
OTHER	$3,829	$0	$450,000	$0	$0	$0	$0
BOND PROCEEDS							
AVAILABLE SOURCES	**$100,245,177**	**$107,811,621**	**$103,406,548**	**$100,563,998**	**$101,693,268**	**$102,838,891**	**$104,432,900**
TRANSFER FROM OTHER FUNDS	$ 1,313,399	$ 2,124,255	$ 357,600	$ 360,000	$ 362,000	$ 364,000	$ 366,000
TOTAL SOURCES	**$101,558,575**	**$109,935,876**	**$103,764,148**	**$100,923,998**	**$102,055,268**	**$103,202,891**	**$104,798,900**
USES							
PERSONNEL SERVICES	$56,521,680	$53,102,888	$52,423,961	$52,755,779	$54,713,200	$56,743,700	$58,849,900
CONTRACTUAL SERVICES	$14,145,141	$14,401,182	$13,300,036	$8,760,860	$8,980,000	$9,204,600	$9,434,600
SUPPLIES & MATERIALS	$2,783,100	$3,067,046	$2,570,220	$3,666,662	$3,721,600	$3,777,500	$3,834,000
SUPPORT TO OTHER AGENCIES	$2,903,609	$3,445,703	$3,278,576	$3,443,428	$3,403,728	$3,110,778	$3,098,083
EMPLOYEE BENEFITS	$22,121,503	$24,183,123	$23,964,611	$8,846,097	$8,109,924	$8,071,097	$8,354,293
INSURANCE							
TOTAL OPERATING EXPENDITURES	**$98,475,033**	**$98,199,942**	**$95,537,404**	**$77,472,826**	**$78,928,452**	**$80,907,675**	**$83,570,876**
CAPITAL							
DEBT SERVICE							
TOTAL EXPENDITURES	**$98,475,033**	**$98,199,942**	**$95,537,404**	**$77,472,826**	**$78,928,452**	**$80,907,675**	**$83,570,876**
TRANSFERS TO OTHER FUNDS	$ 8,593,523	$ 11,110,155	$ 7,791,491	$ 23,213,385	$ 23,196,640	$ 24,713,481	$ 25,751,282
TOTAL USES	**$107,068,556**	**$109,310,097**	**$103,328,895**	**$100,686,211**	**$102,125,092**	**$105,621,156**	**$109,322,158**
INCR(DECR) IN FUND BALANCE	**($5,509,981)**	**$625,779**	**$435,253**	**$237,788**	**($69,824)**	**($2,418,265)**	**($4,523,258)**

2012 BUDGET SUMMARY - ALL FUNDS

	2009 Actual	2010 Adjusted Budget	2011 Budget	2012 Budget	2013 Budget	2014 Budget	2015 Budget
REVENUES:							
Local Sources:							
Local Taxes	$77,780,284	$82,107,805	$84,101,874	$86,273,523	$87,152,769	$85,624,157	$86,979,089
License & Permits	$2,048,933	$2,425,648	$2,709,248	$2,736,500	$2,764,100	$2,792,000	$2,820,200
Fines & Forfeitures	$2,351,418	$2,646,148	$2,416,081	$2,433,320	$2,456,720	$2,480,520	$2,504,520
Fees & User Charges	$10,574,416	$11,471,175	$10,440,399	$13,683,824	$14,449,486	$15,054,363	$15,009,068
Miscellaneous	$10,753,479	$10,870,762	$9,582,226	$8,681,418	$8,109,230	$8,375,627	$8,656,327
Total Local Sources	**$103,508,531**	**$109,521,538**	**$109,249,828**	**$113,808,585**	**$114,932,305**	**$114,326,667**	**$115,969,204**
Total State Sources	**$40,698,947**	**$42,814,007**	**$48,746,432**	**$61,406,239**	**$43,836,098**	**$44,447,173**	**$45,289,370**
Total Federal Sources	**$4,774,940**	**$4,601,000**	**$3,312,781**	**$6,825,172**	**$8,673,976**	**$6,994,376**	**$2,896,176**
Total Revenues	**$148,982,417**	**$156,936,545**	**$161,309,041**	**$182,039,996**	**$167,442,379**	**$165,768,216**	**$164,154,750**
Other Financing Sources							
Sale of Property	$15,954	$150,000	$525,000	$75,000	$75,000	$75,000	$75,000
Bond/Loan Proceeds	$17,895,876	$7,952,000	$5,500,000	$0	$5,000,000	$3,050,000	$0
Use of Restricted Fund Balances			$2,290,005	$0		$0	$0
Total Other Financing Sources	**$17,911,830**	**$8,102,000**	**$8,315,005**	**$75,000**	**$5,075,000**	**$3,125,000**	**$75,000**
Total Revenues and Other Financing Sources	**$166,894,248**	**$165,038,545**	**$169,624,046**	**$182,114,996**	**$172,517,379**	**$168,893,216**	**$164,229,750**
EXPENDITURES:							
Total Operating Expenditures With Library	**$130,684,227**	**$126,042,705**	**$125,597,245**	**$122,652,390**	**$125,556,660**	**$130,656,337**	**$131,715,833**
Total Capital Expenditures	**$17,404,371**	**$27,281,369**	**$24,092,071**	**$38,185,740**	**$26,758,757**	**$24,958,857**	**$14,409,807**
Total Debt Service Expenditures	**$35,689,244**	**$17,437,781**	**$19,499,477**	**$19,342,583**	**$19,243,274**	**$19,694,926**	**$19,825,518**
Total Expenditures	**$183,777,842**	**$170,761,855**	**$169,188,793**	**$180,180,713**	**$171,558,691**	**$175,310,120**	**$165,951,158**
Surplus (Deficit)	**($16,883,594)**	**($5,723,310)**	**$435,253**	**$1,934,282**	**$958,688**	**($6,416,904)**	**($1,721,408)**