

**ITEM NO. _____ TO THE CITY COUNCIL OF PEORIA, ILLINOIS, IN COUNCIL,
ASSEMBLED YOUR COMMITTEE OF THE WHOLE to Whom was
Referred a POLICY SESSION Regarding the PRELIMINARY 2016
Through 2019 BUDGET PROJECTIONS as of August 5, 2015, with a
Request for Direction.**

A Policy Session was held on Tuesday, October 6, 2015, beginning at 5:01 P.M. at Peoria Riverfront Museum-Auditorium, 222 SW Washington Street, Peoria, Illinois, with Mayor Jim Ardis presiding, and with proper notice having been given.

ROLL CALL

Roll Call showed the following Council Members present: Akeson (Arrived at 5:08 P.M.), Grayeb, Jensen, Johnson (Arrived at 5:13 P.M.), Montelongo, Moore, Riggerbach (Arrived at 5:19 P.M.), Spain (Arrived at 5:37 P.M.), Turner, Mayor Ardis –10; Absent – None.

Others present: City Manager Patrick Urich, Corporation Counsel Donald Leist, Assistant City Manager Chris Setti, Public Works Director Mike Rogers, Assistant Director of Public Works/City Engineer Scott Reese, Assistant Director of Public Works/Superintendent of Operations Sie Maroon, Police Superintendent Jerry Mitchell, Fire Chief Kent Tomblin, Community Development Director Ross Black, Assistant Community Development Director Joe Dulin, Chief Deputy City Clerk Stefanie Rice, Deputy Clerk I Dan Sullivan, interested citizens, and members of the media.

2016-2017 Budget Policy Session

Mayor Ardis stated the Policy Session was for the City Manager to provide an overview of the budget and to receive direction from the Council. He stated the feedback received regarding the City's expenses and revenues would assist the City Manager in his preparation for a balanced budget proposal, which would be presented at a future Council Meeting.

Finance Director Jim Scroggins discussed the financial report from July 31, 2015, which he indicated Home Rule Sales Taxes saw a revenue increase of 0.31% or a \$37,000 increase in City Revenue. He reported that the Municipal Sales Tax were 1.01% higher than Fiscal Year 2014 and Illinois Income Taxes were \$8,080,334, a 16.03% increase compared to \$6,964,282 for Fiscal Year 2014. Director Scroggins explained Fiscal Year 2015 General Fund revenues reflect an increase of 1.6% from Fiscal Year 2014. He stated the General Fund Revenue was at approximately 92% of budget and expenditures were 93% year-to-date. He said the City had used \$2.2 million from the General Fund Balance during the first half of 2015. He stated the City anticipated spending \$1.8 million for 2015, but the flood in early spring cost the City an additional \$300,000.

City Manager Patrick Urich presented a power point presentation discussing the City's current financial report and review of the 2016-2017 budget.

Mayor Ardis requested the City Manager explain the City's current credit rating and how it affected the recent bond sale. In response to the Mayor's question, Finance Director Scroggins stated that Standard and Poor's rated the City of Peoria an AA- with a stable outlook. He said the strongest points of the report were management and budgetary flexibility and the weakest points of the City's debt service and contingent liability position. He referenced the credit rating from Moody's, which was reported an AA3 with a negative outlook. He stated the City's

strengths were the regional economic center, the home rule status and the willingness of management to increase revenues and cut expenses. He explained that Moody's cited the City's challenges as the reliance on manufacturing, the City's sales tax dependency, the above average debt burden and the significant unfunded pension liabilities.

City Manager Urich stated the City was pleased the Taxable General Obligation Bonds, Series 2015C were sold at a 3.465% interest rate and the Taxable General Obligation Bonds, Series 2015D were sold at a 4.7% interest rate. He said the Caterpillar announcement would affect any governmental agency's credit rating because this was a regional issue.

City Manager Urich explained the expected revenues and expenses for the General Fund and for all funds for the 2015-2019 proposed budget. He said for 2016, expected revenues were estimated at \$90.4 million and expected expenses were estimated at \$97.7 million, which would be a \$7 million shortfall in the City's budget.

2015 Budget Challenge & National Citizen Survey

Discussions were held regarding the results of the 2015 Budget Challenge, which received 1400 responses. City Manager Urich reviewed several categories and explained the most popular choices in each category. He said regarding departments and services the 2015 Budget Challenge showed the following: Police Department should maintain current funding, the Fire Department cut \$1.0 million, Public Works cut \$0.8 million, Administrative Service cut \$0.8 million, Community Development cut \$0.3 million, Library Services cut \$0.4 million, Civic Center and Tourism cut \$1.5 million and capital projects cut \$2.0 million. He said from 2009 to 2015 the City reduced its employees by one hundred twenty five people.

In regards to the revenue side of the 2015 Budget Challenge the City Manager provided suggested revenue increases were as follows: property taxes had the same percentages to maintain current tax rate and raise \$1.3 million, sales tax maintain current tax rate, Local Motor Fuel Tax raise \$0.8 million, utility tax maintain current tax rate, HRA Tax raise \$1.0 million, franchise fees raise \$1.0 million, garbage fees maintain current fees, licenses, permits and fees raise \$0.8 million and miscellaneous revenue suggested instituting a 2% packaged liquor tax.

City Manager Urich briefly discussed the 2015 National Citizen Survey, which received four hundred responses. He stated this survey discussed how the City should manage the budget deficit, to determine if there was any support for taxes or fees for infrastructure and how funding could be adjusted.

OPERATING BUDGET

He explained the 2016 Operating Budget was \$145,260,495, divided as follows: Personal Services \$60,550,260; Benefits \$50,962,983; Contractual Services \$17,891,261; Supplies and Materials \$3,571,956; Support to other agencies \$6,015,390 and Library Operations \$6,399,793. He discussed the 2016 Capital Budget and stated he would provide to Council a balanced budget within a few weeks. He briefly discussed the 2016 Capital Budget with Exceptions, which was \$35,338,906 and the breakdown of the Capital Budget was as follows: Roads \$14,584,613; Sewers \$11,900,000; Vehicles \$2,210,000; Equipment \$2,072,293; Development \$1,485,000; Facilities \$1,454,500; Sidewalks \$1,000,000; Parking \$450,000 and Traffic \$182,500.

Expense Reduction Options

City Manager Urich continued to discuss possible expense reduction options, as follow: reduce Capital Budget expenses, to transfer \$2,000,000 back to General Fund and eliminate all non-essential capital spending. He said spending reductions would continue into 2017. He stated the reductions would maintain staffing levels, but services to citizens would be affected.

He suggested reducing the Other Postemployment Benefits (OPEB) Contributions by \$2,000,000. He said the reserved fund balance was \$12,487,965 and the ERI and Pere Loan reserves net unfunded liability was \$57,811,234, as of January 1, 2015. City Manager stated reducing the annual contributions would increase revenues in General Fund; however he said this would be a short-term fix since liabilities would continue to grow.

City Manager Urich continued discussions regarding expense reduction options by explaining his suggestion for reducing Operations by \$3,100,000. He explained the reduction would impact service delivery and City responsiveness. He said the cuts would reduce the size of the City workforce, which would place staffing levels at historic lows.

Discussions were held regarding recommended expense reduction options for the Administrative Departments, Community Development Departments, Police, Public Works, and Fire would be as follows:

Administrative Departments -reduce by \$500,000, which would reduce administrative support to line departments, limits Staff training, limit departmental support and research; increase administrative response times and affect flexibility to respond to Council directives.

Community Development Department – reduce by \$300,000, which would affect neighborhood services; extend permitting turnaround and eliminate comp time for staff.

Police Department – reduce by \$600,000, which would affect non-sworn personnel and back office functions. The acceptance of the COPS Grant in 2013 required the City to maintain sworn staff at 224 Officers and the acceptance of the 2015 COPS Grant would be an additional four-year commitment to keep staffing levels constant.

Public Works – reduce by \$700,000, which would suspend the Mayor's Youth Program, reduce materials and supplies that would affect forestry, engineering services, and streets maintenance, and residential garbage collection could be reduced to lower the contract cost.

Fire Department –reduce by \$1,000,000, by keeping all vacant positions unfilled coupled with planned retirements at year-end, and decommission an engine company. One less company would reduce departmental flexibility, training times would be stretched and response times could be affected.

Revenue Options

Property Tax

City Manager Urich discussed options for additional revenues within the City of Peoria. He stated that Property Taxes were 18% of the City's total revenue. He explained that the City was only 11% of the total real estate taxes for residents of the City of Peoria. He said the City levied for pensions, the library and cost of operations. He said a one cent increase in property taxes would generate \$200,000.

Sales Tax

He stated Sales Taxes were 26% of the City's total revenue. He said the local home rule sales tax rate was 1.50% and the combined total for both the local and state rates are 8.25%. He explained the sales taxes paid in the City were allocated as follows: 61% to the State of Illinois, 30% to the City of Peoria and 9% to the County of Peoria. He further explained that a ¼ % increase in the sales tax rate would generate \$3,800,000 annually.

Motor Fuel Tax

City Manager Urich stated that Local Motor Fuel Taxes were 1% of the City's total revenue. He said \$0.02 per gallon generated \$816,000 annually, which was dedicated to infrastructure improvements and debt service for the Charter Oak Road extension. He explained that an increase of \$0.01 would collect an additional \$400,000 annually.

Utility Tax

City Manager Urich explained Utility Taxes were 7% of the City's total revenue. He stated Utility Tax revenues included Electric Utility Tax (5%), Telephone Utility Tax (5%), Water Utility Tax (5%), and Natural Gas Utility Tax (3.5% for residential and small commercial uses). He said electric and telephone supported capital, while water and natural gas supported operations for a total Utility Tax revenue projection for the year 2016 of \$12.4 million.

Garbage Fees

City Manager Urich stated Garbage Fees were 4% of the City's total revenue. He said the City of Peoria contracted for garbage, recycling and yard waste services for residential properties, which promoted a safe, litter free community. He mentioned the fee was \$14 per month, which was not covering the cost of the service. He explained a \$1.00 per month increase would raise \$456,000 annually.

Licenses, Permits and Fees

City Manager Urich stated Licenses, Permits and Fees were 7% of the City's total revenue. He said Licenses, Permits, and Fees included the following budgeted revenues: parking fines and fees, fines and forfeitures, licenses and permits, fees and charges and other local sources.

Other Revenue Options

City Manager Urich stated the City would be reviewing additional sources for revenue within the City that would raise an additional \$800,000. He said one option was a possible package liquor tax, which would generate \$700,000. He said another option could be a special event charge for street closures to cover police and public works overtime expenses as well as a possible tax on E-Cigarettes.

Council Member Riggerbach spoke in regards to the shortfall in the City's garbage contract.

City Manager Urich indicated the shortfall was due to landfill costs and he suggested a \$2.00 a month increase to cover the shortfall. He stated that at the end of 2016 the City could renew current contract or look at alternative carriers. In response to Council Member Jensen's question regarding the landfill, City Manager Urich stated the landfill contract would not be negotiated until the opening of the third cell.

Council Member Moore expressed concerns with vacant or unoccupied properties being charged for garbage if no service was required at that location.

City Manager Urich explained to Council Member Moore that the fee was to cover the cost of the garbage truck driving down streets within the routes.

Discussion were held regarding the possible special event charge for street closures to cover Police and Public Works overtime expenses.

Council Member Akeson questioned the amount of revenue lost for not charging during special events.

Finance Director Scroggins stated the cost for closure of streets was about \$125,000 to \$150,000 a year. He responded to Council Member Jensen's question regarding average cost stating depended on how many intersections would be closed and the time needed determined the cost of each closure.

Regarding street closures, Council Member Riggerbach announced a pancake and sausage breakfast and a 5K run on Saturday, October 10, 2015, with the run beginning at 6:52 A.M. He said all proceeds would benefit the East Bluff Community Center.

Council Member Jensen requested fees for street closures by non-profits be waived.

City Manager Urich responded that most races that required street closures were submitted by non-profit organizations.

Public Works Director Mike Rogers updated the Council on the One Water Committee, which had been meeting since April, 2015. He reported the One Water Committee explores the feasibility of a stormwater utility or other funding streams and made recommendations on funding models, credits, program priorities and location of green infrastructure. He said the next steps would be to explore credits and incentives, discuss what portion of the stormwater utility would go towards the Combined Sewer Overflow fix, finalize City Staff recommendations and provide public outreach to top users and neighborhood groups.

Director Rogers explained the One Water Committee's concerns and feedback. He stated the top concerns of the Committee was the City's ability to maintain green infrastructure, the cost-effectiveness of green infrastructure, the reduction of the utility's revenue due to credits and incentives and how the City would raise funds to meet total Combined Sewer Overflow cost. He said the feedback showed support for a stormwater utility and the Combined Sewer Overflow should be partially covered by a stormwater utility. He said no objections were heard over potential rate increases and the community wanted this issue resolved for present and future generations. He said the One Water average bill would be \$9 to \$13 per month for residential properties. He said if the bill included combined sewer overflow operations and maintenance,

the bill would be \$14 to \$18 a month. He finished stating if the bill included CSO operations, maintenance and capital, the bill would be \$24 to \$30 per month.

Following the power point presentation, the Mayor requested feedback regarding the presentation, and he stated the conversation would be split between expense and revenue options.

EXPENSE OPTIONS

Council Member Grayeb spoke in regards to the potential settlement with the Environmental Protection Agency regarding the Combined Sewer Overflow issue.

Council Member Moore voiced her concerns with cuts proposed for Community Development, Public Works, Police and Fire Departments.

Council Member Spain questioned what expense reductions would be acceptable; and he asked the City Manager how those expense reductions would be determined.

City Manager Urich stated the next step in crafting the budget would be to sit down with each department to discuss reductions and potential revenue increases.

Mayor Ardis requested the City Manager to provide what were realistic expense reductions regarding the Capital Budget. He voiced concerns with previous Capital Budget reductions, which resulted in the delay of road repairs. He stated he wanted to prevent the City from deferring OPEB, and he indicated the City needed to address the pension cost.

Council Member Jensen agreed with the Mayor regarding the deferral of OPEB would not be a good practice for the City. She questioned the City Manager for data on the amount of garbage collected within the City and the difference in cost.

Council Member Riggerbach voiced concerns with capital budget reductions and OPEB issues. He spoke on contractual services and requested extensions for those services. He stated the concerns for neighborhood services, and he addressed the Lutheran Hillside Village review on Fire Department response time.

Mayor Ardis informed the Council no reduction in manpower for the Police and Fire Departments were expected, but resource allocations would be analyzed for those departments.

REVENUE OPTIONS

Council Member Moore expressed concerns with a garbage fee increase, especially in the First District. She voiced concerns with vacant properties being charged a garbage fee.

City Manager Urich indicated the City was working with the County of Peoria to include garbage fees on property taxes, which would alleviate a monthly fee from residence.

Council Member Riggerbach questioned the time frame for the County implantation of garbage fees on the property tax bills. He encouraged the City to investigate fees on E-Cigarettes.

City Manager Urich stated Corporation Counsel was still working to finalize the matter regarding garbage fees on property tax bills. He recognized future discussions during the Metro Peoria Committee meeting.

Mayor Ardis asked for a review of new revenue streams and requested the new revenue be dedicated to base projects rather than the revenue placed in the general fund.

Council Member Jensen requested a Report Back on comparable fees regarding garbage collection. She requested a proposed budget with the property tax freeze and one without the property tax freeze.

Mayor Ardis questioned whether the debit service extension levy should be included for this budget.

City Manager Urich responded to the Mayor's concern regarding the Debt Service Extension Levy stating that the City should review this issue now and would include an increase in the City's property tax.

Council Member Riggerbach questioned Public Works Director Rogers what the average monthly fee would be for the proposed storm water fee.

Public Works Director Rogers indicated an average monthly fee of \$9.00 to \$13.00 would generate \$12,106,000.

Mayor Ardis asked the City Manager whether he had enough information to assist in the budget process.

City Manager Urich stated he understood the concerns for expense cuts, and he said he would review options for new revenue sources. He stated a budget document would be distributed and budget meetings would be scheduled and by the third meeting in November and the Council would be presented with a balanced budget for approval.

Council Member Grayeb voiced concerns regarding the dollar amount for the Environmental Protection Agency lawsuit.

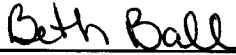
Council Member Jensen questioned if the recent budget forecast included increase in wages.

City Manager Urich indicated that Finance Director Scroggins had included wage increases in the budget forecast.

Council Member Turner moved to adjourn the Policy Session; seconded by Council Member Riggerbach.

Approved by Viva Voce Vote.

The Policy Session adjourned at 7:15 P.M.



Beth Ball, MMC
City Clerk, Peoria, Illinois

Stephanie Rice

By: Stephanie Rice
Chief Deputy City Clerk

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