

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 2019 CITY OF PEORIA
BUDGET and to Provide Direction to Staff as Appropriate.

A Policy Session was held on Tuesday, September 18, 2018, beginning at 6:05 P.M. at the 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 were physically present: Akeson, Cyr, Grayeb, Jensen, Montelongo, Moore, Oyler, Riggerbach, Ruckriegel, Turner, Mayor Ardis – 11;
Absent: None.

Others present were: City Manager Patrick Urich, Assistant City Manager Debra O’Fallon, Senior Attorney Chrissie Peterson, City Treasurer Patrick Nichting, City Clerk Beth Ball, Finance Director/Comptroller Jim Scroggins, Chief Diversity and Inclusion Officer Dr. Farris Muhammad, Community Development Director Ross Black, Public Works Director Scott Reeise, Information Systems Director Sam Rivera, Police Chief Loren Marion, Fire Chief Edward Olehy, Jr., Communications Specialist Stacy Peterson, Emergency Communications Center Manager David Tuttle, Chief Innovation Officer Anthony Corso, Chief Deputy City Clerk Stefanie Tarr, Peoria Firefighters Local 50 President Ryan Brady, AFSCME President Rhonda Sexton, interested citizens and members of the media.

Communication from the City Manager and Finance Director/Comptroller with a Request to Hold a POLICY SESSION to Discuss the 2019 CITY OF PEORIA BUDGET.

Mayor Ardis provided opening remarks stating that this Policy Session was to provide the City Manager direction on how the City Council wanted the budget brought for review during the actual budget sessions.

City Manager Urich reviewed the PowerPoint Presentation entitled, “2019 Budget Policy Session” dated September 18, 2018. He said he wanted to focus on specific budget-related policy questions as follows:

- Fund Balance Policy Discussion
 - How quickly should the City replenish its reserves?
- Pension Obligations
 - What options were available for pension funding?
- Operating and Capital Budget
 - Expense adjustments to close deficit and projected impact on services and operations
 - Revenue Options to consider

He asked the City Council to provide him with direction as he moved forward in crafting a spending plan for 2019 along with what they wanted to see in expenditure reductions and revenue increases.

Fund Balance Policy Discussion

City Manager Urich reviewed the City’s Unassigned Fund Balance Policy. According to the policy, he said the City needed \$22 million in the General Fund balance; however, he reported that there was currently \$3 million. He said, per policy, the City had to close the \$19 million gap

within a five-year time period. He said he was seeking direction from the City Council on whether that timeframe was achievable.

At the request of Council Member Moore, City Manager Urich provided an overview on the General Fund, how it was used, and that it measured the City's liquidity. He said the policy stated there needed to be 25% of the General Fund expenditures in order to pay 90 days of bills, if needed. He said the City currently had five days' worth of savings to pay bills.

Discussions were held on how the General Fund became depleted, and City Manager Urich commented that over the last two years, the City used \$12 million from the General Fund to pay for higher-than-anticipated legal expenses. He said the City had a continued spending pattern where it was trying to provide services to the community even though the revenues were decreasing. He said the City had not anticipated revenues declining as much as it had during that time.

Discussions were held regarding the last time the General Fund was 25% funded, and City Manager Urich reported that it had been approximately 10-15 years. Council Member Jensen asked the City Manager to report back to the City Council on when exactly the last time the General Fund had been 25% funded.

Council Member Ruckriegel asked what the ramifications would be if the General Fund became totally depleted or became lower than expected. City Manager Urich said the City needed to have cash on hand to pay its bills. He said the City generally received two large property tax distributions a year – June and October. He said if the City did not have the cash on hand to pay bills in between the two property tax distributions, then they would have to borrow money to replenish the cash reserves. He said, ultimately, doing so would hurt the City's credit rating and the cost of borrowing would increase.

Mayor Ardis commented that the recent budget cuts contributed to the depletion of the General Fund, noting that the City had been drawing down on the Fund in order to minimize the impact of some of the cuts.

At the request of Council Member Riggerbach, City Manager Urich provided an explanation of how a credit agency downgrade would impact the City. He said the credit agency expressed a concern about the City's cash reserves, growing pension liabilities, and the affect Caterpillar had on the local economy.

In response to Council Member Cyr's question regarding the City's debt ratio, City Manager Urich said the total City debt was about three times its total revenue base.

In response to Mayor Ardis regarding the readjustment of the policy or the timeframe of the policy, City Manager Urich said he was seeking direction on readjusting the timeframe of the policy.

Council Member Moore questioned whether 25% was more than what was needed. In order to reach the 25% goal, she inquired whether all City Departments would be affected by the budget cuts and if they were open to such cuts. City Manager Urich said all Departments would be affected by the budget cuts.

Council Member Moore commented on the 25% of Unassigned Fund Balance and she inquired whether it had to be 25% or if it was a percentage that could be changed. City Manager said it was a policy question for the City Council to decide.

Mayor Ardis said it was his recollection that 25% was established in order to have a 90-day reserve. He said that amount seemed like a lot, but was not when it came time to use it. He recommended seeking input from ICMA and to gather averages from other communities and cities comparable to the City of Peoria. He said it was preferable to increase businesses and to have more people contribute to the community and he remarked on the importance of attracting more businesses to the community.

Council Member Riggerbach concurred with Mayor Ardis stating that they needed to see what comparable cities were doing. He remarked on establishing a timeframe that would make the payments as bearable as possible in order to replenish the General Fund.

Council Member Ruckriegel said it was standard to have 90-days' worth of reserves saved. He said there were two things the Council had the option to change: 1) the percentage allotted for the General Funds, and 2) the amount of time in order to rebuild the Fund. He inquired on the importance of meeting 25% in reserves and what would happen if the City Council lowered that percentage.

City Manager Urich said the bond rating agencies wanted the City to have a plan. He remarked that some communities do not have 25% in reserves with the concept of "let the people have the money to spend in the community." He said the rating agencies wanted to know the City had some fiscal discipline in place.

Council Member Akeson inquired as to the options available to replenish the City's reserves. She said there needed to be a choice of options and ramifications in order for the City Council to make a decision.

City Manager Urich said if the City Council opted for a 10-year plan in order to replenish the reserves, then the budget would need to have revenues that exceeded expenses by \$2 million per year. He said the goal was to establish a spending plan that made sense and would work over time. He said the City Council needed to determine whether to adjust the expenses or revenues.

Council Member Akeson requested a forecast that reflected how the Fund balance had shrunk. She directed the City Manager and Staff to come back with options, forecasts, and realistic assessments. She said no one wanted to make cuts and she said there needed to be a concrete strategy for creating sales tax and increasing property values.

Council Member Cyr inquired about the expense-to-revenue ratio and how it compared with other cities. City Manager Urich said the City of Peoria was on the high side when it came to the general obligation debt, but regarding pension liabilities, he said Peoria was in a similar situation as a number of other communities.

Council Member Cyr asked the City Manager to look at funding the General Fund at 25% and compare that using lower percentages. He remarked on the importance of bringing new businesses to the City and how the City's bond rating affected attracting new businesses. He said it was important for the City to address its debt.

Regarding the General Fund Balance Policy, Council Member Moore requested a report back reflecting the difference between a five-year and a ten-year commitment. Included in the report, she asked for the percentage to range from 18% to 25%. She also requested City Manager Urich to review the \$90 million budget and see what other cuts could be made.

Council Member Jensen request a report back that reflected 25% in 10 years. She also asked for other percentages in the 10-year range be reviewed. She suggested that perhaps the payoff could start small and increase over time.

A revised handout on revenue and expense projections was distributed to all Council Members.

City Manager Urich reported that property taxes had declined nearly \$6.4 million over the last 10 years. He said, in 2019, there will not be any more property taxes set aside in the General Fund due to the rising cost of pensions. He reported that the total local revenue sources declined by about 15% while State sources had grown slightly at about 6%. He said the challenge was in generating local revenues, which had not kept pace with the expenses. He said expenses reflected a reduction across the board except Police Pensions, which had grown approximately 14%, and Fire Pensions, which had grown approximately 3%. Overall, he said the General Fund declined about 10% over the last 10 years.

Council Member Moore moved to have the City Manager provide a Report Back on the funding of the General Fund using the 10-year timeframe with various options on how that would be done; seconded by Council Member Oyler.

Approved by roll call vote.

Yeas: Akeson, Cyr, Grayeb, Jensen, Montelongo, Moore, Oyler, Riggerbach, Ruckriegel, Turner, Mayor Ardis –11;

Nays: None.

Pension Obligations

City Manager Urich reviewed the public safety pension contributions made by the City noting there would be an 8% increase for 2019. He reviewed the actuarial recommendations to achieve 100% funding by 2040; the statutory minimum contribution, which would be about \$415,000.00 higher than currently budgeted; and the Illinois Department of Insurance 2019 Statutory Minimum Contribution recommendation wherein the discount rate, rate of return, mortality tables were changed, which was approximately \$1.4 million more than budgeted. In a discussion with Moody's, he said they wanted the City to fund at a certain level. In order to cover the cost of the benefits, he said the City would have to pay nearly \$11 million more than anticipated. He reviewed how pension levels and limitations were established by the State, Pension Board, Actuary and City, noting the City had very little input. He said the only item in which the City had an influence was levying taxes to collect the employer contribution portion of the pensions. He reported that the benefit payments to the Police Pension Fund would increase by \$46.3 million over the next ten years and for the Fire Pension Fund by \$33.8 million over the next ten years. He said the City's contributions needed to grow in order to cover the growth of the pensions. He reviewed options for addressing pensions, noting a potential increase in property taxes, implementing a Pension Fee Per Parcel, and reducing expenses. He said in order for property taxes to meet the forecasted increases, it would be a \$0.04 increase every year until 2045. He said a Pension Fee Per Parcel would shift some of the burden to non-property tax paying entities. He reviewed a chart on reducing the City's personnel and how it would impact the budget from 2008 to 2057, noting there would have to be reduction down to 481 City employees by 2045.

Council Member Grayeb expressed concern on the continued decrease of the City's workforce. He said the City Council had been doing everything possible to meet the needs of the community with fewer City personnel. He remarked on the importance of finding additional

revenues in order to pay the City's bills. He commented on issues in Springfield; however, he said Springfield was beginning to address the issue of revenues lost through internet sales. He said the City's biggest expense was its workforce and he said the employees had earned their pensions.

Council Member Moore said she was not interested in increasing property taxes and she said the Pension Fee Per Parcel was yet another tax on the citizens. She remarked how these taxes impacted the citizens in the First District and she said the City had to find another way other than taxes and fees.

Discussions were held on how reducing the workforce would impact the City's budget and how many reductions would be needed. City Manager Urich said if the City Council wanted to contribute \$2 million into the General Fund and increase funding levels to the pensions according to actuarial levels, there may need to be a reduction in the workforce.

Council Member Riggerbach requested, in order to ensure there would be as many options as possible, a report on increasing property taxes, implementing a Pension Fee Per Parcel and expense reductions and how those options would impact the pensions. He remarked on the importance of reaching out to the necessary State Legislators in order to address the need to change investments options. He said the City needed to work with the Police and Fire bargaining units as well to discuss the pension situation.

Council Member Grayeb expressed a concern on impacting citizens of Council District 1 with additional taxes.

Regarding expense reductions, Council Member Jensen requested a report reviewing current City salaries and how eliminating annual increases impact the budget. She also requested a report on how lowering salaries above a certain level by 10% would impact the budget. She remarked on the need to conduct due diligence of the Water Company in order to determine whether it would be a good revenue source.

City Manager Urich said conducting due diligence on the Water Company would add additional expenses to the 2019 budget. He said he would provide an update regarding the status of the CEO Council's offer at the next City Council meeting.

Council Member Ruckriegel remarked on the importance of reviewing and forecasting revenues. He remarked on the stormwater fee noting it was a substantial increase. He said there were other expenses pending such as the Combined Sewer Overflow. He remarked on the importance of budgeting the City's revenues prior to budgeting the expenses, and he asked for a report of the City's revenues.

Council Member Moore asked for a report outlining the funding the City received from State and Federal sources and where those funds were applied in the budget. In doing so, she said she wanted to determine what City services, employees, and Departments benefitted from State and Federal Funds and who was being subsidized on the City's payroll as a result.

Regarding the public safety pensions, Mayor Ardis requested a report on increasing property taxes and the Pension Fee Per Parcel. He said the fee per parcel might possibly provide some relief on property taxes and would be a fee that would be spread evenly throughout the City. He said it was the sentiment of the Council to review all options provided by the City Manager.

Council Member Montelongo asked for a report on the City's break-even point. He asked for a report to show the number of employees the City could afford to pay pensions and recommended cutting back to that minimum. He said he wanted to see where those basic services were for the City.

Operating and Capital Budget

City Manager Urich said the City Council approved a total expense budget, in the amount of \$150.95 million, and he provided a breakdown of the expenses as they related to support, supplies, contractual, benefits and wages. He reviewed the 2019 budget adjustments for pensions, revenues and lawsuits. He reported an increase in pensions pursuant to the Illinois Department of Insurance, in the amount of \$1.4 million. He commented that assessed valuations were down 2.5%, totaling approximately \$800,000.00. He said, in order to levy the same dollar amount, the City Council would have to increase the property tax rate due to shrinking property values. He said property taxes were a lagging indicator of what was happening in the economy. He commented that the assessed values would continue to decline for 2019. He reported that sales taxes were down 2.0%, in the amount of \$900,000.00, which had been the City's primary revenue source. He said the Personal Property Replacement Tax (PPRT) was the corporate tax that helped fund pensions and he said there was an anticipated reduction of 8.0% or approximately \$500,000.00. He said there was an anticipated adjustment in other revenues, in the amount of \$400,000.00. Overall, he said the total deficit for 2019 was forecast in the amount of \$4,000,000.00, not including the PAAG lawsuit. He said, including the PAAG lawsuit, there would be a total deficit of \$6 million from what was proposed last year. He reviewed balancing the budget for 2019 and commented that reducing expenses would impact public safety. He said 80% of the wages the City paid and personal services costs were in the Police Department, Fire Department and Emergency Communications Center. He said if there was a reduction in the current budget of \$6,000,000.00, it would equate to 60 positions in the General Fund. He said if the \$2 million was included to contribute back to the General Fund, then it would equal approximately 80 positions.

Council Member Grayeb requested a report going back to 1990 that reflected the property tax rate per \$100 assessed value up to 2018 in order to see how those numbers had changed.

Council Member Ruckriegel said making a one-year budget was easier than forecasting a budget. He commented that every decision made had a residual effect. He remarked on the City's bond rating noting that an important attribute was for the City to have a plan. He said, in order for businesses to stay, increase, or relocate to the City, they needed to know Peoria's future. He said property values were down 2.5%; however, he said it was important to look at what those property values looked like five years from now. He requested a report forecasting property values for five years and ten years, whether sales taxes would stabilize, how the Personal Property Replacement Tax would be affected and the transition of businesses moving out of the City.

Council Member Cyr said the Louisville Slugger had a great year and he asked for information on how their success affected the City's revenues. He also asked for a report on how Portillos affected the City's revenues. He asked for information on how the declining population in the City would affect the budget going forward. He asked for information on how much money the City spent on consultants and he asked how the new taxes on gas and cigarettes impacted the budget. He also asked the City Manager to review opportunities of sharing services with Peoria County or other cities.

Revenue Options

City Manager Urich reported that property taxes contributed to 19% of the City's total revenues. He said the Council had an option to establish a tort levy as a way to pay the PAAG lawsuit, noting that any lawsuit could be paid by property taxes. He reviewed other revenue options as follows: Package Liquor Tax, Vehicle Fee, Garbage Fee, review license and permit fees, fines and forfeitures, and charging non-City residents for public safety services.

Council Member Moore inquired about charging organizations for services received from the City's Public Safety Departments such as helping individuals out of bed, and City Manager Urich said the City would issue a Request for Proposal to look at those services.

Council Member Jensen inquired about the motor vehicle fee and she recommended reviewing whether non-residents could be charged for using City streets

Capital Budget

City Manager Urich said the Capital Budget policies did not explicitly authorize borrowing for facilities and rolling stock. He said some of the City's vehicles would have a longer life than a car, which was a highly depreciable asset. He asked the City Council if they wanted Staff to explore options for short-term borrowing in order to manage the way of developing the Capital Plan. He commented that there may be opportunities for the City to utilize short-term borrowing.

Council Member Grayeb said the City needed to pay its bills and he commented that he was not in favor of a short-term borrowing plan.

Mayor Ardis commented that there was no appetite for additional debt options.

Council Member Ruckriegel recommended extending the life of City vehicles by approximately 10-12 years, which would be another cost-saving measure. City Manager Urich commented that extending the life of City vehicles would add to the City's maintenance costs.

Council Member Akeson expressed a concern regarding the City's growth as it related to streets and sanitation for outlying areas that had drawn down on the City's expenses. She asked if Staff was looking at a way of managing the City's growth and whether the charges incurred by the City were built into the developer fees.

Council Member Moore requested a report that reviewed the expenses the City would incur in the future for outlying areas and whether the City could charge higher fees for those areas.

Assistance from Springfield

City Manager Urich said the Legislative Program continued to reach out to State Legislators for help with Public Safety Pension Reform, expanding the sales tax base to include services, and lessening reliance on property taxes. Regarding the Public Safety Pension Reform, he said it would be helpful if the State changed the investment policy and the rolling amortization policy. He said it would allow the Pension Boards to invest like IMRF, which would provide some relief. He said expanding the sales tax base to services was critical, noting that the State of Illinois had the lowest sales tax base per capita in the Midwest.

Economic Growth

City Manager Urich remarked on the need for a comprehensive economic growth strategy in order to build the tax base and to increase jobs, employers, and people in the City. He said Staff would like to hold a future Policy Session to discuss key economic growth strategies.

Council Member Moore recommended conducting a job survey, noting there were several thousands of positions available in Peoria yet thousands of people were still unemployed and needed training. She recommended the City partnering with organizations in order to provide job training. She said there were grants that municipalities could utilize in order to keep the City from dipping into its own budget. She recommended reviewing grants that were available for funding job training in order to establish a stronger workforce.

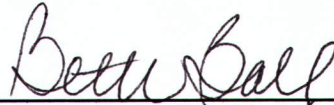
Council Member Grayeb said, despite the financial reports, there were many exciting things happening in the City of Peoria, noting the medical sector and Bradley University.

Council Member Cyr requested a report that reflected the City's population versus City employees and the services provided for the last 25 to 30 years.

Mayor Ardis requested a budget calendar be made available to all Council Members at the next City Council meeting.

Council Member Jensen left the meeting at 8:03 P.M.

The Policy Session closed at 8:04 P.M.

A handwritten signature in cursive script that reads "Beth Ball". The signature is written in black ink and is positioned above a horizontal line.

Beth Ball, MMC, City Clerk
City of Peoria, Illinois

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