CITY OF PEORIA

2020 COVID-19 Budget Restructuring

SCENARIOS REVIEW, FURTHER GUIDANCE FROM COUNCIL, AND A TIMELINE OF ACTION

APRIL 28, 2020

Economic News

Peoria MSA has lost 4,300 non-farm jobs in March of 2020 versus March 2019. That's almost 11% of all non-farm jobs lost state wide, while we are 2.7% of statewide non-farm jobs.

YoY Industry job growth was reported in education and healthcare (12,800) across the state.

YoY industry job losses were largest in Professional and Business Services (-21,700) and manufacturing (-14,700) across the state.

Illinois job Link (the state's largest job search engine) currently has 147,823 posted resumes and 70,881 jobs available.

Significant shortfalls still anticipated across most areas of revenue

Property
-5%

Home Rule Sales
-39%

Hotel Tax
-64%

Restaurant Tax
-54%

Sewer/ Stormwater
-25%

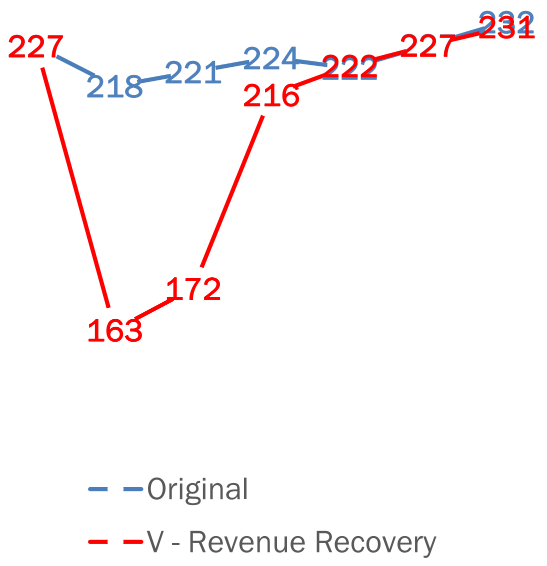
Licenses, Permits, Fees
–20%

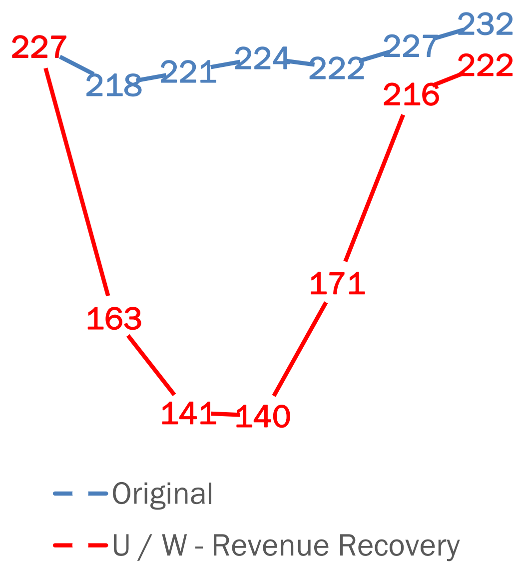
State Sales
-39%

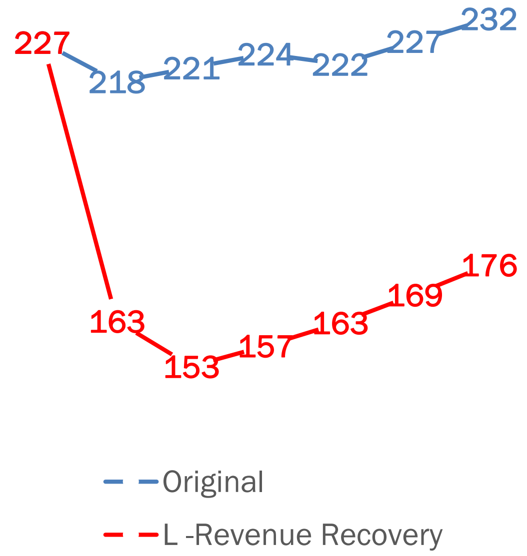
Income
-33%

Corporate Income
-33%

The scenarios are still very far apart in the anticipated revenue gap





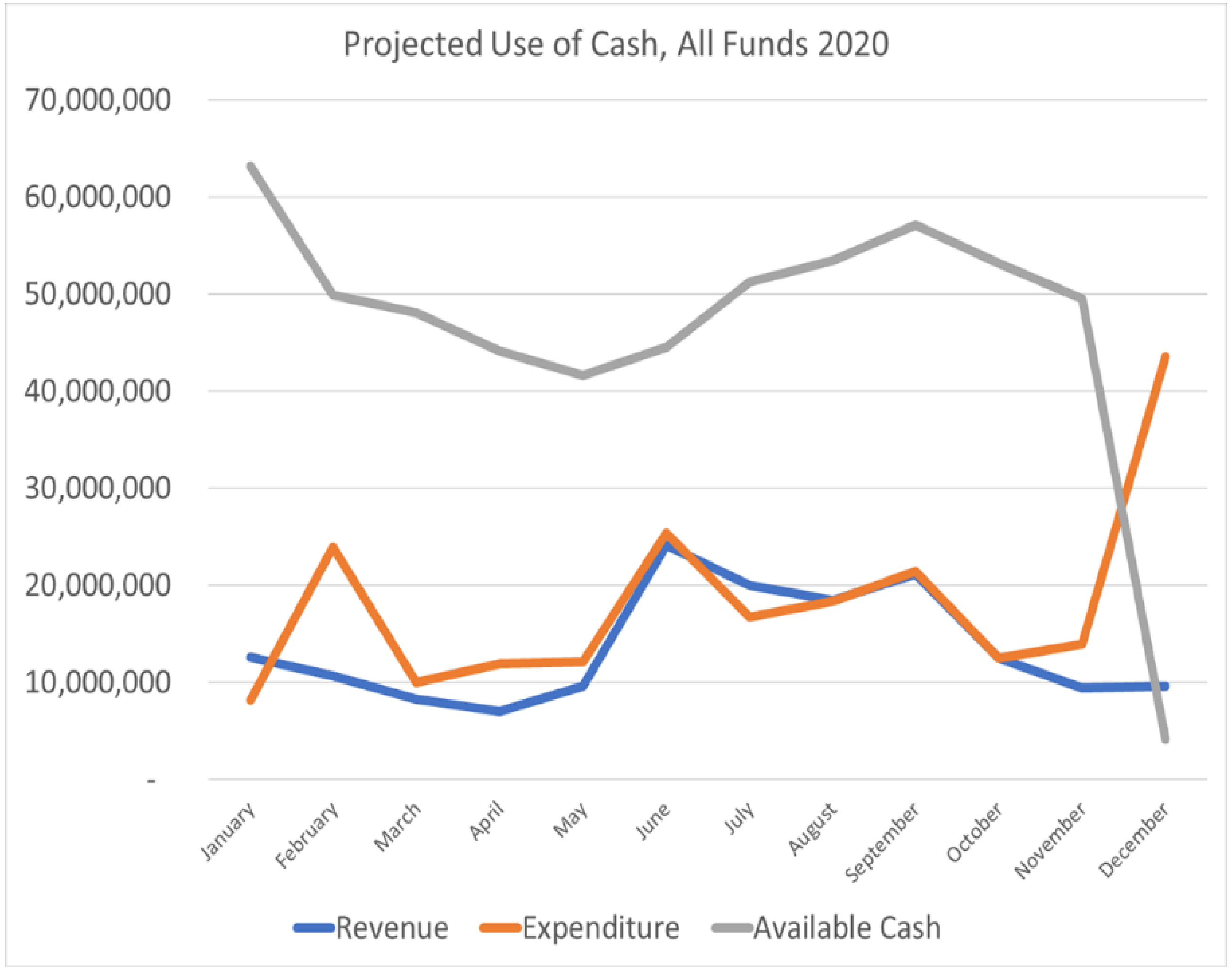


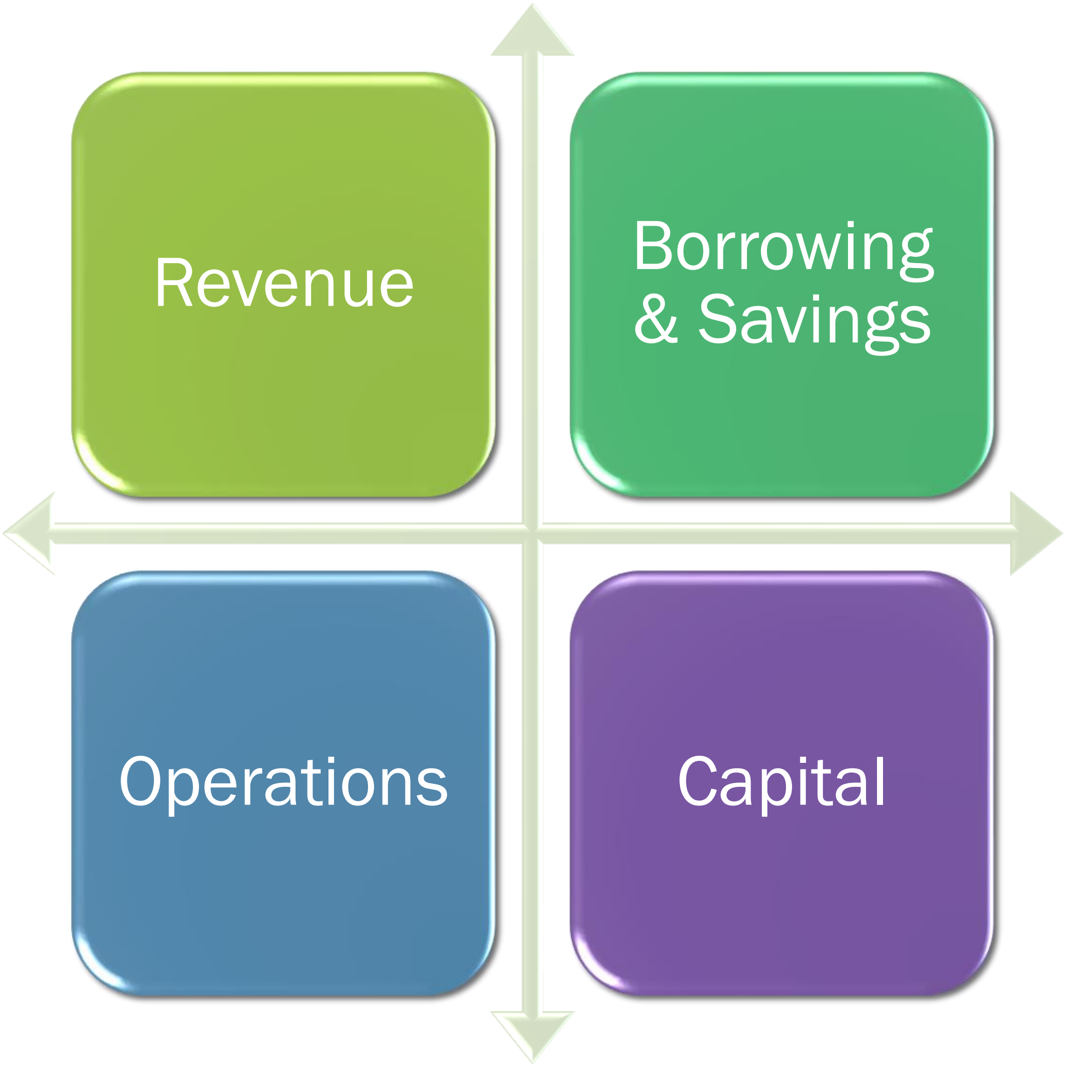
If Peoria's recovery looks more like the U/W or L shaped models, the City will need to cover an additional $175M to $250M in Revenue shortfalls through 2025.

We will benefit from quick action

WITHOUT ACTION WE PROJECT THAT THE CITY WILL BE BROKE BEFORE THE END OF THE YEAR.

COUNTER MEASURES TAKE TIME: CAPITAL CONTRACTS SPEND MONEY EVERY DAY THEY ARE NOT FORMALLY SHUT DOWN, BORROWING TAKES A FEW MONTHS TO DEVELOP, SELECT, APPROVE AND IMPLEMENT AND THE FULL EFFECT OF LAYOFFS TAKE AROUND FOUR MONTHS TO BEGIN TO SAVE.





Levers of Response

Revenue, Borrowing, Savings

Due to the scale of the challenge (upwards of $60M we anticipate that we will need to issue new property taxes to enable borrowing – as a bank requirement)

As a rule of thumb we model 10% of borrow amount as the annual payment that must be supported by new revenue, borrow over 20 years and end up paying 2 times the initial amount borrowed. Therefore a $30M bond would require $3M in repayment and new revenue for 20 years and result in a total repayment of $60M.

All scenarios assume at least $30M in bond borrowing in 2020 and associated property tax increase of $3M per year. For a Peoria Home with a fair market value of $100,000 that would be about an additional $50 per year in tax payment.

We assume that we can spend down about $20M in cash before we are at risk of insolvency. And would recover cash position before unwinding any other decisions.

Debt Restructuring

Debt Restructuring has been investigated with our financial institutions and we have the ability to restructure about $9.4M of debt principal at the net cost of$2.2 Million and reducing 2020 obligations by $10.3M. However in 2021 and beyond we will have an increase in total debt payment. See table below for a schedule of debt relief and increment that would result if we restructure our debt. Restructuring debt does not require any new revenue.

In our scenarios we have included debt restructuring as a step.

Year	2020	2021	2022	2023	2024	2025
Debt (Expense)	(10,258,550)	432,997	356,703	666,703	669,303	666,303

Capital

Capital reductions of $26.7M were proposed last week and directionally supported by council. As this is between the two benchmarks requested in the scenarios we have elected to use this amount in 2020 and a smaller amount $14M reduction in capital expense in 2021, returning to originally projected expenditures in 2022 and beyond.

Year	2020	2021	2022	2023	2024	2025
Capital (Expense)	12,589,724	20,407,382	31,312,382	31,312,382	31,312,382	31,312,382

Operations

In the Operations space, there are a few levers that we don't explore extensively such as furlough and pay cuts. Union contracts have extensive language around the process to lay off employees, but do not entitle us to reduce pay or furlough employees. We have only used the lever of layoffs in the case of union employees. Once we have a target we will be able to negotiate with unions to explore other options.

We assume a 5% pay cut for unrepresented employees in all models.

The Scenarios have a baseline / worst case reduction in service, which may change if unions are willing to agree to alternatives to lay offs.

Model Assumptions

We use the V-shaped recovery model and projections show the greater variance in models beginning in 2022.

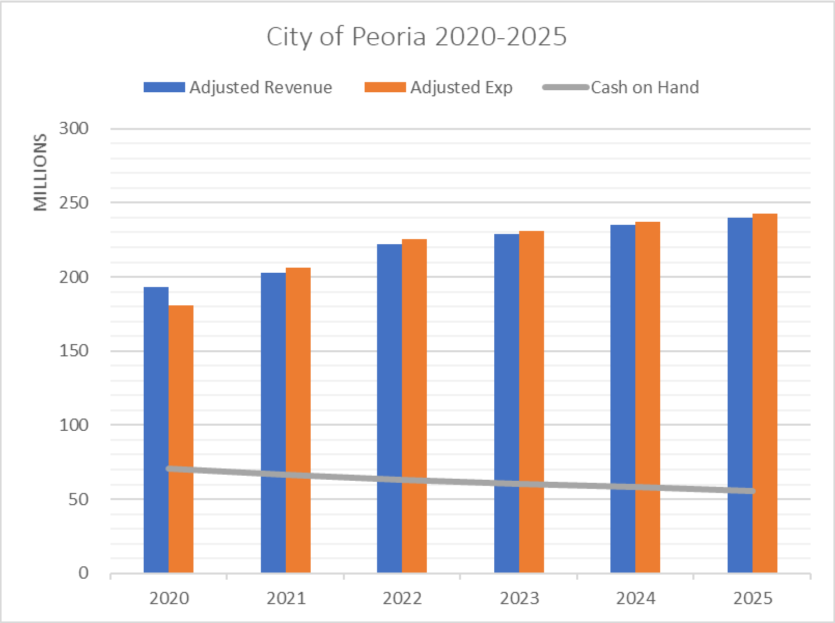
When there is a surplus we leave it in the cumulative change row of the model. Surplus occurs in outyears and its use will be the choice of a future council.

We understand there is great volatility and ambiguity in what we are facing but believe that 2020 and 2021 are both going to have significant revenue gaps no matter the shape of recovery.

The model is fund agnostic, meaning that in a given year there could be challenges to a specific fund that will need to be addressed.

Scenario 1: Zero Operational Cuts

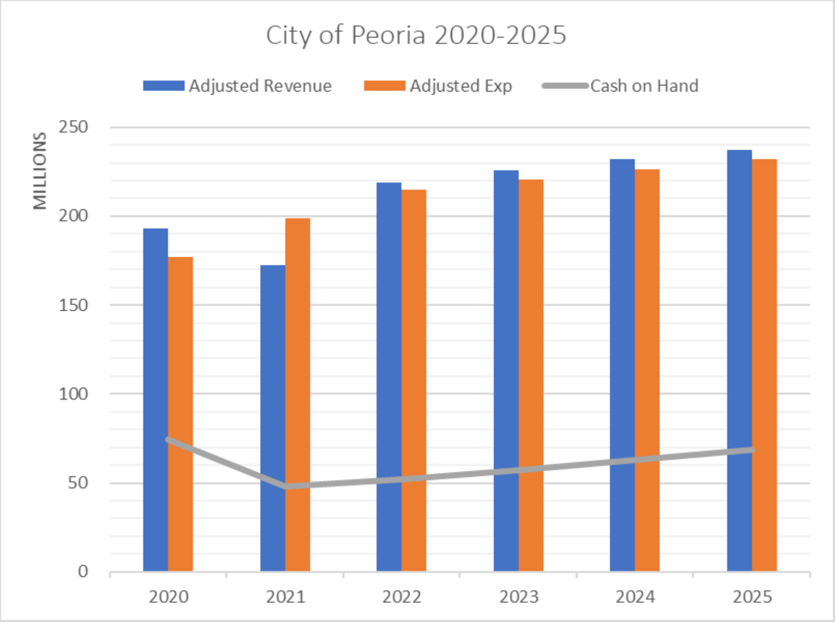
	2020	2021	2022	2023	2024	2025
Revenue - V	163,094,887	169,476,508	215,763,093	222,778,893	228,869,555	234,234,986
Debt	30,000,000	30,000,000				
New Revenue	0					
Property Tax		3,000,000	6,000,000	6,000,000	6,000,000	6,000,000
Expense	(217,971,228)	(216,884,586)	(219,123,214)	(224,502,497)	(230,363,953)	(236,304,077)
Operation No Cut	0	0	0	0	0	0
Capital Cuts	26,701,402	14,000,000				
Debt Restructure	10,258,550					
Restructure Payment		(432,997)	(356,703)	(666,703)	(669,303)	(666,303)
Debt Payment		(3,000,000)	(6,000,000)	(6,000,000)	(6,000,000)	(6,000,000)
Fund Balance Change	12,083,611	(3,841,075)	(3,716,824)	(2,390,308)	(2,163,701)	(2,735,395)
Cumulative Change	**12,083,611**	**8,242,536**	4,525,712	2,135,404	(28,297)	**(2,763,692)**



Additional borrowing is required in 2021 and a larger property tax will be required to service the debt. By 2025 we will need to look at additional actions to make ends meet.

Scenario 2: $5M Operational Contribution

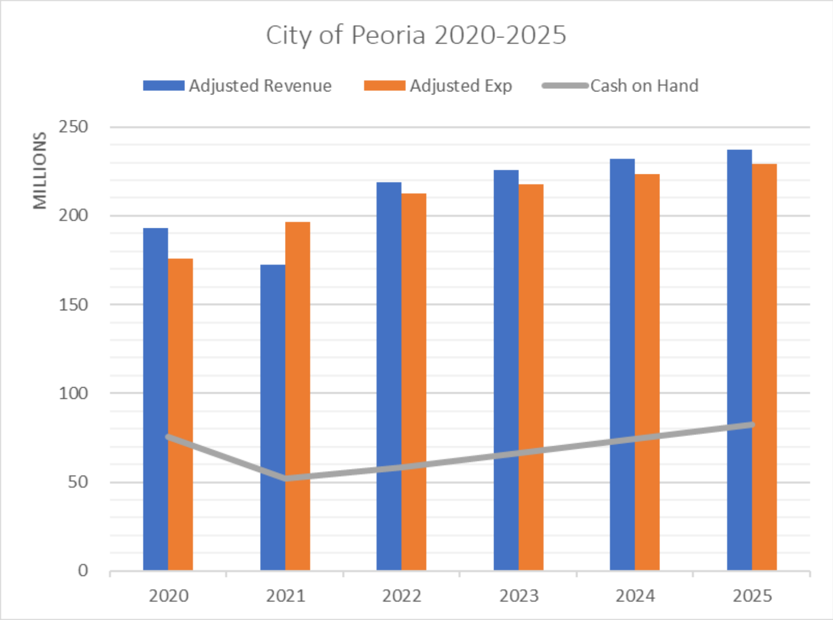
	2020	2021	2022	2023	2024	2025
Revenue - V	163,094,887	169,476,508	215,763,093	222,778,893	228,869,555	234,234,986
Debt	30,000,000	0				
New Revenue	0					
Property Tax		3,000,000	3,000,000	3,000,000	3,000,000	3,000,000
Expense	(217,971,228)	(216,884,586)	(219,123,214)	(224,502,497)	(230,363,953)	(236,304,077)
Operation $5M	3,809,046	7,428,358	7,594,758	7,765,208	7,939,825	8,118,729
Capital Cuts	26,701,402	14,000,000				
Debt Restructure	10,258,550					
Restructure Payment		(432,997)	(356,703)	(666,703)	(669,303)	(666,303)
Debt Payment		(3,000,000)	(3,000,000)	(3,000,000)	(3,000,000)	(3,000,000)
Fund Balance Change	15,892,657	(26,412,718)	3,877,934	5,374,900	5,776,124	5,383,335
Cumulative Change	**15,892,657**	**(10,520,060)**	(6,642,127)	(1,267,226)	4,508,897	**9,892,232**



This scenario requires a significant cash draw down ($26M) in 2021. Recovery begins in 2022 and cash position is recovered by 2024.

Scenario 3: $10M Operational Contribution

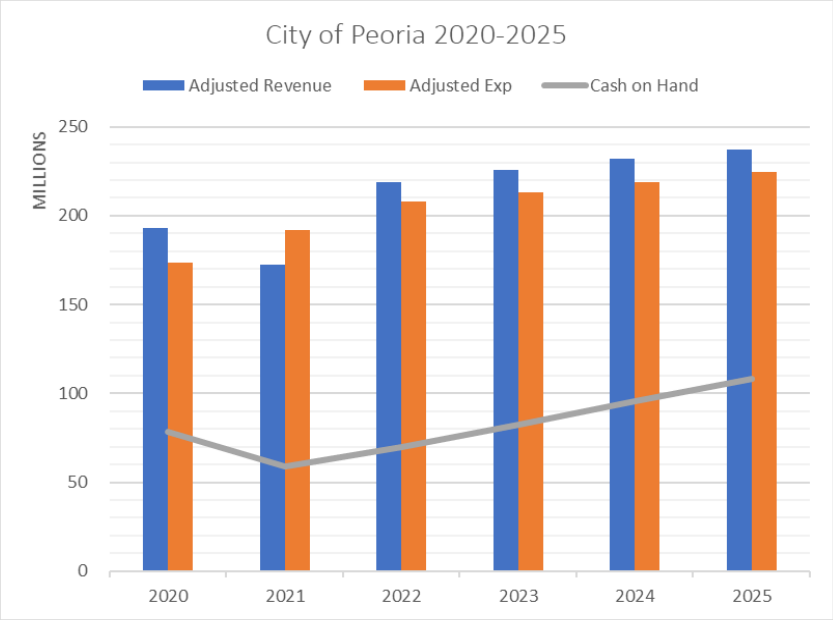
	2020	2021	2022	2023	2024	2025
Revenue - V	163,094,887	169,476,508	215,763,093	222,778,893	228,869,555	234,234,986
Debt	30,000,000	0				
New Revenue	0					
Property Tax		3,000,000	3,000,000	3,000,000	3,000,000	3,000,000
Expense	(217,971,228)	(216,884,586)	(219,123,214)	(224,502,497)	(230,363,953)	(236,304,077)
Operation $10M	5,162,613	9,911,438	10,129,920	10,353,567	10,582,520	10,816,924
Capital Cuts	26,701,402	14,000,000				
Debt Restructure	10,258,550					
Restructure Payment		(432,997)	(356,703)	(666,703)	(669,303)	(666,303)
Debt Payment		(3,000,000)	(3,000,000)	(3,000,000)	(3,000,000)	(3,000,000)
Fund Balance Change	17,246,224	(23,929,638)	6,413,096	7,963,260	8,418,819	8,081,529
Cumulative Change	**17,246,224**	**(6,683,414)**	(270,318)	7,692,942	16,111,760	**24,193,290**



This scenario requires less cash drawn down in 2021 due to higher operational cuts and is able to recover cash reserves in the following year. Recovery begins in 2022 and cash position is recovered by 2023.

Scenario 4: $15M Operational Contribution

	2020	2021	2022	2023	2024	2025
Revenue - V	163,094,887	169,476,508	215,763,093	222,778,893	228,869,555	234,234,986
Debt	30,000,000	0				
New Revenue	0					
Property Tax		3,000,000	3,000,000	3,000,000	3,000,000	3,000,000
Expense	(217,971,228)	(216,884,586)	(219,123,214)	(224,502,497)	(230,363,953)	(236,304,077)
Operation $15M	7,587,651	14,372,966	14,682,702	14,999,301	15,322,920	15,653,721
Capital Cuts	26,701,402	14,000,000				
Debt Restructure	10,258,550					
Restructure Payment		(432,997)	(356,703)	(666,703)	(669,303)	(666,303)
Debt Payment		(3,000,000)	(3,000,000)	(3,000,000)	(3,000,000)	(3,000,000)
Fund Balance Change	19,671,262	(19,468,109)	10,965,878	12,608,994	13,159,219	12,918,326
Cumulative Change	**19,671,262**	**203,153**	11,169,031	23,778,025	36,937,244	**49,855,570**



This scenario does not require cash draw down. The higher operational cuts provide council with the opportunity to begin recovery as early as 2022 and no risk to cash position.

Next Steps

Quickly approving a plan through these options will be important to maximize the opportunity to balance 2020. The scenarios show the financial implications of various options, but do not implement any actions. Actions will require time. For example, reductions in the workforce will require union bargaining over impact and implementation and time to consider alternatives.

Plan: The Council is on a path to approve policy for implementation by mid-year.

Flexible Management: The City Council should monitor the next 18 months in quarterly reviews. What information should City Staff provide to ensure the City Council understands if and when and to change course?

Path to a Plan

28 April (CC mtg.)

Review four base case scenarios and debt options. Gather reaction / guidance from council

12 May (CC mtg.)

Review updated 2021 capital program, provide guidance on operational lever

13 May

Begin negotiations with unions on options to manage operational cuts

26 May (CC mtg.)

Use Union negotiations input for updates to operational cuts. Approve Final policy decisions.

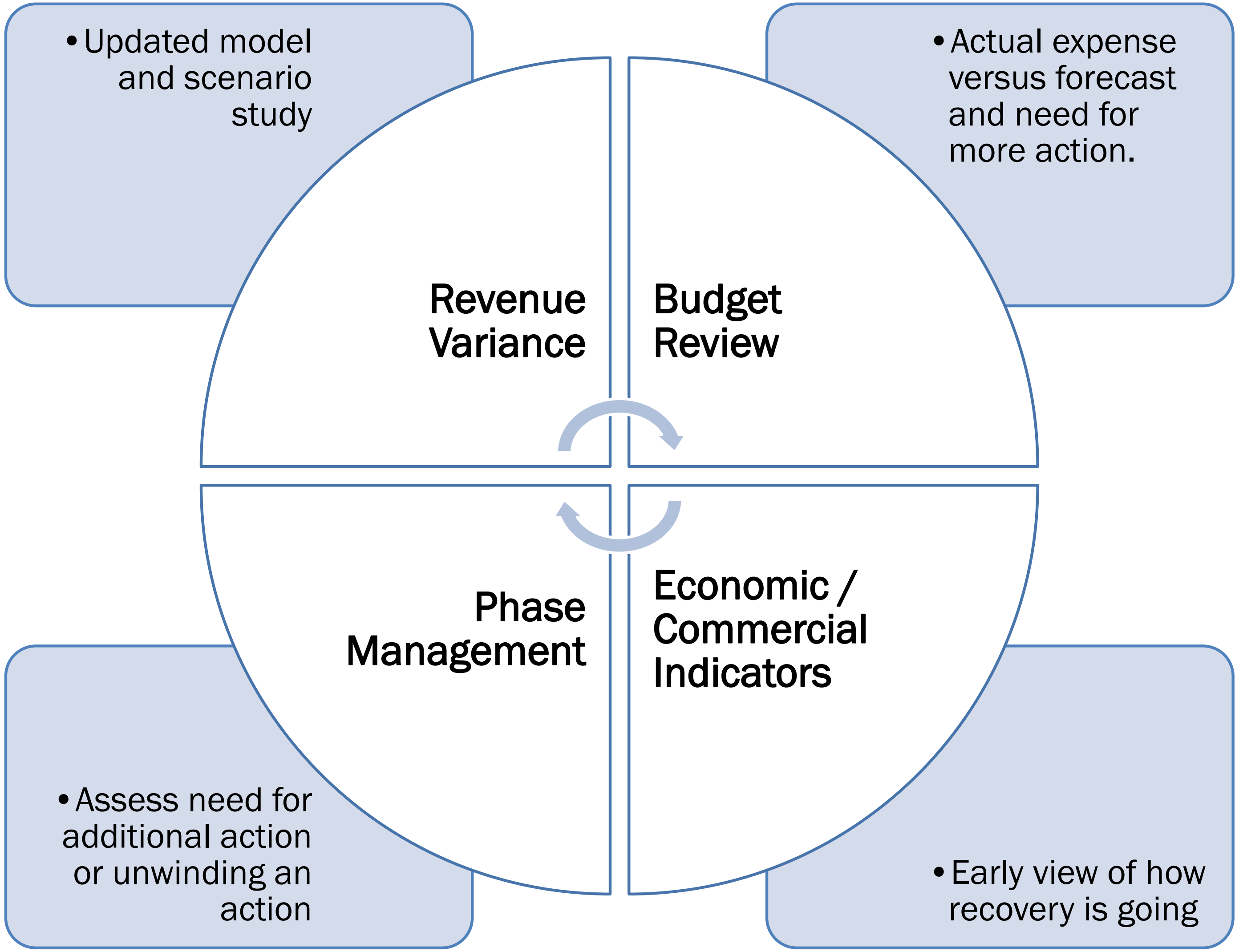
May 27

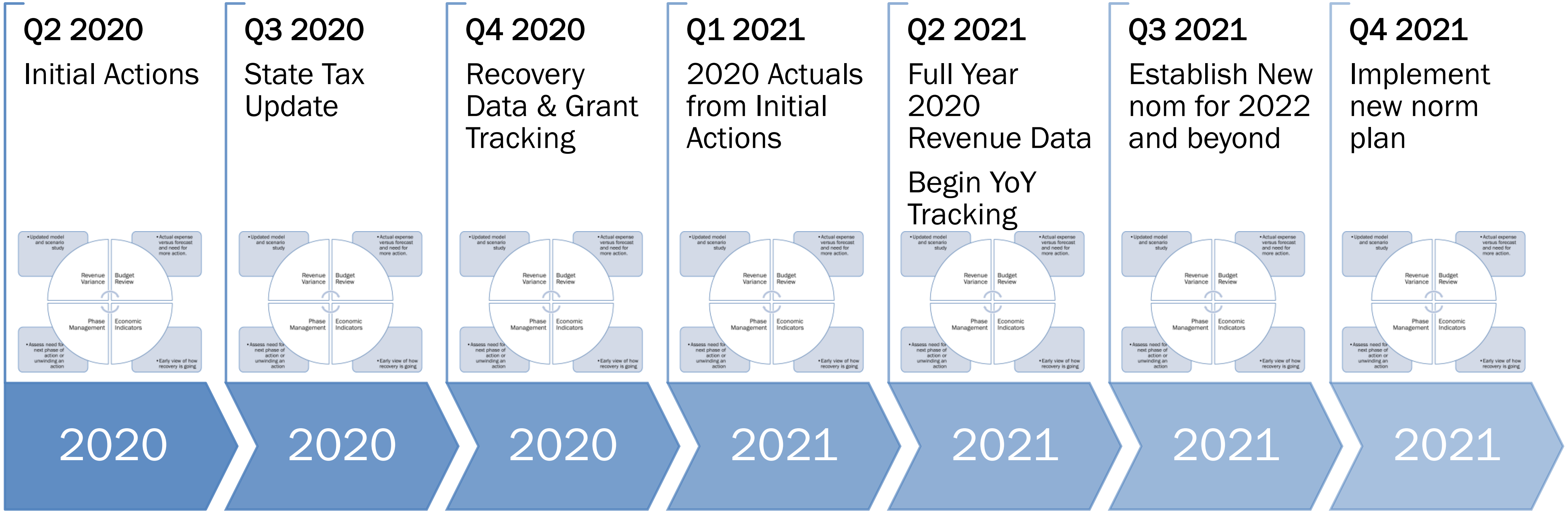
Finalize Administrative Plan and Begin Implementation

July 1

Finish Implementation steps

Flexible Plan Management





Quarterly Reviews will focus on new areas as we progress through the crisis to recovery