

Council Report Backs
2022 2023 Budget Questions – Part 5

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Question 1 City of Peoria Credit Rating History	Question From Ruckriegel	Answer From Finance City Manager
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The following table reflects the City Credit Rating from Moody’s and Standard and Poor’s (S&P) since March of 2000.

**City of Peoria, Illinois
General Obligation Rating History**

Date	Moody's		Standard and Poor's	
	Rating	Action	Rating	Action
October-21	No Rating Requested		A+ / Stable	Outlook Revised
April-21	No Rating Requested		A+ / Negative	Affirmed
September-20	No Rating Requested		A+/Negative	Downgraded
November-19	A2 / Stable	Affirmed	AA- / Stable	Affirmed
July-18	A2 / Stable	Affirmed	AA- / Stable	Affirmed
January-18	A2 / Stable	Downgraded	AA- / Stable	Affirmed
November-16	A1 / Negative	Downgraded	AA- / Stable	Affirmed
February-16	Aa3 / Negative	Affirmed	AA- / Stable	Affirmed
October-15	Aa3 / Negative	Negative Outlook Assigned	AA- / Stable	Affirmed
March-15	Aa3 / Stable	Affirmed	AA- / Stable	Affirmed
September-14	Aa3 / Stable	Affirmed	AA- / Stable	Affirmed
March-14	Aa3 / Stable	Downgraded	AA- / Stable	Downgraded
March-13	Aa2 / Stable	Affirmed	AA / Stable	Affirmed
June-12	Aa2 / Stable	Affirmed	AA / Stable	Affirmed
March-12	Aa2 / Stable	Affirmed	AA / Stable	Affirmed
December-11	Aa2 / Stable	Affirmed	AA / Stable	Affirmed
December-10	Aa2 / Stable	Affirmed	AA / Stable	Affirmed
June-10	Aa2 / Stable	Affirmed	AA / Stable	Affirmed
April-10	Aa2 / Stable	Rating Recalibration	No Action	
February-10	Aa3 / Stable	Affirmed	AA	Affirmed
January-09	Aa3	Affirmed	AA	Affirmed
July-08	Aa3	Affirmed	AA	Affirmed
September-07	Aa3	Affirmed	AA	Affirmed
April-05	Aa3	Affirmed	AA	Affirmed
August-04	Aa3	Affirmed	AA	Affirmed
August-03	Aa3	Affirmed	AA	Affirmed
June-02	Aa3	Affirmed	AA	Affirmed
March-00	Aa3	Affirmed	AA	Affirmed

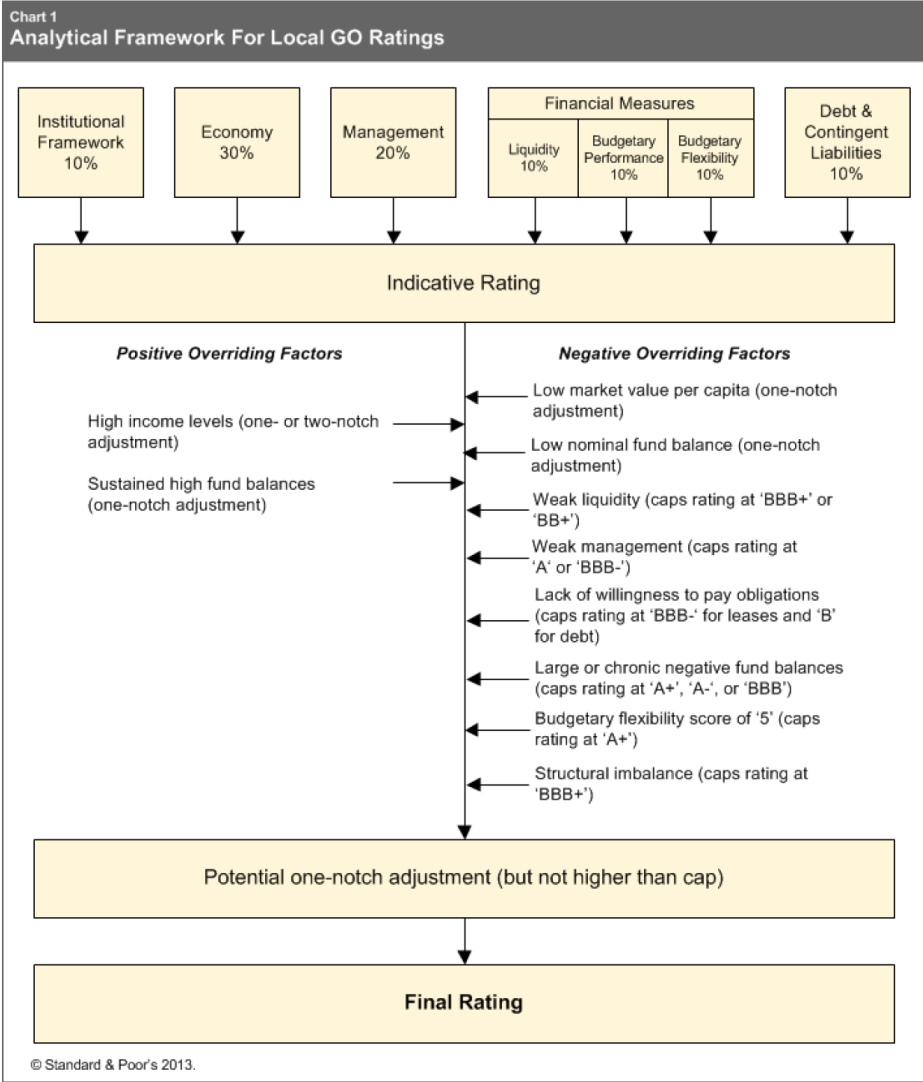
The rationale for each downgrade is as follows:

Date	Moody's Rationale	Standard and Poor's Rationale
March 2014 – downgrade	“very weak debt and contingent liabilities position, including underfunded pensions”	“above average debt burden and unfunded pension liabilities”
October 2015 – negative outlook	“expectation that the city’s economy will be challenged by Caterpillar’s recent restructuring”	
November 2016 – downgrade	“considerable growth in Peoria’s unfunded pension liabilities, as well as continued economic pressures associated with downsizing at Caterpillar”	
January 2018 – downgrade, outlook upgrade	“elevated debt and pension leverage” “stable outlook reflects recent revenue and expenditure adjustments”	
September 2020 – downgrade		“city’s operational risk and exposure to volatile revenue, exacerbated by Covid-19 and the ensuing recession”
October 2021 – outlook upgrade		“we believe the city’s fund balance is now in a stable position, given further surplus projections for fiscal 2021”

The attached document from Standard and Poor’s also explains in detail how the ratings are calculated. The ratings scale ranges from AAA, AA+, AA-, A+, A, A-, BBB+, BBB, BBB-,BB, to B. S&P uses seven criteria to determine the credit rating:

- Institutional framework (the legal and practical environment in which the local government operates);
- Economy (the health of the asset base relied upon to provide both current and future locally derived revenues as well as the likelihood of additional service demands resulting from economic deterioration);
- Management (the rigor of a government's financial management practices);
- Budgetary flexibility (the degree to which the government can look to additional financial flexibility in times of stress);
- Budgetary performance (the current fiscal balance of the government, both from a general fund and total governmental funds perspective);
- Liquidity (the availability of cash and cash equivalents to service both debt and other expenditures); and
- Debt and contingent liabilities (total governmental funds debt service as a percentage of total governmental funds expenditures and net direct debt as a percentage of total governmental funds revenue).

Scores for each factor range from '1' (the strongest) to '5' (the weakest). The following chart shows the relative weighting of each criteria:



In the latest rating review, the City scored “strong” on Institutional Framework (10%), Management (20%), Liquidity (10%), Budgetary Performance (10%), and Budgetary Flexibility (10%). The City scored “weak” on the Economy (30%) and Debt and Contingent Liabilities (10%).

Question 2 Options for the City if the Pension Parcel Fee Does Not Get Extended	Question From Allen	Answer From City Manager
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Councilman Allen inquired what options the Council would have for balancing the budget if the Public Safety Pension Fee was not extended. The current status of budget is reflected in the table below:

Year	General Fund Balance	General Fund Pension Transfer	Public Safety Pension Fee	Pension Property Tax	Pension Obligations Police	Pension Obligations Fire
2022	\$260,720	\$6,427,623	\$2,044,700	\$14,871,293	\$14,533,557	\$13,234,528
2023	\$172,598	\$7,624,956	\$2,085,594	\$15,168,718	\$15,405,570	\$14,028,600

Not passing the Public Safety Pension Fee would mean that the City Council would have to make up the difference from two sources: additional General Fund revenues or additional property taxes. Further, the action would likely be viewed negatively by the credit rating agencies. The following options describe how the City Council could close the gap on a \$4.130 million reduction in revenue over two years.

Option 1: Cut expenses by \$4.130 million over 2 years.

The most conservative approach would be to cut expenses over 2022 and 2023 in the General Fund by \$2.044 million in 2022 and \$2.085 million in 2023. This would equate to a 2.2% reduction in operational spending in 2022 and 2023. This would likely mean that 24 positions would need to remain unfilled within the General Fund over the next 2 years to reduce spending to transfer additional funds to cover pension obligations.

Year	General Fund Balance	General Fund Pension Transfer	Public Safety Pension Fee	Pension Property Tax	Pension Obligations Police	Pension Obligations Fire
2022	\$260,720	\$8,472,323	\$0	\$14,871,293	\$14,533,557	\$13,234,528
2023	\$172,598	\$9,710,550	\$0	\$15,168,718	\$15,405,570	\$14,028,600

Option 2: Lower the pension contribution by \$2.2 million and cut expenses by \$1.930 million over 2 years.

The second option would be to lower the pension contribution for police and fire to a level that is approximately \$250,000 over the Illinois Department of Insurance statutory contribution level and reduce expenses over \$2.278 million over 2022 and 2023. This adjustment would lower pension contributions by \$1.068 million in 2022 and \$1.132 million in 2023. The City Council would need to reduce expenses in 2022 by \$976,615 in 2022 and \$953,424 in 2023. This would likely mean that 11 positions would need to remain unfilled within the General Fund over the next 2 years to reduce spending to transfer additional funds to cover pension obligations. The other downside to this approach is that in future years, additional pension contributions will be required.

Year	General Fund Balance	General Fund Pension Transfer	Public Safety Pension Fee	Pension Property Tax	Pension Obligations Police	Pension Obligations Fire
2022	\$260,720	\$7,404,238	\$0	\$14,871,293	\$14,000,000	\$12,700,000
2023	\$172,598	\$8,578,380	\$0	\$15,168,718	\$14,840,000	\$13,462,000

Option 3: Lower the pension contribution by \$2.2 million and set aside \$1.93 million of 2021 excess revenues to cover pension obligations in 2022 and 2023.

The third option for City Council consideration would be to set aside \$1.93 million of excess revenues in 2021 for future pension fund payments. Revenues have increased considerably in 2021, with state shared revenues notably higher. It is highly likely with two months remaining in the fiscal year that revenues will be more than \$2 million higher than projected by staff. This would allow the Council to dedicate current revenues in 2021 to the future pension obligations without affecting operations through 2023.

Year	General Fund Balance	General Fund Pension Transfer	Public Safety Pension Fee	Pension Property Tax	Pension Obligations Police	Pension Obligations Fire
2021		\$1,930,039				
2022	\$260,720	\$6,427,623	\$0	\$14,871,293	\$14,000,000	\$12,700,000
2023	\$172,598	\$7,624,956	\$0	\$15,168,718	\$14,840,000	\$13,462,000