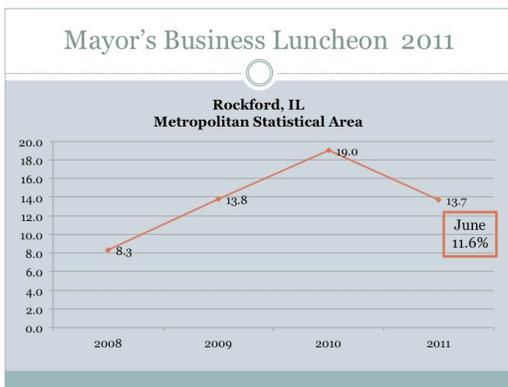
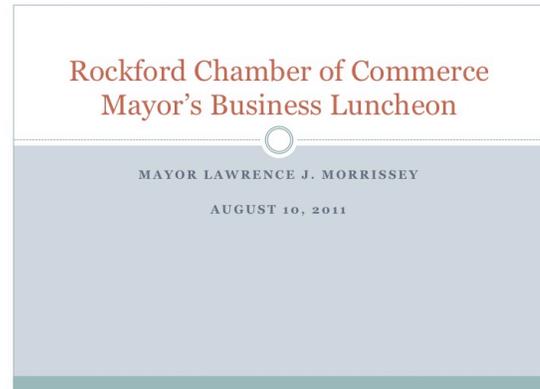




Thank you to the Rockford Chamber for inviting me to present again this year at the 2011 Mayor's Business Luncheon.

Let me start by recognizing the great work of our Fire and Police Department employees. Although we have a lot of changes that need to happen, I don't want my comments to be construed against the fine work that they do each and every day. But I will again be direct with my comments so that we can plot a clear course of action to fix what's wrong and invest in what's right.

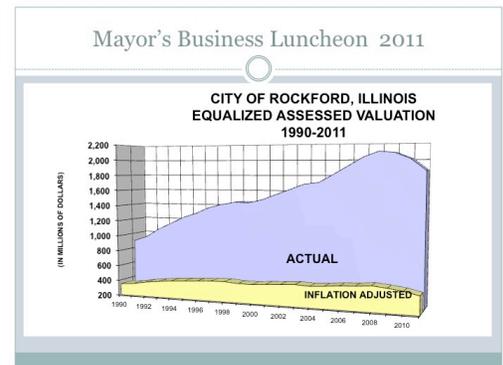


With your help, not in spite of these tough times, but through these tough times, we can adapt to the market conditions and build a prosperous community.

Let's start by examining current conditions. Our unemployment rate, although considerably down from the high of 19% in January of 2010, remains the State's highest metro unemployment rate at 11.6% as of June 2011.

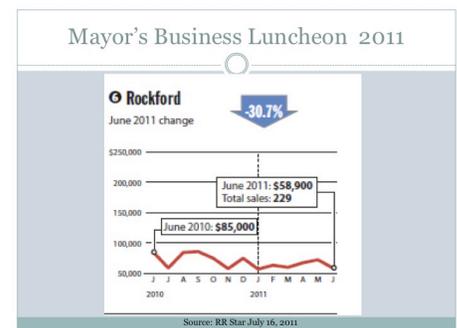
With so many local citizens out of work, it's no surprise that our revenue base continues to be a challenge, with the largest pressures on local property tax receipts.

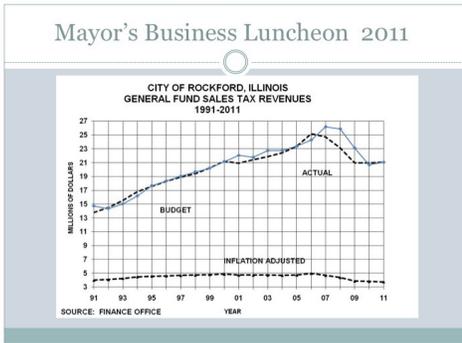
The City of Rockford lost \$73.8 million in our Equalized Assessed Value from 2009 to 2010, a 3.5 percent decrease. We estimate an even larger 5% loss in EAV this year, nearly \$100 million, thanks in part to the new State law that allows foreclosure sales to count in EAV calculations.



In fact, according to a recent Rockford Register Star analysis, Rockford's year-over-year June home sales prices dropped over 30% from \$85,000 in 2010 to \$58,900 in 2011.

While much of that decline has been attributed to the inclusion of foreclosure sales, the bottom line is that we're still bumping around the bottom of this recession and we can't expect revenues to increase substantially in the short run.





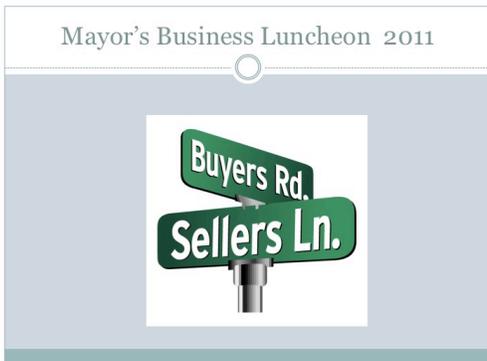
And while local sales taxes are stabilizing, we are only collecting sales tax revenues at levels we saw a decade ago.

So here's the bottom line on where we are today: despite shared sacrifices from many of our labor groups, our non-represented employees, and our taxpayers, our City Council has not been able to adjust our costs of doing business to correspond appropriately to these fundamental changes in the marketplace.

On the contrary, we are all well aware of the rapid response that private sector employers took in 2009 to cut employee costs and stay profitable. That is why many private companies and investors are able to sit on a lot of cash.

The tragic irony is that the folks with the cash that could help jump start our economy will not invest their cash when governments at all levels fail to demonstrate that they too can control costs and create a favorable climate for investment.

Unfortunately, as I have said in many prior speeches, a local municipality like Rockford is legally limited in our ability to take corrective actions to adjust to the changing market conditions.



At the heart of this problem is a fundamental failure to follow a basic tenant of a capitalist economy. That is, we predicate our system of market based capitalism on the belief that the greatest efficiency in the allocation of scarce resources comes from a buyer of goods or services negotiating a price for those goods or services from a seller through an arms-length transaction. To the extent that supply exceeds demand, there is downward pressure on price. To the extent that demand exceeds supply, there is upward pressure on price.

If you believe that that system makes sense, congratulations, you're at the right meeting. And if you believe that that system makes sense, then you'll also realize that the system we have today in local government doesn't make any sense at all. Let me explain.

Despite excellent recommendations from our Budget Advisory Group, Outsourcing Committee, and Joint Task Force on Government Efficiency, we are losing ground because at a very basic level the price we pay



for the largest parts of our cost structure, public safety services, those prices are not set through an arms-length negotiation at the local level. Rather, the price we pay for those services and the environment that determines negotiating outcomes are primarily set by the State of Illinois, a third-party who doesn't pay the bills! That is not market-based capitalism. But that is what our State has created.

Don't get me wrong. I am not against collective bargaining. I have every confidence that we would bargain a fair price if our local community was directly negotiating the size of retirement benefits and the size of a wage increase.

But the system we have in Illinois is broken. State lawmakers have continuously interfered in the bargaining process and dispute resolution process.

Since the Illinois State Labor Relations Act was passed in 1986, there has been growing interference in the bargaining process. Just about every time there was a management win at the bargaining table, the response from public safety employee unions was to lobby Springfield for a legislative fix.

Thus, local bargaining is no longer primarily about a local government working out a fair deal with a local public safety union. It is about the State setting prices that local governments must pay.

The simple truth is that promises made to public safety personnel by lawmakers in Springfield have eliminated price elasticity and eliminated managements flexibility to respond to the rapidly changing market conditions in which we work. In other words, local taxpayers must pay the costs of a system that we did not create and we did not negotiate.

The unintended consequences of our State lawmakers' promises to our public safety unions means a growing mismatch between our citizens' needs and our actual resource expenditures. This is what happens when we have price being set by third-party, State lawmakers, who don't pay the bills for local fire and police salaries, don't pay for the pensions of those employees, and don't have to live with the local consequences of their actions.

In fact, State lawmakers have a perverse incentive to give large benefits to public safety unions who give them campaign contributions in exchange for their vote. And those same State lawmakers seem to think they can have their cake and eat it too since they get the campaign contributions from our local unions, but they don't have to pay the bills for the services of those local unions!

The following slide shows the personnel cuts that have taken place since 2008 due to this flawed system.





- We are down 25 Public Works positions from 198 to 173.
- We're down 15 Community Development positions from 54 to 39.
- We're down 18 Human Services positions from 201 to 183.
- And we are down 17 positions from 79 to 60 in the City Management departments that include the Mayor's Office, Human Resources, Information Technology, Finance, and Legal.

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Department	2008	2011	Change
Public Works	198	173	- 25
Community Development	54	39	- 15
Human Services	201	183	- 18
Legislative & Mgt (Mayor/HR/Legal/IT/Finance)	79	60	- 19
Police (Sworn Only)	305	285	- 20
Fire (Sworn Only)	274	270	- 4

The most significant issue, however, is that we're down 23 sworn police officers from 305 in 2008 to 282 in 2011 despite the fact that our City Council knows that our highest priority is to keep our people safe and that crime is a major issue in our community.

By comparison, our Fire Department has lost only 3 sworn positions, down from 274 to 271. Why the difference for the Fire Department? They cut a better deal with State lawmakers giving them the right to have manning levels determined by an arbitrator.

Amid our current economic crisis, we have asked all of our departments to bear a fair share of the needed cuts, while always keeping in mind our citizens priorities. Unfortunately, due to the often discussed "Minimum Manning" clause incorporated into the City's Collective Bargaining Agreement with IAFF-413, a disproportionate amount of budget cuts have had to fall upon the remaining departments that do not have such a rich benefit.

Our hands are tied. We've tried and failed twice to change the law in Springfield to protect our City

Council's ability to determine manning levels, most recently with HB3044.

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Excellence Everywhere

State of Illinois
 Cities and Villages Committee Hearing
 Room 1226 Capitol Building
 March 15, 2011 4:00PM
Public Testimony Regarding Manning
 Written Testimony Provided by Lawrence J. Morrissey, Mayor, City of Rockford, Illinois
 Mr. Chairman Riley and Members of the Committee:

Thank you for this opportunity to present testimony today in advocacy of House Bill 3044. Your action on this bill would support the City's efforts to address significant public safety labor cost increases that the City's revenues can no longer support.

Mayor's Business Luncheon 2011

Limitations on City Council Management Rights

- Minimum Manning Requirement
- Anti-Substitution Law Passed in 2007
- "Ability to Pay" Loophole: Arbitrators Can Attempt to "Induce" Tax Increase to Cover Pay Raise

Unfortunately, we simply cannot legally reduce our manning under the current contract despite numerous efficiencies that could be realized. Thus, our City Council's hands are tied.



We are even further limited by the prohibition against the City using volunteer help like other local fire protection districts do in the communities around Rockford. In 2007 the IAFF got a law passed that prevents the City of Rockford from using part-time firefighters. This so-called “Anti-Substitution” law means that city taxpayers must pay for 100% full-time firefighters unlike the volunteer fire protection districts where most of our firefighters actually live.

Finally, we are hampered by a loophole in the law that gives arbitrators the ability to essentially induce a tax increase by awarding sums to police and fire unions that could only be covered through increased taxation.

We tried passing a law the past two years that would limit an arbitrator’s decision making authority to a city’s ability to pay based on a city’s current revenues. Unfortunately, we fared like we did with the minimum law and were beaten down both years, not making it out of committee either year.

Subsequently, an arbitrator awarded our local IAFF-413 a 6% single year cost of living pay increase.

Given the economic beatings that our city has taken and the amount of disruption to existing staffing suffered by other departments, I think it’s absolutely unconscionable that any arbitrator could give a 6% single year award. Heck, even in much better economic times, when was the last time our local community saw single year 6% economic growth? Where do we go from here?

While the recent Fire Arbitration decision has placed most of the final details on our financial outlook for 2011, the question now is what do we look like in 2012 and beyond?

We know that if we fund our public safety pensions as our actuary suggests, we are looking at a \$6.6 million deficit for 2012. If we stay on that same economic trajectory as many predict, we will continue to run deficits and have to make staffing cuts into 2012 and beyond. At that pace, as I have said before, our operations are simply not sustainable.

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HB 1849 Introduced by Rep. Dave Winters

SYNOPSIS AS INTRODUCED: 5 ILCS 315/14 from Ch. 48, par. 1614

Amends the Illinois Public Labor Relations Act. With respect to peace officers, fire fighters, and security employees, provides that, in the absence of an agreement, an arbitration panel’s consideration of the unit of *government’s ability to meet costs is limited to existing revenues*. Also requires the arbitration panel to consider the impact of an arbitration award on the municipality’s staffing and funding of other operations.

Source: Bill Text: IL House Bill 1849 - 97th General Assembly

Mayor’s Business Luncheon 2011

Limitations on City Council Management Rights

- Minimum Manning Requirement
- Anti-Substitution Law Passed in 2007
- “Ability to Pay” Loophole: Arbitrators Can Attempt to “Induce” Tax Increase to Cover Pay Raise
- ✓ 6% Pay Raise Awarded to Firefighters Union
- ✓ Where do we go from here?





Let me say it another way. We're already down over 100 employees since 2008 and we're at the lowest level of staffing per resident since the records we have going back to 1980.

With a \$6.6 million deficit predicted for 2012, we would have to make significant additional staffing cuts to balance our 2012 budget.

Since we can't save money by reducing fire staffing since we are bound to the manning levels in their contract, then, under our deficit allocation formula, we would be looking at a reduction of 49 full-time Rockford Police Department personnel on top of the 23 sworn officers we're already down. This is not something that I intend to see happen.

It is obvious that this path is not sustainable. So we are now at a point when we must ask, which promise or promises are we supposed to break?

1. Are we going to keep our **State's** promise to our public safety employee pensioners or our **local promise to our local citizens** to keep them safe?

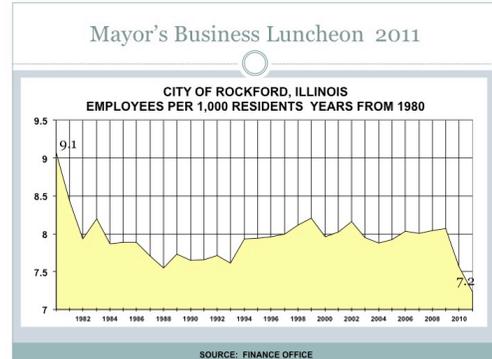
2. Are we going to keep our promise to **live within our means** or are we going to **pass the costs** of these outrageous pension and management flaws onto our people through higher taxes?

3. Are we willing to stand up right now for democracy and capitalism and demand change?

While I appreciate the 2010 legislative changes to the State's Pension System for local government employees, those reforms do not go far enough. We need reforms that will impact current employees as well as future employees.

We must also eliminate by State law change if necessary the "minimum manning" provisions so that our elected city councils have the rightful authority within our democracy to determine the service levels that our citizen taxpayers can afford.

We must also clarify that a community's "ability to pay" is based on current revenues so that an arbitrator can't induce a tax hike by awarding out-of-line pay increases.



Department	FTE Deficit Reduction Required
Legislative & Mgt (Mayor/HR/Legal/IT/Finance)	7
Public Works	15
Community Development	3
Fire	0
Police	49



And we must repeal the 2007 “Anti-Substitution” Law that artificially raises the cost of our fire service by preventing cities like Rockford from incorporating part-time staffing into its department.

Despite all of the challenges, I am very optimistic about our community’s future. We can win these critical legislative reforms, but we need a strong coalition and I look forward to working with you, the Rockford Chamber of Commerce, in this fight.

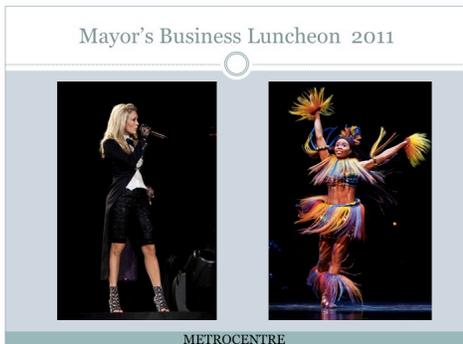
We have partner organizations around the State, but we must start with a local coordinated team. We need you to speak out at City Council meetings. We need you to speak out at Budget Hearings. We need your help locally and we need you to help coordinate with your counterparts throughout the State.

We should be confident about our future success on this effort because we know that we have achieved great success when we have worked together on major projects.

Mayor’s Business Luncheon 2011

Legislative Calls to Action:

- ✓ Pension Reform: Current as well as Future Employees
- ✓ Collective Bargaining and Arbitration Reforms:
 - ✓ Eliminate “Minimum Manning” Provisions.
 - ✓ Clarify that “ability to pay” is based on current revenues.
- ✓ Repeal the 2007 “Anti-Substitution” Law that prevents Rockford from using part-time firefighters.



I am extremely proud of the work of the RAVE Board and the SMG management team at the MetroCentre. They are bringing in new acts and running operations much more efficiently.

As noted recently in a Rockford Register Star article in a quote from Board President Mike Dunn, “The operating budget for this fiscal year was an improvement of \$600,000 compared to the previous year . . . at the end of 24 months or two years this board and SMG will have effectively

reduced the expenses of the MetroCentre by \$1 million.”

We’ve also seen continued success this year with the Downtown City Market and Friday Night Flicks at Davis Park.

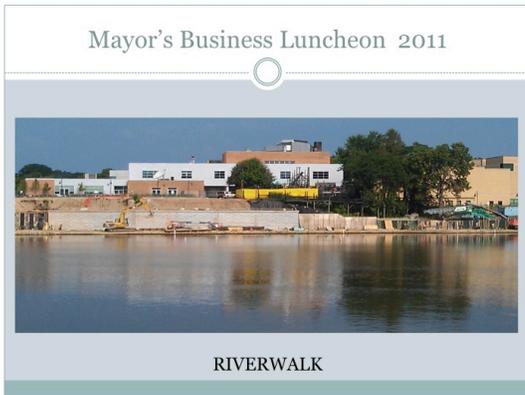
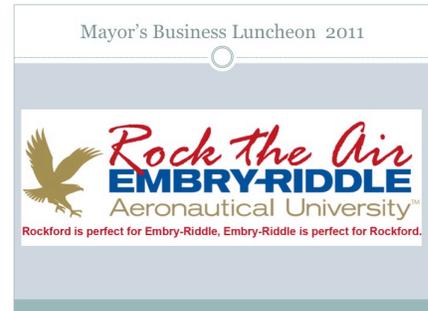
As recently published in the Rockford Register Star, the Market has already surpassed last year’s attendance figures and is becoming a place to incubate new local businesses. Congratulations to the Rock River Development Partnership, River District, and all of the other partners that have made the Market possible.





One of the great examples of our ability to work together toward a strategic purpose has been our community's all-out effort to attract Embry-Riddle University to Rockford.

With great leadership from the State of Illinois and Governor Quinn, we've built an incredible proposal and community-wide team to attract Embry-Riddle University to Rockford. Embry-Riddle has hired a search firm and is still engaged in due diligence, but we remain very confident in our proposal because of the incredible leverage we can provide from our growing network of local aerospace employers and other manufacturers.



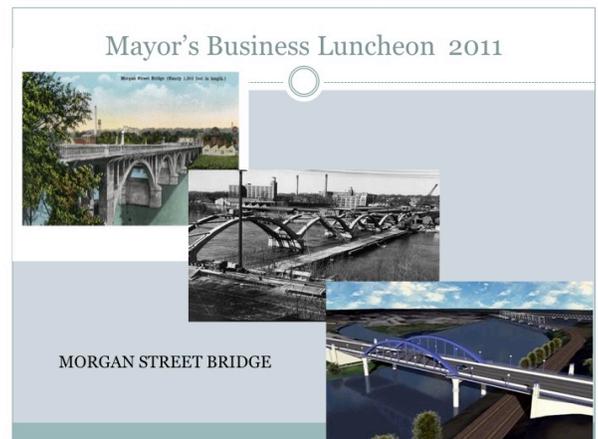
I am also proud of our business community for supporting the successful 2011 Rebuilding Rockford Referendum. Thanks to the outstanding community leadership, our citizens overwhelmingly passed the referendum and that will enable us to leverage tens of millions of dollars in State and Federal aid to help bring positive transformation to our community.

Work continues now on our Riverwalk construction adjacent to the Riverfront Museum Campus, which will be completed next year.

We will also break ground shortly on the Morgan Street Bridge, and thanks to our government partners and our lawmakers the State successfully passed our State Capital Plan and we will begin shortly the rebuild of South Main, West State, and the North Main/Auburn intersection.

While I am confident that we will succeed in making needed reforms so we can continue to serve our citizens and improve public safety in our community, I think that we all know that to thrive and prosper we must move beyond ad-hoc partnerships and crisis management.

Our government and private partnerships must be consistent and recurring. This is why I am very pleased that we are moving forward this year on the \$600,000 HUD Sustainability Grant that was awarded to the Rockford Metropolitan Agency for Planning ("RMAP") last year.





In the coming months, this effort will help us build more strategic partnerships between our governments and our private sector partners and more coordinated planning and budgeting.

I am proud to be joined on our RMAP Board by Winnebago County Chairman Scott Christiansen, Loves Park Mayor Darryl Lindberg, Machesney Park Village President Tom Strikland, and Belvidere Mayor Fred Brereton and Boone County Board Chairman Bob Wahlberg.

In the future, we need to invite other government partners like our School District and our Airport Authority to be equal partners as we execute on joint plans for our future. We are all part of a rich community filled with great assets. We have absolutely no reason to feel sorry for ourselves. Yes, we have problems, just like many other communities. But we have outstanding corporations, families, and individuals who share a common goal of success.

I'll finish my formal presentation by pointing to one final community partnership effort, Our Rockford Casino Coalition. We've built a united front that we've presented to the Governor. And let me end by showing the same video we played for the Governor recently, which features the stars of our effort...our community members.

