

CITY COUNCIL AGENDA ITEM

ACTION REQUESTED:

Receive the preliminary 2025 year-end financial report

DEPARTMENT: Finance Department

SUBMITTED BY: Raymond Munch, Director of Finance

BOARD/COMMISSION REVIEW:

N/A

BACKGROUND:

This report provides a preliminary, unaudited review of the City's 2025 budget through December 31. The report provides a high-level overview of the budget and details areas where revenues and expenses outperformed or fell short of expectations.

The report summarizes revenue and expenditure activity recorded through March 2, 2026. There will continue to be minor changes to the numbers presented as the City continues to pay outstanding 2025 invoices and finalizes year-end accounting entries in preparation for the annual financial audit.

DISCUSSION:

In 2025, the City benefited from generally favorable economic conditions. Strength in the state and local economies is reflected in increased revenues from real estate transfer tax, sales tax, and income tax. However, changes in consumer behavior are impacting local gas tax revenues and cable franchise fees. These moderating revenues make the City more dependent on the ongoing success of other revenue sources, such as property taxes, sales taxes, and state-shared income tax revenue. While property tax is stable, sales tax and income tax are economically sensitive. Further, income tax is also subject to the State's financial and political priorities, as evident in the State of Illinois' 2027 Proposed Budget, which includes a 3% reduction to state-shared income tax, which will limit future City revenue growth.

Economic and political uncertainty continued to make national headlines in 2025 due to escalating trade tensions and policy unpredictability. Instability at the federal and state levels can impact funding and services at the local level through unfunded mandates, fewer grant opportunities, and overall political and economic uncertainty. As such, Naperville leadership continues to monitor and prepare for potential impacts on local government.

Summary by Fund

Across all funds, projected actuals are balanced with expenditures of \$587.2 million against revenues of \$615.4 million. While total expenses are expected to end the year nearly 8.5% below budget, some individual funds are projected to exceed their budget.

Once audit entries are finalized, staff will present a budget amendment for these funds for Council’s review and approval, if needed.

Major deviations from budget estimates include:

- In the General Fund, the cash balance increased by nearly \$9 million as revenues overperformed compared to budget, and expenses were less than budgeted. Major revenues performing better than budget include state income tax and state sales tax. Expenses in the purchased services and purchased items categories are projected to end the year less than budget.
- The Water Utilities Fund revenues exceeded expenses by \$3.1 million, increasing the ending cash balance. While water and wastewater charges underperformed compared to budget, many capital improvements are still in progress and below budget as a result.
- The Electric Utility Fund’s preliminary expenses are projected to be slightly higher than revenues by a close margin of \$750,000, resulting in a slight decrease in the fund’s cash balance. While revenues and expenses exceeded their budget estimates, the 2025 budget projected this limited use of cash reserves.
- The Self-Insurance Fund reflects a \$905,000 increase in cash balance due to lower-than-estimated expenses. While health insurance costs increased compared to budget, this was offset by reduced legal and HR services in this fund.
- The Capital Projects Fund ending balance increased by \$12.7 million due to the timing and re-budgeting of projects.

	Beginning Balance	Revenues	Expenses	Margin	Ending Balance
Maintenance & Operating					
Commuter Parking Fund	1.94	1.47	1.40	0.07	2.01
Electric Utility Fund	8.17	178.87	179.62	(0.75)	7.42
General Fund	68.12	171.16	162.21	8.95	77.07
Self Insurance Fund	3.15	29.92	29.01	0.91	4.06
Solid Waste Fund	-	8.01	8.06	(0.05)	(0.05)
Water Utilities Fund	21.83	109.55	106.50	3.05	24.88
Capital & Debt Service					
Capital Projects Fund	22.93	47.24	34.50	12.74	35.67
Debt Service Fund	5.42	9.64	10.50	(0.86)	4.56
Downtown Parking Fund	11.90	2.88	0.72	2.16	14.06
Motor Fuel Tax Fund	9.63	7.94	8.26	(0.32)	9.31
Phosphorus Fund	22.94	3.42	1.81	1.61	24.55
Road and Bridge Fund	5.34	3.08	3.57	(0.49)	4.85

SSA Funds	0.11	0.43	0.36	0.07	0.18
Water Street TIF Fund	0.05	0.68	0.68	0.00	0.05
Special Funds					
CDBG Fund	0.01	0.45	0.53	(0.08)	(0.07)
Drug Forfeiture Funds	1.53	0.18	0.28	(0.10)	1.43
E911/ETSB Funds	3.39	5.71	5.46	0.25	3.64
Food and Beverage Fund	1.21	6.68	6.33	0.35	1.56
Foreign Fire Tax Fund	-	0.52	0.48	0.04	0.04
Library Funds	3.00	18.38	17.98	0.40	3.40
Naper Settlement Fund	1.11	5.51	5.45	0.06	1.17
Renewable Energy Fund	0.31	0.30	0.29	0.01	0.32
Downtown Maint. Fund	3.03	3.23	2.63	0.60	3.63
Test Track Fund	-	0.05	0.04	0.01	0.01
Business Dist. Funds	0.43	0.14	0.54	(0.40)	0.03
Grand Total	\$195.55	\$615.44	\$587.21	\$28.23	\$223.78

\$ in millions

Revenues by Fund

Below is a comparison, by fund, of budgeted versus actual revenue collected in 2025.

	2025 Revised Budget (\$)	2025 Actual (\$)	% of Budget
Maintenance & Operating			
Commuter Parking Fund	1.2	1.47	122.5
Electric Utility Fund	166.43	178.87	107.5
General Fund	166.56	171.16	102.8
Self-Insurance Fund	32.19	29.92	92.9
Solid Waste Fund	7.99	8.01	100.3
Water Utilities Fund	123.24	109.55	88.9
Capital & Debt Service			
Capital Projects Fund	52.24	47.24	90.4
Debt Service Fund	9.68	9.64	99.6
Downtown Parking Fund	2.68	2.88	107.5
Motor Fuel Tax Fund	7.76	7.94	102.3
Phosphorus Fund	2.28	3.42	150.0
Road and Bridge Fund	2.98	3.08	103.4
SSA Funds	0.43	0.43	100.0
Water Street TIF Fund	0.77	0.68	88.3
Special Funds			
Comm. Dev. Block Grant Fund	0.54	0.45	83.3
Drug Forfeiture Funds	0.31	0.18	58.1

E911/ETSB Funds	5.94	5.71	96.1
Food and Beverage Fund	6.99	6.68	95.6
Foreign Fire Tax Fund	0.46	0.52	113.0
Library Funds	17.94	18.38	102.5
Naper Settlement Fund	5.51	5.51	100.0
Renewable Energy Fund	0.29	0.3	103.4
Downtown Maint. Fund	3.07	3.23	105.2
Test Track Fund	0.03	0.05	166.7
Business Dist. Funds	0.29	0.14	48.3
Grand Total	\$617.80	\$615.44	99.6%

\$ in millions

Revenue Summary by Category

State Shared Revenues

- **State income tax** of \$27.0 million exceeded budget estimates by 2% and continued to show strong year-over-year growth of 6.2% due to growth in the economy and corporate profits. The State of Illinois' 2027 Proposed Budget includes a 3% cut to the municipal share of the state income tax, which will limit future growth in this revenue source.
- **State sales tax** of \$55.4 million was 1.8% higher than budget and 14.4% higher than last year. A primary factor in this variance is the growth in the City's share of online sales tax revenue. For 2025, this growth is partially related to a legislative change in the State's distribution of use tax from online sales. State sales tax from online sales increased an estimated \$3.8 million in 2025 compared to 2024, while use tax revenues declined nearly \$1.5 million.
- **State motor fuel taxes** of \$7.3 million exceeded budget estimates by 3%. Transportation renewal fund dollars increase annually based on the rate of inflation. Additionally, the State's high-growth city allocation was \$190,000 higher than budget.

Local Taxes

- **Home rule sales tax (HRST)** of \$23.6 million was 14.5% higher than budget and 17.5% higher than 2024 partially related to the legislative change in the State's distribution of use tax from online sales. HRST from online sales increased an estimated \$2 million in 2025 compared to 2024.
- **Food and beverage taxes** of \$7.4 million fell 7.4% below budget projections but increased 1.2% over last year. The citywide tax revenue totaled \$6.5 million, 2.8% above 2024. The downtown tax revenues of \$942,000 fell 17% short of budget and 9% lower than the previous year due to turnover in several downtown businesses.
- **Hotel/motel tax** of \$4.1 million was 4.3% higher than budget and 13.1% higher than 2024. The increase can be partially attributed to delinquent payments from previous years totaling nearly \$895,000 that were paid in 2025.
- **Local gas tax** of \$2.4 million fell short of budget estimates by 3.6% and was 1.6% lower than 2024. Staff has projected that this revenue source will moderate or decline based on electric vehicle usage and remote work trends.

- **Real estate transfer tax** of \$5 million exceeded budget projections by 7.5%. Increases in the average sale price of both residential and commercial properties, combined with a 2% increase in the number of transfer stamp transactions largely drove the higher-than-expected revenues.

Service Charges

- **Electric charges** of \$159.4 million exceeded budget projections by 3% and were 12.6% higher than 2024 revenues. As new developments came online, including the continued build out of Block 59 and the Polo Club, retail rates showed strong growth. Additionally, rate increases across all customer classes and the increased price of electricity drove higher PPA collections contributing to the overall increase of revenues in 2025.
- **Water charges** of \$56.1 million fell 1.3% short of budget estimates due to consumption falling below projections partially related to weather patterns. Revenues are 11.9% higher than 2024 driven by annual rate increase and new connection fees being higher than forecasted.
- **Wastewater charges** of \$29.6 million fell short of budget projection by 3.2% due to lower-than-estimated consumption. Additionally, connection fees ended the year 39.5% less than budget. Wastewater revenues were 11.5% higher than 2024 due to annual rate increases.
- **Ambulance Fees** totaled \$7.8 million, 15% below budget and 6% lower than 2024. The shortfall was due to a continued decline in revenue collected from the third-party billing provider. As a result of these challenges, the City is piloting an internal ambulance billing program, which kicked off in February of this year.

Commented [RM1]: Are we still waiting on info from Water here?

Commented [MT2R1]: Yes, Darrell and Doug are meeting on this now

Commented [TM3R1]: Water confirmed consumption was below the rate study projections.

Other Revenues

- **Commuter parking revenue** of \$1.5 million exceeded budget projections by 22.1%. Daily parking fees accounted for \$1.3 million of revenue and increased by 18.5% compared to 2024. Although commuter parking trends have not fully returned to the pre-pandemic level, there has been significant growth in this space in recent years.
- **Building permit** revenue of \$2.3 million exceeded budget projections by nearly 63.3%. Residential permits and fees increased 71% compared to 2024, showing signs of continued growth and redevelopment.
- **Cable franchise and PEG fees** continue to decline significantly year over year as more consumers shift away from traditional cable subscriptions in favor of streaming services and other digital viewing platforms. Total revenue across all three cable providers totaled \$1.9 million, 10.7% less than budgeted and 12.3% less than the prior year.
- **Interest and investment income** totaled \$13.6 million, reflecting a 246% increase compared to budget and 60% compared to 2024 driven by strong fixed-income market performance.

Expenditures by Fund

Below is a comparison, by fund, of budgeted versus actual expenditures in 2025. Once final audit entries are completed, budget amendments for funds that have exceeded budget will be presented to City Council for review and approval.

\$ in millions

	2025 Revised Budget (\$)	2025 Actual (\$)	% of Budget
Maintenance & Operating			
Commuter Parking Fund	1.88	1.40	74.5
Electric Utility Fund	166.85	179.62	107.7
General Fund	166.43	162.21	97.5
Self-Insurance Fund	29.17	29.01	99.5
Solid Waste Fund	8.08	8.06	99.8
Water Utilities Fund	138.90	106.50	76.7
Capital & Debt Service			
Capital Projects Fund	60.97	34.50	56.6
Debt Service Fund	8.81	10.50	119.2
Downtown Parking Fund	0.46	0.72	156.5
Motor Fuel Tax Fund	7.00	8.26	118.0
Phosphorus Fund	2.86	1.81	63.3
Road and Bridge Fund	4.45	3.57	80.2
SSA Funds	0.34	0.36	32.7
Water Street TIF Fund	0.76	0.68	89.5
Special Funds			
Comm. Dev. Block Grant Fund	0.54	0.53	98.1
Drug Forfeiture Funds	0.83	0.28	33.7
E911/ETSB Funds	6.97	5.46	78.3
Food and Beverage Fund	6.93	6.33	91.3
Foreign Fire Tax Fund	0.48	0.48	100.0
Library Funds	18.52	17.98	97.1
Naper Settlement Fund	6.01	5.45	90.7
Renewable Energy Fund	0.29	0.29	100.0
Downtown Maint. Fund	3.58	2.63	73.5
Test Track Fund	0.06	0.04	66.7
Business Dist. Funds	0.50	0.54	108.0
Grand Total	\$641.67	\$587.21	91.4%

Expenditure Summary by Category

Salaries, Wages, and Benefits

Across all funds, salaries and wages were under budget by \$305,000, or 0.2%. Preliminary estimates show that overtime exceeded the budget by 3.2%.

The majority of the budget overage was related to overtime in the Fire Department, which exceeded budget by 32%, or \$1.1 million. This is related to several factors in the assumptions used to calculate the budget estimate, most notably that the budget assumed a 4% raise for public safety union contracts, while actual police and fire raises were 7%. The Fire Department has also carried an average of 10 firefighter/paramedic vacancies throughout 2025. The assumptions used for 2026 were adjusted based on these variances, and the fire personnel vacancies are expected to be filled over the next few months.

This overage was offset by lower spending in regular and temporary pay at 0.3% and 46%, respectively.

- **General Fund** salaries and wages exceeded budget by 0.1%. This is related to overtime exceeding budget by 9%. This overage was offset by other compensation and temporary pay ending the year 62% and 46% lower than budget, respectively.
- **Electric Fund** salaries and wages were 1.4% less than budget. Regular pay and overtime were below budget; however, anticipated vacancies factored into the budget were less than expected.
- **Water Utilities Fund** salaries and wages exceeded budget by 5% or \$535,000, driven by a 5.2% increase in regular pay compared to the budget.

Benefits associated with payroll, including pension contributions, payroll taxes, and employer insurance contributions, ended the year 0.2% below budget.

- **Pension benefits** of \$32.8 million were 0.4% lower than budget. Variances include social security benefits, which were 3.7% less than budget, as well as a 1% decrease in the additional fire and police pension contribution, which is tied to food and beverage revenues.
- **Employer insurance premium contributions** of \$19.7 million were in line with budget projections, despite slight variances in each category. Health and life insurance slightly exceeded the budget by 3.3%, while dental insurance and workers' compensation benefits were 4.3% lower than budget. Variances in insurance costs can be attributed to individual employee plan selections.

Healthcare

The City's healthcare and related insurance expenses increased in 2025. The City's healthcare costs are mirroring the national trend after several years of coming in below average.

- **HMO, HSA and PPO benefits** totaled \$17.8 million dollars and were 9.7% above budget and 3% higher than 2025.

- **Dental insurance benefits** totaled \$1.15 million, which is 1.7% less than budget and 7.1% higher than 2024.
- **Prescription drug program** costs totaled \$4.1 million, which is 12.7% higher than budget and 40% higher than 2024.

Purchased Items

This expenditure category includes all items purchased from third-party vendors, including purchased electricity and water.

- **Purchased electricity** from the Illinois Municipal Electric Agency totaled \$114.7 million, which exceeded the budget by 12.7%. Increased energy sales, as well as rising transmission costs, contributed to the budget overage. However, this is offset by the higher revenue noted earlier.
- **Purchased water** from the DuPage Water Commission totaled \$28.8 million, 8% below budget. The budget forecast was based on the rate study, which projected consumption to be 6.4% higher compared to actual usage during 2025.
- **Other purchased items** totaling \$22.4 million were under budget by 2.3%. Fuel, equipment parts, utility expenses, salt and chemicals, and technology hardware costs were a few categories that realized lower-than-estimated costs.

Purchased Services

Expenses related to services provided by third parties ended the year 14.7% under budget at \$51 million.

- **Architect and engineering services** related to capital projects totaled \$7.2 million. While spending in this category remains below budget, it is 14.5% higher than 2024, which is related to capital projects that are in progress.
- Several other categories within the purchased services, including building, grounds and equipment maintenance, operational services, software and other professional services, came in under budget. Many of these categories were adjusted in the 2026 budget to reflect actual spending.

Capital Outlay

Expenditures related to capital outlay totaled \$111.7 million, which is 34% lower than budget, but 20% higher than in 2024.

- **Transportation and infrastructure projects** made significant progress in 2025. Most notably, the Eagle Street Gateway and Washington Street Bridge projects were completed in 2025. The second phase of the North Aurora Road Improvement Project also kicked off in the fall.
- **Municipal Building Improvements** were 40% less than budget related to timing of several projects across departments, including the Fire Department's training facility renovation, which was re-budgeted to 2026, as well as the Police Department facility improvements, which will continue over the next few years.

Commented [NK4]: [@Marracco, Tina](#) I may be nitpicking so feel free to ignore this comment, but Eagle Street Gateway was not grouped with the transportation projects, so we may want to take that reference out of this point

Commented [TM5R4]: Ok, I added in "infrastructure" to the category here to be able to include it.

Commented [KN6R4]: Im not sure its how you meant this but I read this as we are waiting on IDOT invoices for both of those projects. Eagle Street Gateway does not have any IDOT contracts or invoices to my knowledge

- **Vehicle and equipment** expenses were approximately 31% lower than projected across several departments. Fleet vehicle replacements were deferred based on department input and vehicle condition. Additionally, scheduled vehicle replacements have been delayed due to manufacturing shortages and supply chain issues.
- **Technology** project spending totaled \$21.1 million, or 31% less than budget. Most of the variance is related to delays in the public safety mobile radio network upgrades that were re-budgeted in the amount of \$8.5 million.
- The **Water Utilities** capital expenses totaled \$40 million, a 53% or \$13.9 million increase reflecting progress on several Springbrook projects, including the South Plant and Influent Pump Station improvements. Other capital investments include water main replacements in the Saybrook and Ogden/Washington areas.
- The **Electric Utility** capital expenses totaled \$28.5 million, which is 5.7% lower than budget but 58% higher than in 2024. The increase reflects progress on the Tollway Substation upgrades, breaker and underground cable replacements, as well as the purchase of wires and cables for future capital replacements.

Commented [MT7]: I checked with Tracy Rulo on this and she added in some detail.

Looking ahead to 2026

The 2026 budget season began with a number of uncertainties and considerations, including moderating revenue growth, rising health insurance costs, continued reinvestment and maintenance of aging city assets, unfunded mandates at the state level, the need to invest in the City's professional staff and overall economic concerns. In response, staff focused on controlling and, where possible, reducing expenses in the 2026 budget to better position the City to address these financial challenges. Quarterly budget updates to the City Council this year will focus on revenue monitoring, capital project updates to assess future budget impacts and state and federal economic policies.

FISCAL IMPACT:

N/A