

2025 BUDGET MESSAGE & HIGHLIGHTS

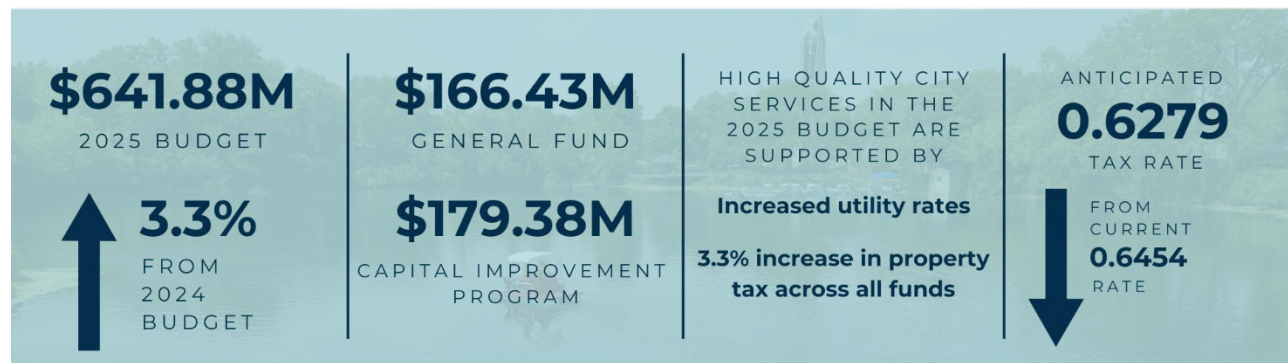


Oct. 11, 2024

Honorable Mayor Scott Wehrli and the Naperville City Council:

Along with the City's Director Leadership Team, we are pleased to present the City of Naperville's proposed 2025 Annual Operating Budget and Capital Improvement Program (CIP). This yearly document is a testament to the hard work and foresight of our elected officials and the dedication of our City staff to carrying out the City's day-to-day service mission.

For 2025, City staff is putting forth the following budget recommendations that consider the past decade's financial successes and the reality of several financial considerations on the horizon that will impact the City over the next two years.



With solid cash reserves and an optimal debt position, City staff is ready to act on several transformative capital projects that responsibly maintain its existing physical assets. This concept inspired the 2025 budget theme of *Ready for Change*. However, several financial considerations and trends in the past six months require us to use that solid financial standing and take an “eyes wide open” approach to next year’s fiscal plan to remain well-positioned for the second half of this decade.

Budget Development Considerations

The City of Naperville faces a series of well-defined and somewhat more ambiguous financial considerations with budgetary implications in 2025 and 2026. It is important to note that these considerations are manageable challenges; however, they require a more strategic and multi-year approach to budget development.

The 2025 budget process focused on identifying and making these key considerations known to departments before budget preparation and reiterating the need to manage ongoing services, programs, and initiatives for the long term. Considerations included post-pandemic revenue moderation, known significant asset maintenance and replacement needs, the State of Illinois' grocery tax elimination effective in January 2026, an ongoing internal review of employee compensation and classification, and the overall global economic environment.

The result of these efforts is reflected in an operating budget that looks first to support ongoing services, positions the City to best address the above-mentioned financial considerations, and identifies fiscally responsible solutions to those areas where service enhancement is recommended. In addition, staff considered Naperville's recently updated strategic priorities, which will impact budget development over the next two years. These priorities include utilities, safety, economy, mobility, and natural environment/community design.

Financial Climate

Naperville continues to enjoy a strong local economy that attracts residents and numerous visitors to shop and dine and businesses to relocate to the community. Naperville's substantial cash balances, consistently low property tax rate, and attention to revenue diversification are critical to its financial strength and ability to maintain a AAA bond rating. However, the City continues to look at national, state, and regional economic trends when conducting its financial forecasting.

Inflation continued to make national headlines in 2024. In September, the Federal Reserve began lowering interest rates after inflation measures fell to within their target range. According to the Bureau of Labor Statistics, over the 12 months ending in September 2024, the consumer price index increased by 2.4%. While some fear of a broad slowing in the U.S. economy remains, it appears more likely now that the Federal Reserve has achieved the economic "soft landing" that appeared difficult to achieve a year ago.

Strength in the local economy continues to be defined by strong retail sales, increasing property values, and low unemployment. In 2023, Naperville maintained its status as the largest sales tax generator in Illinois outside Chicago, with retail sales of \$4.75 billion. Economists are predicting that the U.S. economy will maintain healthy momentum in 2025. However, a gradual deceleration in labor markets may result in a more cautious consumer, which has been factored into revenue forecasts. A return to normal inflation is also likely to impact revenue growth.

In 2023, Naperville's Equalized Assessed Value (EAV) grew to \$8.8 billion, an increase of 6.2% from the prior year. This growth results from continued development and appreciation of existing property values. Although high interest rates have created a challenging real estate market recently, developers continue seeking opportunities in Naperville for residential and commercial development.

Finally, unemployment remains low in Naperville and compares very favorably to unemployment regionally. According to the Illinois Department of Employment Security, the unemployment rate for Naperville was 4.9% for August 2024. While unemployment rose slightly year over year, it remains lower than the 5.5% state unemployment rate and the 5.7% rate for the Chicago metropolitan area.

The City has again chosen a conservative approach to forecasting 2025 revenues to ensure that resources needed to serve the community are met in the short term while maintaining long-term financial stability.

Budget Overview & Highlights

The 2025 City of Naperville budget is recommended at \$641.88 million, an overall increase of 3.3% from the amended 2024 budget of \$621.24 million.

The total budget comprises \$622.91 million in expenditures, an overall increase of 7.2%, and an additional \$18.97 million in transfers between budget funds. Increased investment in capital and service level improvements are the primary drivers behind the increase. Interfund transfers are significantly lower due to the consolidation of the Water Capital Fund and Water Utilities Fund in 2025. Removing these interfund transfer dollars results in a 3.3% expenditure increase for 2025.

	2024 Budget	2025 Budget	Change (\$)	Change (%)
Revenues				
Revenues	550,949,500	598,307,026	47,357,527	8.6%
Interfund Transfers (In)	42,340,466	21,168,637	(21,171,829)	-50.0%
Revenue Total	593,289,966	619,475,663	26,185,698	4.4%
Expenditures				
Expenditures	581,145,127	622,912,797	41,767,670	7.2%
Interfund Transfers (Out)	40,097,421	18,967,990	(21,129,431)	-52.7%
Expenditure Total	621,242,548	641,880,787	20,638,239	3.3%

The 2025 budget is supported by \$619.48 million in revenues and other financing sources. While the General Fund leverages existing revenue streams and tax rates, the Electric and Water Utilities recommend rate increases to support expansion of capital investment. An electric rate increase averaging 6.1% across rate classes and water and wastewater rate increases of 12% and 10%, respectively, are recommended based on consultant-led rate studies.

In addition to an expansive capital improvement program, the budget continues to support strategic improvements to service delivery in key areas, including:

Public Safety

- The Police Department has piloted a Mobile Crisis Intervention Unit (MCIT) and is looking to establish a permanent unit. The 2025 budget includes the addition of three Police Officers and one Police Sergeant to fill this role. Officers in this unit will work hand-in-hand with the department's Social Workers to safely and effectively respond to mental health and crisis intervention calls throughout the City. This unit is the next step in the City's overall response to the mental health needs of our community. The cost of annual salary, plus benefits, for three Police Officers and one Sergeant is \$495,000. In addition, uniforms and equipment purchases in the first year total \$45,000, and the MCIT unit requires the addition of two vehicles at \$181,000.

(Note: These positions are budgeted at 50% of the costs cited above and would be hired in July contingent on identifying a sufficient revenue replacement for the grocery tax in 2026.)

- Response to medical emergencies will be enhanced through the addition of emergency medical dispatch software. Currently, Telecommunicators use paper documents to instruct callers on how to respond during 911 calls. The new software will enable a more efficient and effective response, with EMS protocol updates being loaded into the software. The software investment is estimated at \$185,000 in 2025, with annual costs estimated at \$30,000.

- The Police Department's Special Response Team (SRT) is tasked with conducting high-risk missions in dangerous environments. The team utilizes special ballistic vests suited to those situations. The ballistic protection those vests offer expires in 2025, and they must be replaced. The cost to equip SRT members with new ballistic vests is \$150,000. The expense occurs once every five years.

Public Works

- Some of the most frequent public complaints heard by the Department of Public Works (DPW) concern untrimmed, damaged, and dead parkway trees. The City's current parkway tree trimming cycle is 10 years, three years beyond the City's target of seven years. DPW shifted unspent snow removal funds to parkway tree trimming in 2024 and addressed numerous large areas. For 2025, DPW recommends increasing the budget for contractual tree trimming by \$300,000 and the dead tree removal budget by \$140,000. Using contracted services for these tasks allows City crews to focus on emergency forestry calls and resident service requests while allowing for flexibility in the budget from year to year.
- DPW continues to focus on improving efforts to restore the 800 public and private property sites disturbed during City utility work each year. This includes landscaping, asphalt, and concrete restoration. The department has requested the addition of a Restoration Program Inspector who would provide project support and inspections to ensure that contractors are performing the work as required. This position would check the sites to verify that billing is correct and work with the technical team to update work orders and GIS programs as needed. The annual cost for salary and benefits for this position is \$127,000.

Electric Utility

- The Electric Utility plans to embark on a capital program to underground most remaining overhead power lines over the next 10+ years. To accomplish this, the Utility recommends the addition of an Electrical Engineer III in 2025. This position will manage the overhead-to-underground conversion program funded through the rate study. They will be responsible for budgeting the program, scheduling engineering and construction resources, negotiating easement acquisition, and managing staff and/or contractors assigned to the program. The annual cost for salary and benefits for this position is \$180,000.
- The Utility also recommends the addition of an Electrical Engineer I to manage software for advanced energy systems that are necessary in the current utility environment. The Electric Utility needs to be able to manage and predict future changes in distributed load and actively manage and assist control staff with the new Outage Management System recently implemented. Additionally, this position will perform distributed generation resource modeling and ensure that all systems are properly mapped and modeled in the GIS system. The annual cost of salary and benefits for this position is \$144,000.
- To assist with managing project schedules, facilitating project execution, and communicating project progress for the technical projects in the systems integrations team, the Electric Utility recommends the addition of a Project Manager. The position would be responsible for handling reoccurring procurements, developing/reviewing service agreements, and balancing project management workloads. The annual cost for salary and benefits for this position is \$152,000.

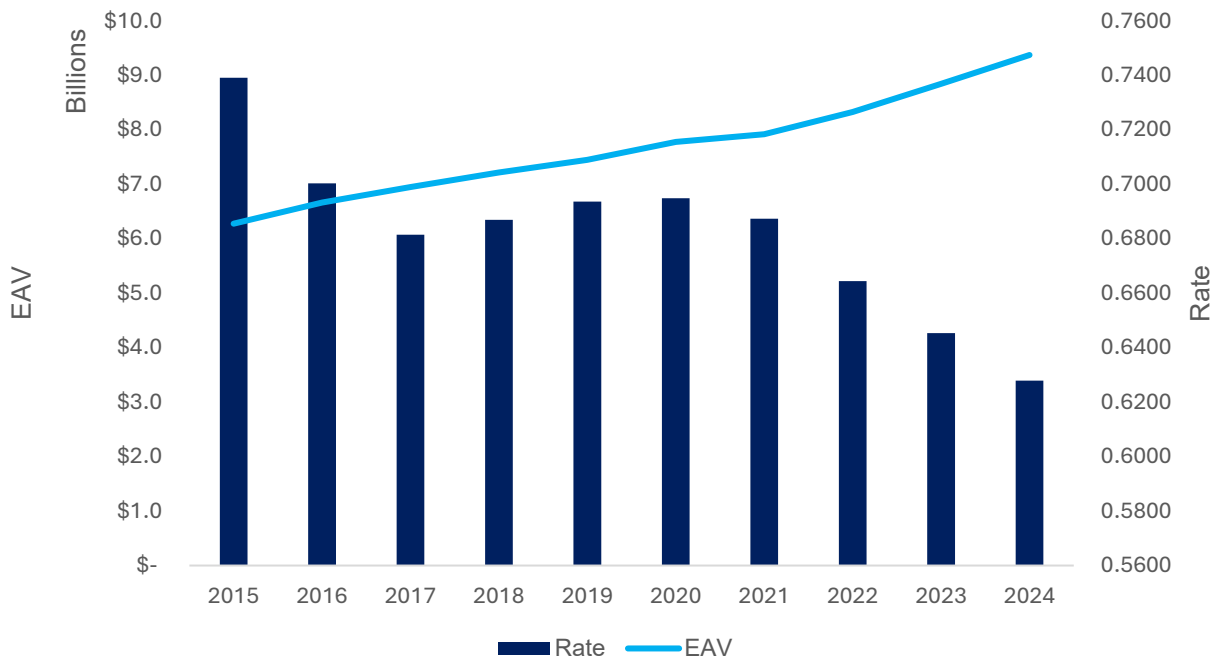
Wastewater Operations

- The Water Utilities have recommended a succession plan for the current Deputy Director of Wastewater Operations, which includes the addition of a Water Reclamation Manager. The Deputy Director, with over 30 years of experience, plans to retire after major work at the Springbrook Water Reclamation Center is complete. Hiring this position now allows for mentoring and sharing knowledge on the plant's operation. The position would play a key role in the planning, design, and construction of the plant improvements and reduce the amount of contracted construction management services that will be needed. The annual cost for salary and benefits for this position is \$140,000.

While the budget often focuses on new initiatives, remaining accountable for our current obligations is critical. Our existing staff is core to our service delivery mission, and personnel expenses account for a significant portion of the annual operating budget. The 2025 budget supports a 3.5% merit pool increase for non-union employees, union wages in line with negotiated agreements, and an additional pool of \$500,000 to affect wage adjustments anticipated to be recommended by the ongoing compensation and classification study. The budget also supports a 6.9% increase in employee health insurance and increases in the required contributions to Fire, Police, and IMRF pensions.

Property Tax

In Naperville, property taxes primarily fund the City’s long-term obligations, such as public safety and IMRF pensions and debt service payments. This tax is also the primary funding source for the Naperville Public Library and Naper Settlement operations. The 2025 budget includes a total tax levy of \$58.9 million, an increase of \$1.9 million, or 3.3%, over last year.



The 2025 budget recommendation continues to take advantage of incremental EAV growth, including new development, to maintain a low tax rate. EAV growth is estimated at 6% in 2024. Assessments are expected to continue increasing due to irregular residential sale prices in the years after the pandemic. Based on the estimated EAV of \$9.4 billion, the resulting property tax rate would decrease to 0.6279 compared to the current rate of 0.6454.

General Fund Overview

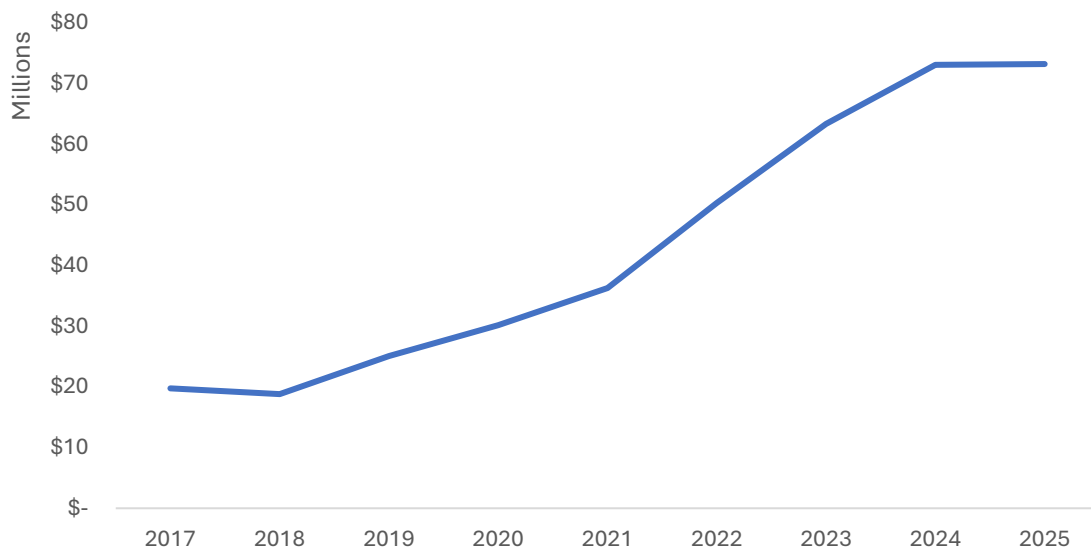
The General Fund budget totals \$166.43 million for 2025, an increase of \$10.08 million, or 6.4%, over the 2024 budget. Personnel costs primarily drive the General Fund budget, and rising salary, pension, and health insurance costs account for most of the budget increase.

Expenditures are balanced by \$166.56 million in revenues. General Fund revenues remained strong in 2024; however, increases in several key revenues have moderated. While the General Fund revenue forecast remains conservative, it is anticipated to continue to support a high level of investment in the services provided to the community in 2025. Total revenue for 2025 is projected to increase by 6.0%, led by state sales tax and income tax increases.

	2024 Budget	2025 Budget	Change (\$)	Change (%)
Revenues				
Revenues	151,571,563	160,743,769	9,172,206	6.1%
Interfund Transfers (In)	5,600,273	5,813,089	212,816	3.8%
Revenue Total	157,171,836	166,556,858	9,385,022	6.0%
Expenditures				
Expenditures	151,135,521	161,730,884	10,595,363	7.0%
Interfund Transfers (Out)	5,214,750	4,696,308	(518,442)	-9.9%
Expenditure Total	156,350,271	166,427,192	10,076,921	6.4%

Consistent revenue growth over the past several years has outpaced spending in the General Fund. The result is a rising General Fund cash balance, which has grown from \$18.81 million in 2018 to \$63.35 million at the end of 2023. Based on year-end estimates for 2024 and budget projections for 2025, the cash balance is expected to increase to more than \$73 million by the end of 2025. In 2025, Finance staff will engage the Financial Advisory Board in discussing the future use of the General Fund cash balance, which now exceeds 40% of annual expenditures.

General Fund Cash Balance



Electric Utility Fund Overview

The 2025 budgeted revenues for the Electric Utility Fund total \$166.43 million. This is an increase of \$9.83 million, or 6.3%, from the 2024 budget. The Utility commissioned a rate study in 2024, which set out to establish rates that would support increased capital investment while stabilizing declining cash balances in light of lower energy sales in recent years. For 2025, revenue forecasts include a 6.1% average rate increase across the various rate classes, which results in \$154.62 million in electric charges. The Utility also plans to issue \$7.5 million in new debt to support infrastructure investment.

	2024 Budget	2025 Budget	Change (\$)	Change (%)
Revenues				
Revenues	146,632,482	158,929,903	12,297,421	8.4%
Other Financing Sources (Bonds)	9,962,000	7,500,000	(2,462,000)	-24.7%
Revenue Total	156,594,482	166,429,903	9,835,421	6.3%
Expenditures				
Expenditures	154,628,571	165,452,025	10,823,454	7.0%
Interfund Transfers (Out)	1,445,020	1,394,191	(50,829)	-3.5%
Expenditure Total	156,073,591	166,846,216	10,772,625	6.9%

The budgeted expenses in the Electric Utility Fund total \$166.85 million for 2025, an increase of \$10.77 million, or 6.9%. Purchased electricity expenses are the largest expense for the Utility and are projected at \$101.76 million for 2025. The Electric Utility will increase its Capital Improvement Program to \$29.40 million for 2025, up from \$13.95 million in 2024.

Water Utilities Fund Overview

The 2025 budgeted revenues for the Water Utilities Fund, also known as the Water & Wastewater Utility Fund, total \$122.06 million, an increase of \$19.50 million, or 19.0% from the 2024 budget. An additional \$2.83 million in transfers into the fund are included. Interfund transfers will be reduced significantly in 2025 due to the consolidation of the Water Capital Fund and the Water Utilities Fund. Revenues in the Water Utilities Fund primarily comprise user charges for water and wastewater. The Utility commissioned a rate study in 2024, which recommended increases to both water and wastewater rates to support significant expansion in capital investments. The recommended rate increases are 12% for water and 10% for wastewater. Based on these increases, water charges are budgeted at \$58.51 million, an increase of \$9.09 million, or 18.4%. Wastewater charges are budgeted at \$30.59 million, an increase of \$2.01, or 7.0%.

	2024 Budget	2025 Budget	Change (\$)	Change (%)
Revenues				
Revenues	102,565,172	122,064,927	19,499,755	19.0%
Interfund Transfers (In)	25,038,197	2,863,000	(22,175,197)	-88.6%
Revenue Total	127,603,369	124,927,927	(2,675,442)	-2.1%
Expenditures				
Expenditures	107,151,811	138,191,849	31,040,038	29.0%
Interfund Transfers (Out)	20,421,498	1,941,245	(18,480,253)	-90.5%
Expenditure Total	127,573,309	140,133,094	12,559,785	9.8%

The 2024 budgeted expenses for water and wastewater services total \$140.13 million. This is an increase of \$12.56 million, or 9.8%. Purchased water for resale to customers represents the single largest operating expense projected at \$32.56 million. The Utility will continue the expansion of its Capital Improvement Program in 2025, with planned investments totaling \$72.21 million, up from \$44.93 million in 2024.

Investing in our Community's Capital Needs – Capital Overview

The City of Naperville's Capital Improvement Program (CIP) represents Naperville's commitment to planning and maintaining assets linked to the City's mission as well as the long-term investment in the City's infrastructure. The CIP provides the City's long-range financial plan that complements the annual budget, which provides a short-term financial plan to fund operations.

The 2025 CIP is valued at \$179.38 million, a 23% increase from the 2024 approved program of \$145.83 million. Significant capital investments are being made across several categories, including transportation and utility infrastructure. Planned improvements in these areas account for nearly 73% of the overall 2025 CIP. Technology projects also represent an area of significant investment, totaling \$21.94 million in 2025, an increase of 81.2% compared to the 2024 approved budget.

	2024	2025	Change (\$)	Change (%)
Buildings & Facilities	9.08	10.65	1.57	17.3%
Electric Utility	13.72	29.15	15.43	112.5%
Parks & Recreation	3.93	5.16	1.23	31.3%
Stormwater	2.35	1.14	(1.21)	-51.5%
Technology	12.11	21.94	9.83	81.2%
Transportation	51.53	29.49	(22.04)	-42.8%
Vehicles & Mobile Equipment	8.18	9.64	1.46	17.8%
Water & Wastewater Utility	44.93	72.21	27.28	60.7%
Total	145.83	179.38	33.55	23.0%

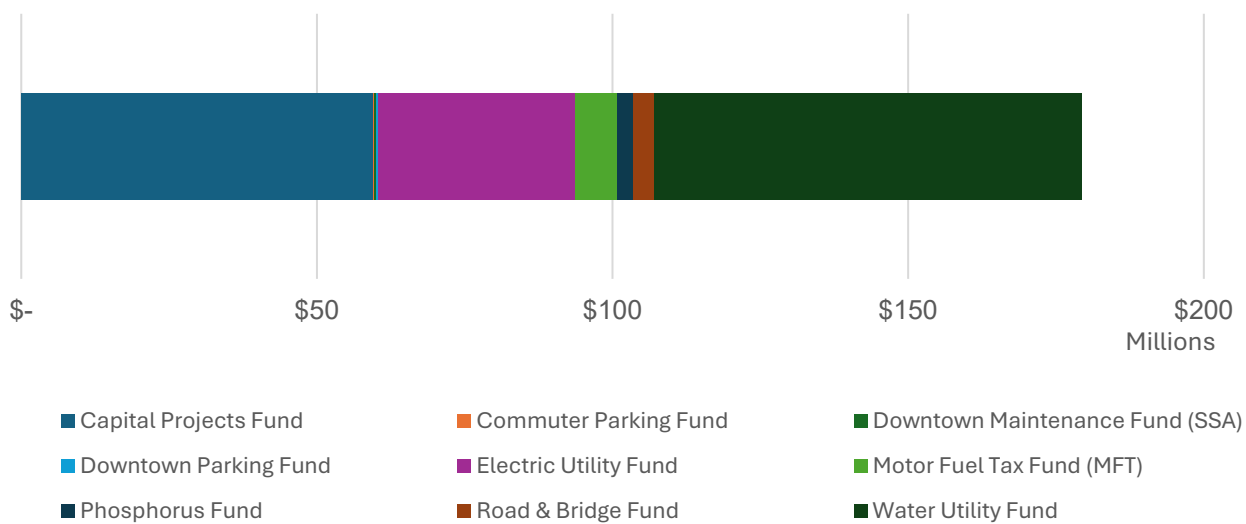
\$ in millions

Some of the more noteworthy capital projects to be undertaken next year include:

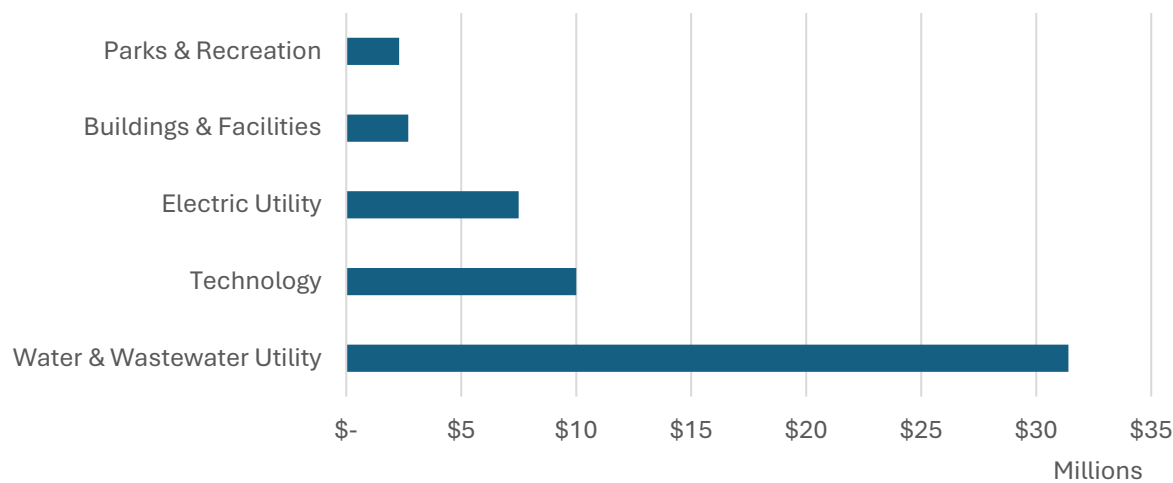
- Major road construction projects, including the Annual Street Maintenance Program (\$12.0M), North Aurora Road underpass improvements (\$4.73M), South 40 Improvements (\$1.56M), and 248th Improvements (\$1.75M).
- Upgrades to the public safety mobile radio network (\$16.60M) and security camera upgrades (\$1.58M).
- Saybrook subdivision water main replacement (\$6.75M) and water main replacements on Ogden & Washington, Charles Avenue, and Fairway & Country Lakes (\$12.2M).
- Various improvements to the water distribution system, including the Central Elevated Tank Rehabilitation (\$5.18M), West Waterworks Pressure Adjusting System improvements (\$4.0M), and NW Waterworks Elevated Tank Coating (\$2.5M).
- Electric system improvements, including Tollway Substation improvements (\$8.25M), cable replacement program (\$4.02M), and Distribution Automation (\$1.88M).
- Enhancements to municipal facilities, including the Police Department Building Renovation (\$3.29M), Fire Station Living Quarter Renovations (\$1.80M), and Station 4 Training Facility Renovation (\$655K).

Major CIP Funding Sources

Below is a chart breaking down the funding sources available to support the 2025 CIP.



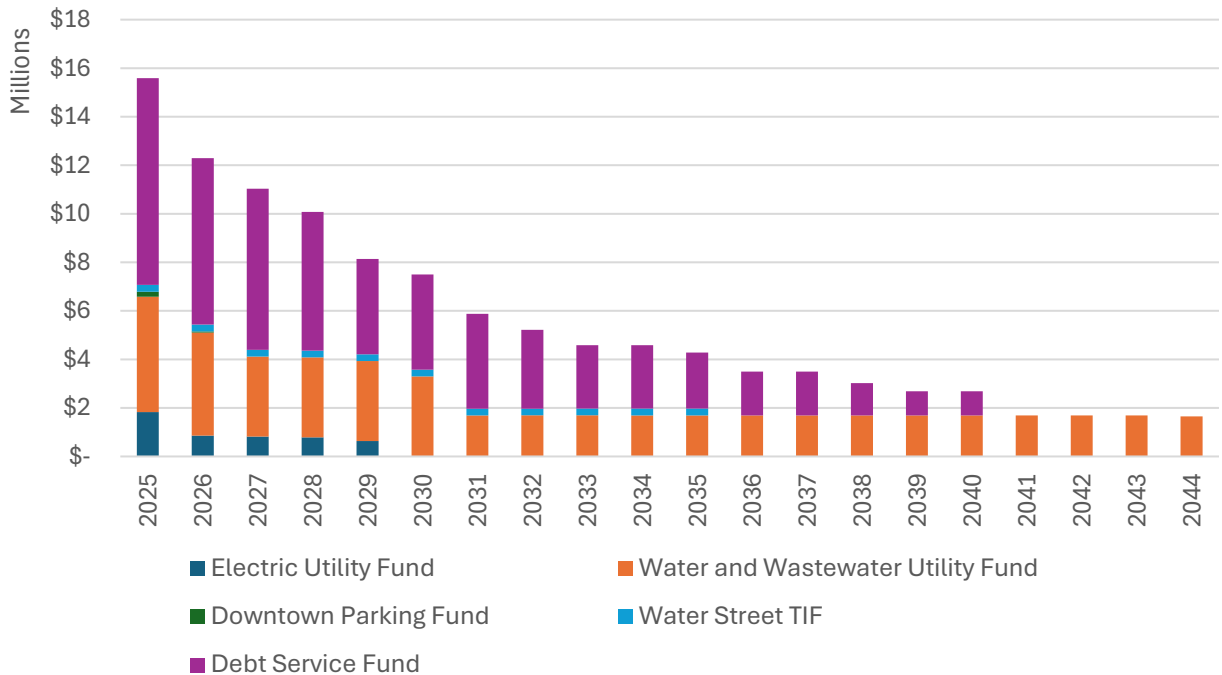
Of the \$179.38 million budgeted for the 2025 CIP, \$125.48 million in funding was identified to support the program. Examples of major funding sources include home rule sales tax (\$21.31 million), state and local motor fuel taxes (\$9.51 million), federal and state grant funding (\$12.80 million), and contributions from developers and other governments (\$2.74 million). Other sources include utility charges and existing cash balances. This represents 70% of the total cost, leaving \$53.90 million unfunded. The unfunded projects recommended for borrowing are broken into the following project categories:



As a reminder, the City issues debt on a reimbursement basis. Therefore, bonds will only be issued if the overall capital program cannot be funded through identified sources. The amounts noted above are estimates, and the City aims to use debt to finance capital projects only when necessary.

Paying Down Debt

Over the past ten years, the City has reduced its general government debt by more than 50% using home rule sales tax as a funding source for capital projects. The chart below shows the City's existing debt service by fund. The City's property tax levy comfortably supports governmental debt service of \$8 to \$10 million annually. The declining debt service for 2025 through 2044 allows the City to continue funding capital projects through debt issuance without negatively impacting the property tax levy.



Conclusion

Putting together a budget that allows the City to continue providing the high-quality services it is known for during changing times while also lowering the property tax rate for our residents takes considerable planning. Our professional staff works year-round to analyze budgetary trends so that we may always think about how to fund our community's future and meet our short-term and long-term goals. We view the 2025 budget as a document that, while spanning only one year, truly positions us to be ready for change in future years.

Sincerely,

Douglas A. Krieger
City Manager

Raymond Munch
Director of Finance