



BUDGET MESSAGE & HIGHLIGHTS



OCT. 10, 2025

Honorable Mayor Scott Wehrli & the Naperville City Council:

On behalf of the City of Naperville, we are proud to present the proposed 2026 Annual Operating Budget and Capital Improvement Program to you. Compiling the 2026 budget was, in many ways, a continuation of the efforts made in 2025, with several ongoing considerations and themes from last year influencing our recommendations.

PROPOSED BUDGET & CIP: **\$685.13M**



↑ **6.8%** FROM 2025 BUDGET

\$173.83M GENERAL FUND

CAPITAL PROGRAM **\$190.25M**

... **0.5506** ANTICIPATED TAX RATE

↓ FROM CURRENT RATE OF **0.5960**

The 2026 budget is recommended at \$685.13 million, reflecting an overall increase of 6.8% from the 2025 budget.

Investments in our utility infrastructure and transportation improvements mainly drive this growth. On the operating side, rising health insurance costs have impacted personnel expenses across most funds. With a recommended property tax levy of \$59.73 million after debt service abatements and continued incremental growth included, we expect a tax rate decrease from 0.5506 compared to the current rate of 0.5960.

2026 BUDGET CONSIDERATIONS

The 2026 budget theme, *Money with a Mission*, reflects our ongoing approach to financial management, emphasizing conservative budgeting and revenue forecasting. As stewards of taxpayer dollars, the City believes every dollar should serve a purpose. This means that funds included in the budget are allocated to projects or services with sufficient resources and achievable within the budget's timeframe.

Ultimately, this philosophy allows the City to focus on high-priority projects that align with our mission and priorities, many of which take several years to complete. It also helps the City prioritize the long-term financial needs of existing services to maintain stability in service delivery and ensure that new services or programs have a long-term funding source in place before implementation.

Along with the City's mission and five priority areas - the economy, mobility, natural environment and community design, safety, and utilities - the City analyzes current trends and recurring themes to set guidelines for the upcoming year's budget. Major considerations for the 2026 proposed budget are described below.

Moderating Revenues

As the COVID-19 pandemic eased, the City experienced a significant rise in certain revenues, with double-digit growth rates that greatly surpassed budget estimates. The rebound in retail sales tax, food and beverage tax, and hotel and motel tax signaled that the City's economy was recovering from the challenges of 2020.

However, some revenue streams that declined during the pandemic have not returned to their pre-pandemic levels, and others are beginning to slow in their growth rate. Some sources are now declining year over year because of shifting behaviors and technological changes. These include commuter parking fees as hybrid work policies remain in place, franchise fees as consumers move away from cable television, telecommunications taxes as more people cancel landline phones, and local use taxes as the state updates its approach to online purchases.

Ultimately, this makes the City more dependent on the ongoing success of other revenue sources, such as property taxes, sales taxes, and state-shared income tax revenue. Property tax is the most consistent revenue source; however, most of the City’s services and capital projects are funded through sales and income taxes, which are more susceptible to economic fluctuations and now carry a larger share of the funding burden.

Naperville’s emphasis on revenue diversity has been beneficial during the Great Recession and the pandemic, and revenue trends and diversification efforts will continue to be important topics in 2026.

Aging Assets

Naperville has experienced significant growth over the past 30 years, with the City's population nearly doubling from 87,000 to over 150,000 since 1990. Along with that growth, there has been a corresponding increase in infrastructure and capital assets necessary to meet the community’s needs, such as streets, water mains, electric distribution lines, and sanitary and storm sewers.

Capital assets typically have a lifespan of 20 to 50 years, during which time they require regular maintenance and upkeep. Assets installed during periods of high growth are now reaching a point where they can no longer be maintained and must be upgraded or replaced.

Year	Maintenance	Upgrades/Replacement
2021	42%	58%
2022	38%	62%
2023	23%	77%
2024	20%	80%
2025	15%	85%
2026	14%	86%

Additionally, changes to regulatory requirements from the time of initial construction may require significant reinvestment in existing assets. Over the past five years, investment in capital has shifted significantly toward upgrades and replacements, especially in the utility and transportation sectors, leading to a higher-cost Capital Improvement Program moving forward.

State Legislation

In 2024, as part of the Fiscal Year 2025 state budget, the governor of Illinois signed a bill into law to eliminate the state’s 1% grocery tax on qualifying food items starting Jan. 1, 2026. The legislation also permitted municipalities to impose their own 1% local grocery tax, effectively replacing the lost tax revenue one-for-one.

The City's portion of state grocery tax revenue was estimated at nearly \$6.5 million. These funds traditionally support vital City services like public safety and public works, and other existing revenue sources could not have replaced the loss of this revenue.

Following the recommendation of the Financial Advisory Board and City staff, in September 2025, Naperville’s City Council approved implementing a 1% municipal grocery tax to replace the state’s grocery tax.

Investing in our Professional Staff and Maintaining Competitiveness

In addition to recurring union negotiations, the City recently completed a compensation and classification study for its non-union employees. This effort is part of the City's desire to attract and retain employees who are essential to our service delivery mission and provide competitive compensation. The 2026 proposed budget reflects costs associated with this study's outcome and negotiated union agreements.

National and Global Financial Climate

Economic and political uncertainty continues to make national headlines in 2025 due to escalating trade tensions and policy uncertainty. 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 monitoring and preparing for potential impacts on local government.

One of the most noticeable impacts is in the healthcare sector. Rising healthcare costs, higher prescription drug prices and usage, general inflation, and federal policies have all led to increased rates in both public and private health insurance markets. The City's medical insurance premiums will increase by 18.5% in 2026, a sharp increase from the 6.9% rise in 2025.

The Federal Reserve is projected to continue lowering interest rates to 3.50% by the end of 2025 and 3.25% by the end of 2026. A significant driver of the 2025 rate cut is a slowing labor market and easing inflation. According to the Bureau of Labor Statistics, over the 12 months ending in September 2025, the consumer price index increased by 2.9%.

Strength in the local economy continues to be driven by strong retail sales, rising property values, and low unemployment. Naperville once again held its position as the top suburb for total retail sales in 2024, with nearly \$5 billion in retail sales. The City is particularly strong in the retail sectors of dining and drinking, grocery, home improvement, and auto and gas sales. Economists predict that the U.S. outlook for 2026 remains uncertain due to rising tariffs and political tensions.

Naperville's Equalized Assessed Value (EAV) for tax year 2025 is estimated at \$10.85 billion, an increase of 10% from the prior year. This growth results from continued development and appreciation of existing property values. Although economic uncertainty poses challenges, developers continue seeking residential and commercial development opportunities in Naperville.

Finally, unemployment remains low in Naperville and compares favorably to unemployment statewide. According to the Illinois Department of Employment Security, the unemployment rate for the area that includes Naperville was 4.6% in August 2025, lower than the previous year's 5.7% rate and the state's August 2025 4.7% unemployment rate.

BUDGET OVERVIEW & HIGHLIGHTS

The 2026 City of Naperville budget is recommended at \$685.13 million, an overall increase of 6.8% from the amended 2025 budget of \$641.65 million. The total budget comprises \$663.30 million in expenditures, an overall increase of 6.5%, and an additional \$21.83 million in transfers between budget funds. Interfund transfers are 15.1% higher due to an increase in the transfer from the Phosphorus Fund to the Water Utility Fund as recommended in the Water Utilities' 2024 rate study. Other factors driving the 6.5% increase include a significant increase in medical premiums, purchased utilities, and capital investment.

	2025 Budget	2026 Budget	Change (\$)	Change (%)
Revenues				
Revenues	596,617,926	631,405,313	34,787,386	5.8%
Interfund Transfers (In)	21,168,637	24,667,137	3,498,500	16.5%
Revenue Total	617,786,563	656,072,450	38,285,886	6.2%
Expenditures				
Expenditures	622,680,609	663,295,663	40,615,055	6.5%
Interfund Transfers (Out)	18,967,990	21,834,434	2,866,444	15.1%
Expenditure Total	641,648,599	685,130,097	43,481,499	6.8%

During budget preparations, departments were instructed to “hold the line” on operating budgets because of the uncertainty caused by the sunset of the statewide grocery tax and increasing health insurance costs. Additionally, the City’s Budget Team collaborated with departments to identify unused funds by comparing actual spending to the 2026 budget requests, highlighting areas of underspending that could be reduced or eliminated. This effort resulted in nearly \$1.5 million in budget savings across several General Fund departments. The 2026 proposed budget reflects no new personnel and only limited new budget requests outlined below.

Public Safety

The Police Department has requested \$150,000 in the budget for a Drones as First Responders (DFR) initiative. This program would deploy a drone to certain high-priority calls to assist emergency personnel in gathering intelligence to help formulate a measured and informed response before officers arrive. The estimated cost of this program is \$150,000 annually.

Specialty Planning Studies

Two areas of the City recently underwent extensive evaluation for potential future opportunities at these locations. The first was the Council-directed review of City-owned properties surrounding the Naperville train station, commonly known as the 5th Avenue Area, and the second was the Naperville Development Partnership’s I-88 Corridor study. TED has included \$150,000 in its budget for follow-up consultant work for either 5th Avenue or the I-88 Corridor. Financial and staff resources are available to complete only one study in 2026. As a result, staff will seek guidance from the City Council to determine which area should be prioritized.

City Website

The City Manager’s Office has requested \$100,000 for professional services related to a website redesign. In addition to changing website usage patterns and advancements in technology since the launch of the City's current site a decade ago, the Department of Justice has mandated that governments of Naperville’s size ensure their websites and mobile apps comply with WCAG 2.1 AA standards. These standards are widely accepted digital accessibility guidelines to ensure people with disabilities can appropriately access their government’s digital services. This project will assist Naperville with compliance in this area.

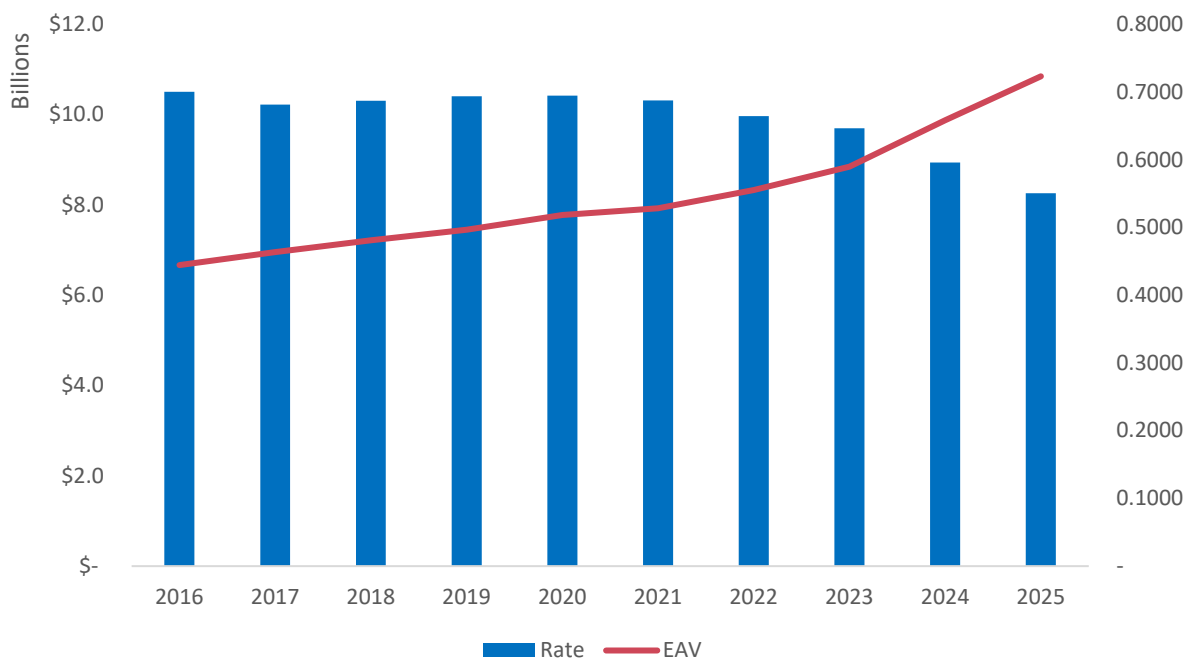
Our staff is core to our service delivery mission, and personnel expenses account for a significant portion of the budget proposal. The 2026 budget supports a 3% cost-of-living adjustment, a 1% merit pool increase for non-union employees, union wages in line with negotiated agreements, and an additional \$308,000 in potential wage adjustments to support the compensation and classification study. The budget also supports an 18.5% increase in employee health insurance and increases in the required contributions to Fire, Police, and IMRF pensions.

The 2026 budget is supported by \$656.07 million in revenues, an increase of 6.2% compared to the 2025 budget. The increase in revenues is primarily related to a planned \$58 million bond issuance for utility infrastructure. This includes \$10 million for the Electric Utility and \$48 million for the Water Utility, \$3 million of which is an interest-free loan from the ILEPA to finish Water’s lead service line replacement efforts in 2026. Additionally, an electric rate increase averaging 5.1% across rate classes and water and wastewater rate increases of 12% and 10%, respectively, are recommended and reflected in the budget based on consultant-led rate studies. In the General Fund, the 2026 budget reflects the 1% municipal grocery tax that goes into effect on Jan. 1, 2026. This replacement tax is expected to generate \$6.5 million, the same amount as the current state tax, next year.

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 2026 budget includes a total tax levy of \$59.73 million, an increase of \$856K, or 1.5%, over last year.

The 2026 budget recommendation continues to take advantage of incremental EAV growth, including new development, to maintain a low tax rate. EAV growth is estimated at 10% in 2025. Assessments are expected to continue increasing due to irregular residential sale prices in the years after the pandemic. Based on the estimated EAV of \$10.85 billion, the resulting property tax rate would decrease to 0.5506 compared to the current rate of 0.5960.



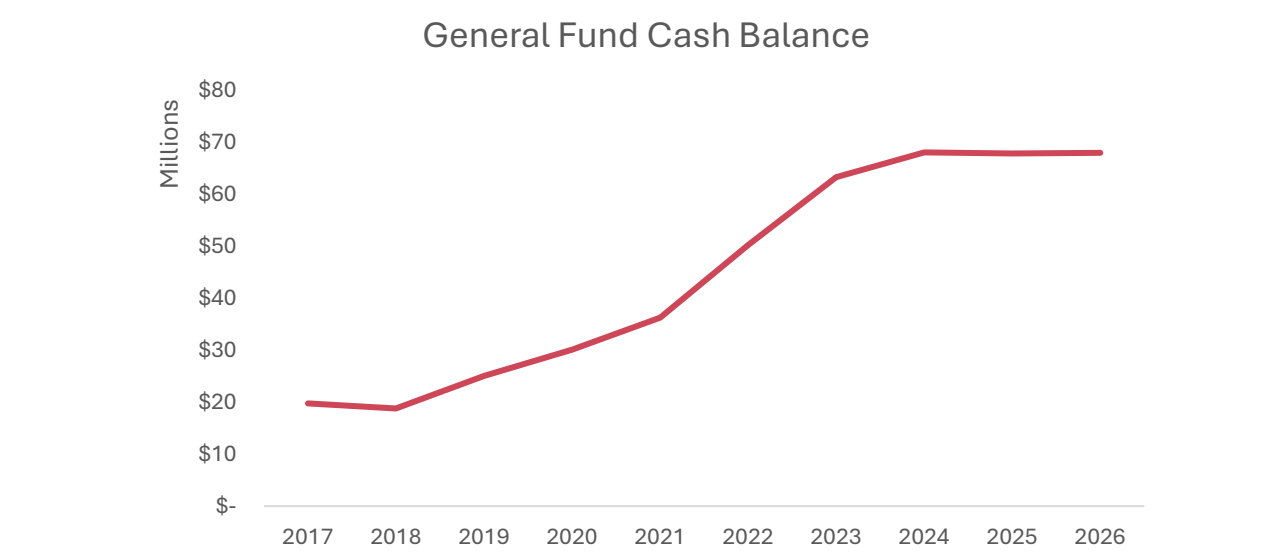
GENERAL FUND OVERVIEW

The General Fund budget totals \$173.83 million for 2026, an increase of \$7.41 million, or 4.5%, over the 2025 budget. Personnel costs primarily drive the General Fund budget, and rising salary, pension, and health insurance costs account for most of the increase.

Expenditures are balanced by \$173.95 million in revenues. Overall, General Fund revenues remained strong in 2025; however, several key revenues, such as franchise fees, telecommunications tax, and local use tax are projected to moderate or decline further in 2026 and beyond. In the 2025 budget, General Fund revenues were projected to increase by 6.0%. However, total revenues for 2026 are projected to increase by a more modest rate of 4.4%, led by property taxes, utility taxes, and state income tax increases.

	2025 Budget	2026 Budget	Change (\$)	Change (%)
Revenues				
Revenues	160,743,769	168,346,141	7,602,372	4.7%
Interfund Transfers (In)	5,813,089	5,599,889	(213,200)	-3.7%
Revenue Total	166,556,858	173,946,030	7,389,172	4.4%
Expenditures				
Expenditures	161,730,884	170,275,358	8,544,474	5.3%
Interfund Transfers (Out)	4,696,308	3,558,632	(1,137,676)	-24.2%
Expenditure Total	166,427,192	173,833,990	7,406,798	4.5%

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 2024. However, based on year-end estimates for 2025 and budget projections for 2026, the cash balance is expected to moderate to around \$68.04 million.



ELECTRIC UTILITY FUND OVERVIEW

The 2026 budgeted revenues for the Electric Utility Fund total \$177.84 million. This is an increase of \$11.41 million, or 6.9%, from the 2025 budget. The utility commissioned a rate study in 2024 to establish rates that would support increased capital investment while stabilizing declining cash balances in light of lower energy sales in recent years. For 2026, revenue forecasts include a 5.1% average rate increase across the various rate classes, which results in \$162.27 million in electric charges. The utility also plans to issue \$10 million in new debt to support infrastructure investment.

	2025 Budget	2026 Budget	Change (\$)	Change (%)
Revenues				
Revenues	158,929,903	167,841,444	8,911,541	5.6%
Other Financing Sources (Bonds)	7,500,000	10,000,000	2,500,000	33.3%
Revenue Total	166,429,903	177,841,444	11,411,541	6.9%
Expenditures				
Expenditures	165,452,025	175,929,297	10,477,272	6.3%
Interfund Transfers (Out)	1,394,191	1,377,523	(16,668)	-1.2%
Expenditure Total	166,846,216	177,306,820	10,460,604	6.3%

The Electric Utility Fund's budgeted expenses total \$177.31 million for 2026, an increase of \$10.46 million, or 6.3%. Purchased electricity is the utility's largest expense and is projected at \$112.40 million for 2026. The utility will also invest significantly in capital upgrades totaling \$27.27 million.

WATER & WASTEWATER FUND OVERVIEW

The 2026 budgeted revenues for the Water & Wastewater Fund total \$151.21 million, an increase of \$27.97 million, or 22.7%, from the 2025 budget. An additional \$6.54 million in transfers is included, representing an increase of \$3.68 million, or 128.6%.

Revenues in the Water & Wastewater Fund primarily comprise user charges for water and wastewater. The Utility's 2024 rate study 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 recommendations, water charges are budgeted at \$61.88 million, an increase of \$5.06 million, or 8.9%. Wastewater charges are budgeted at \$33.16 million, an increase of \$2.57 million, or 8.4%.

	2025 Budget	2026 Budget	Change (\$)	Change (%)
Revenues				
Revenues	120,375,827	144,668,303	24,292,476	20.2%
Interfund Transfers (In)	2,863,000	6,543,450	3,680,450	128.6%
Revenue Total	123,238,827	151,211,753	27,972,926	22.7%
Expenditures				
Expenditures	136,959,661	160,384,122	23,424,461	17.1%
Interfund Transfers (Out)	1,941,245	1,830,488	(110,757)	-5.7%
Expenditure Total	138,900,906	162,214,610	23,313,704	16.8%

The 2026 budgeted expenses for water and wastewater services total \$162.21 million, an increase of \$23.31 million, or 16.8%. Purchased water for resale to customers represents the single largest operating expense and is projected at \$32.09 million. The utility will continue the expansion of its Capital Improvement Program in 2026, with planned investments totaling \$89.80 million, up from \$70.80 million in 2025.

INVESTING IN OUR COMMUNITY'S CAPITAL NEEDS

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

The 2026 CIP is valued at \$190.25 million, a 6.1% increase from the 2025 approved program of \$179.38 million. Significant capital investments are being made across several categories, with the most notable being in the water, wastewater, and transportation spaces. Planned water and wastewater infrastructure-related projects are the highest-cost area, accounting for 48.2% of the 2026 capital budget. Transportation infrastructure investments account for \$38.6 million of the 2026 capital budget, representing an increase of nearly 31% compared to the approved 2025 budget.

	2025	2026	Change (\$)	Change (%)
Buildings & Facilities	10.65	8.88	(1.77)	-16.6%
Electric Utility	29.15	27.25	(1.90)	-6.5%
Parks & Recreation	5.16	3.59	(1.57)	-30.4%
Stormwater	1.14	3.96	2.82	247.4%
Technology	21.94	8.11	(13.83)	-63.0%
Transportation	29.49	38.60	9.11	30.9%
Vehicles & Mobile Equipment	9.64	8.11	(1.53)	-15.9%
Water & Wastewater Utility	72.21	91.77	19.56	27.1%
Total	179.38	190.25	10.89	6.1%

\$ in millions

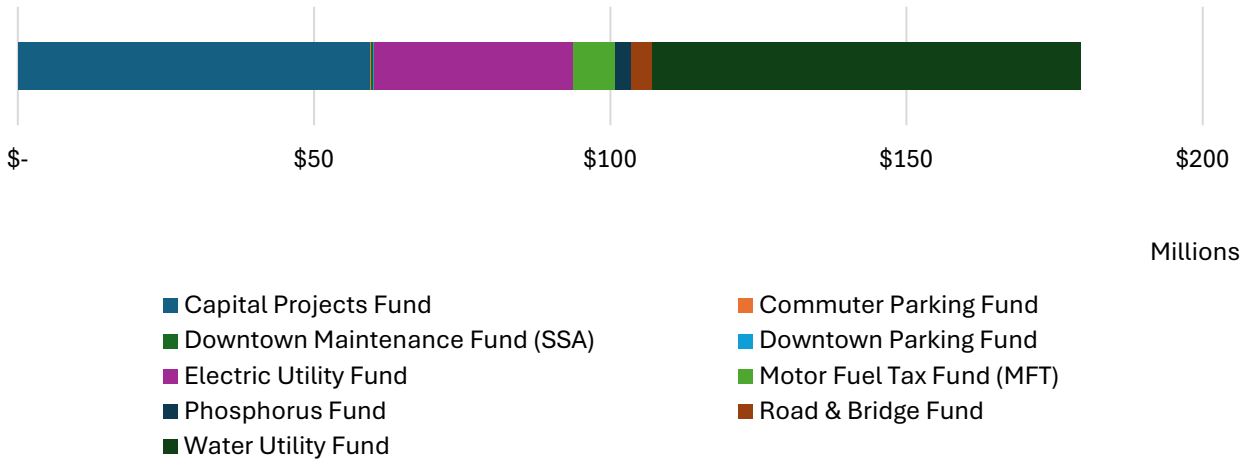
Some of the more noteworthy capital projects to be undertaken next year include:

- Major road construction projects, including the Annual Street Maintenance Program (\$12.0M), North Aurora Road underpass improvements (\$13.48M), Municipal Parking Lot Maintenance (\$2.25M), South 40 Improvements (\$1.22M), and 248th Improvements (\$1.98M).
- Upgrades to the public safety mobile radio network (\$3.0M), security camera upgrades (\$1.35M), and municipal data center upgrades (\$950K).
- Kings Terrace water main replacement (\$9.30M), Saybrook phase 3 water main replacement (\$6.18M), Maplebrook phase 3 water main replacement (\$3.87M), and water main replacements on Ogden Avenue (\$2.61M).
- Various improvements to the water distribution system, including the Lead Service Replacements (\$3.30M), North Elevated Tank & Water Reservoir Coating (\$2.5M), and Central Elevated Tank Rehabilitation (\$1.16M).
- Springbrook revitalization improvements include South Plant Capacity Upgrades (\$20.36M), South Plant RAS/Grit Improvements (\$7.41M), and Cloth Media Disc Filter Upgrades (\$1.90M).
- Electric system improvements, including Tollway Substation improvements (\$6.32M), cable replacement program (\$3.75M), SCADA & DERMS implementation (\$1.43M), and storm hardening and system resiliency (more commonly known as the overhead to underground conversion project) (\$1.0M).

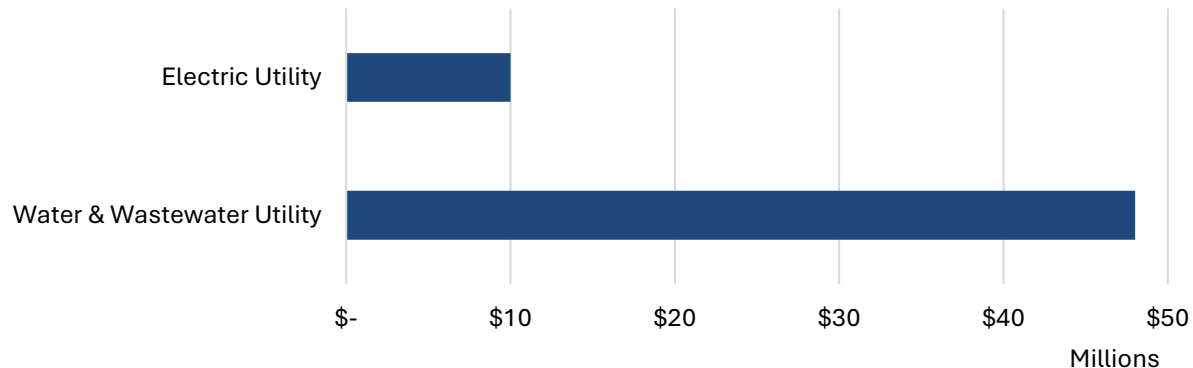
- Enhancements to municipal facilities, including Station 4 Training Facility Renovation (\$2.74M), the Police Department Building Renovation (\$1.01M), and the Train Station platform, walkway, and stairwell repair program (\$500K).

Major CIP Funding Sources

Below is a chart breaking down the funding sources available to support the 2026 CIP.



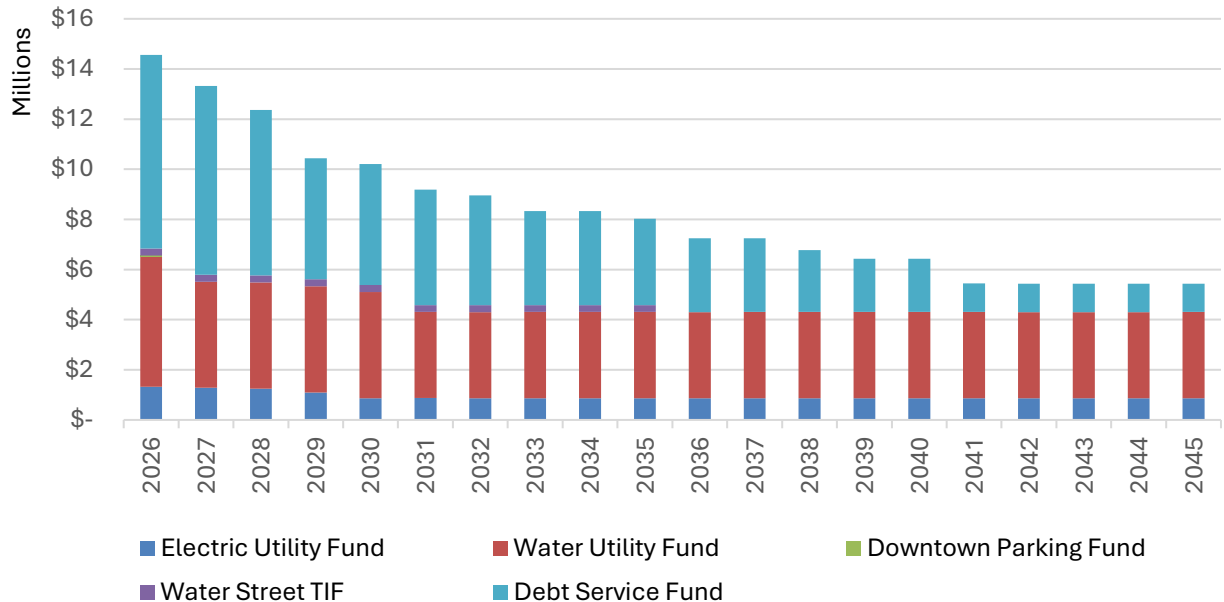
Of the \$190.25 million budgeted for the 2026 CIP, \$132.25 million in funding was identified to support the 2026 program. Examples of major funding sources include home rule sales tax (\$23.16 million), state and local motor fuel taxes (\$9.67 million), and federal and state grant funding (\$9.53 million). Other sources include utility charges and existing cash balances. This represents nearly 70% of the total cost, leaving \$58 million in the capital program 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 10 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 2026 through 2045 allows the City to continue funding capital projects through debt issuance without negatively impacting the property tax levy.



Conclusion

The planning and foresight of both past and current elected officials continue to guide the City's budget development process. We believe the proposed 2026 budget demonstrates Naperville's dedication to the responsible management of the City's funds. As we approach 2026, staff will keep monitoring financial trends and respond as needed with the flexibility and transparency that are core to our financial philosophy.

Sincerely,

Douglas A. Krieger
City Manager

Raymond Munch
Director of Finance