

2024 BUDGET MESSAGE AND BUDGET HIGHLIGHTS

OCT. 13, 2023

HONORABLE MAYOR SCOTT WEHRLI AND THE NAPERVILLE CITY COUNCIL:

On behalf of the City's director leadership team, we are pleased to present the proposed 2024 Annual Operating Budget and Capital Improvement Program (CIP) for the City of Naperville. Understanding that the budget provides the means for the City to achieve its service priorities, as well as its financial impact on the City's residents and businesses, we are putting forth a budget recommendation with a 2.4% increase (less than the current Consumer Price Index) from 2023 that increases capital investment; improves service levels; does not result in any new taxes, fees, or other revenues; and lowers the City's property tax rate.



This achievement results from years of conservative financial planning, a concerted effort to reduce debt and rebuild cash reserves, and guidance from the City's mission statement and five strategic priorities. Building upon previous successes and actions inspired this year's budget theme of *Building Blocks*, which also speaks to how the City is moving forward into a new period of reinvestment and reprioritization, especially regarding its capital assets, because of this previous work. The 2024 budget reflects these concepts and provides the operational resources necessary, including additional personnel, to make this transformation possible.

BUDGET DEVELOPMENT STRATEGY & FINANCIAL CLIMATE

The 2024 budget process focused on maintaining high-quality public services to meet the community's expectations. Staff began the process with a mid-year review of 2023 initiatives to determine areas of concern and potential 2024 budget impacts. This review led to a concerted effort to address service gaps identified in key operational departments, including public safety, public works, transportation/development, and the partner departments supporting them. The result of this assessment is reflected in the operating budget as additional personnel requests.

In addition, staff considered Naperville's Priorities Plan, which impacted budget development in 2022 and 2023 based on achieving the City's priorities of financial stability and local economy, housing choice, infrastructure and utilities, public safety, and sustainability. The plan is now reaching the end of its lifespan, with priority categories now integrated into everyday business operations. Staff anticipates starting a new strategic priorities process in 2024.

While the City is supported by a strong local economy, federal, state, and regional economic conditions also remain important considerations when assessing the financial outlook.

Naperville’s substantial cash balances, consistently low property tax rate, and revenue diversity play a significant role in its financial strength and ability to maintain a AAA bond rating.

Strength in the local economy continues to be defined by strong retail sales, increasing property values, and low unemployment. In 2022, Naperville maintained its status as the largest sales tax generator in Illinois outside Chicago, with retail sales of \$4.6 billion. Economists are predicting a slowdown in consumer spending in the first half of 2024, which has been factored into revenue forecasts.

In 2022, Naperville’s EAV grew to \$8.3 billion, an increase of 5.1% from the prior year. This growth is the result of continued development and appreciation of existing property. Despite challenges in the broader real estate market, developers continue to seek opportunities in Naperville, as evidenced by the Polo Club 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 4.4% for August 2023, which is lower than the 5.3% state unemployment rate and the 5.1% rate for the Chicago metropolitan area.

Nationally, while inflation has come down from the highs seen in 2022, it remains above historical averages. According to the Bureau of Labor Statistics, over the 12 months ending in September 2023, the consumer price index increased by 3.7%. Attempts to slow inflation will likely result in a slowdown in the broader economy; however, a steep decline into a recessionary environment has yet to materialize.

Although Naperville remains in a position of significant financial strength, the City has again chosen a conservative approach to forecasting 2024 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 2024 City of Naperville budget is recommended at \$618.65 million, an overall increase of 2.4% from the amended 2023 budget of \$604.14 million. Increased investment in capital and service level improvements by adding new personnel are the primary drivers behind the increase. The 2024 budget is supported by \$598.20 million in revenues and other financing sources and leverages existing revenue streams and fiscal policies. No new taxes, fees, or additional revenues are recommended to support the 2024 budget proposal, and the proposed property tax levy is expected to result in a lower property tax rate.

	2023 Budget	2024 Budget	Change (\$)	Change (%)
Revenues				
Revenues	552,917,933	555,858,500	2,940,567	0.5%
Interfund Transfers (In)	36,185,816	42,340,466	6,154,650	17.0%
Revenue Total	589,103,749	598,198,966	9,095,217	1.5%
Expenditures				
Expenditures	569,747,990	578,554,127	8,809,900	1.5%
Interfund Transfers (Out)	34,389,991	40,097,421	5,707,430	16.6%
Expenditure Total	604,137,981	618,651,548	14,517,330	2.4%

In addition to an expansive capital improvement program, the budget supports several key measures that address emerging trends that either are currently or may lead to service gaps. With

people being the primary resource in any service-based organization, this is a two-pronged approach: retaining existing staff in a challenging workforce environment and adding staff to ensure effective service delivery in the following identified areas:

Public Safety

- The Police Department recommends the addition of six Police Officers in 2024. This includes four officers to the Patrol Division to staff the downtown Naperville beat 24 hours a day, seven days a week, and two officers to the Strategic Response Unit to proactively address crime trends and improve targeted response to high-risk enforcement activities. The cost of an entry-level Police Officer is \$78,716, plus benefits, for a total cost of \$645,000 for six officers.
- The community's demand for public safety education has increased. In response, the Police Department recommends increasing the two civilian Crime Prevention Specialists from part-time to full-time at a cost of \$32,000.
- In September 2023, the Fire Department was approved for six additional Firefighter/Paramedics through the Community Advocate Response Team initiative. The 2024 budget includes the full-year cost for the additional personnel, adding \$575,000 to the budget.

Public Works

- To address inefficiencies and cost increases experienced in contracted concrete restoration, the Public Works Department recommends adding three Equipment Operators and providing these services in-house while also supplementing other Public Works operations, like snow removal and leaf collection. The total cost of this service enhancement is \$317,000, inclusive of salary, benefits, and one-time equipment purchases.

Transportation

- The ability to address concerns over traffic and mobility will be enhanced through the recommended addition of a Transportation Manager. This position, which existed before 2018, will provide an additional resource to complete special projects and transportation studies at a total cost of \$160,000.

Building Permits

- Turnaround time for issuing building permits will be improved with the recommended addition of a Lead Permit Technician and a Permit Processing Generalist. These positions will improve this vital customer service function at a cost of \$194,000.

Internal Business Partnerships

- The Human Resources Department recommends adding two positions that address the recruitment and retention challenges faced by departments throughout the City. A Recruitment Assistant and a Human Resources Specialist are proposed at a total cost of \$180,000.
- The Information Technology Department is responsible for the operation, maintenance, and security of critical technology systems across the City. Expansion of technology services requires additional resources, and the IT Department has proposed the addition of a Network Administrator and a Senior GIS Analyst at a cost of \$253,000.
- Increasing volume, new requirements tied to the City's Responsible Bidder Ordinance, and state-mandated vendor tracking will place additional resource demands on the

procurement function within the Finance Department. The addition of a Procurement Specialist is recommended at a cost of \$103,000.

- In alignment with comments made by the City's independent auditor, the Finance Department recommends the addition of a Grant Coordinator to manage financial reporting and overall management of state and federal grant programs. The position is recommended at a cost of \$120,000.

Mental Health Resources

- In response to the community's growing need for mental health resources, the 2024 budget recommendation includes an additional \$250,000 in social service grants restricted to mental health service providers.
- As a result of a national opioid lawsuit brought by state and local governments, the City began receiving settlement payments last year. The City anticipates receiving annual payments totaling more than \$650,000 through 2038. These funds must be used for substance abuse response and prevention efforts. The 2024 budget recommends \$100,000 to fund grants to community partners focused on substance abuse and addiction.

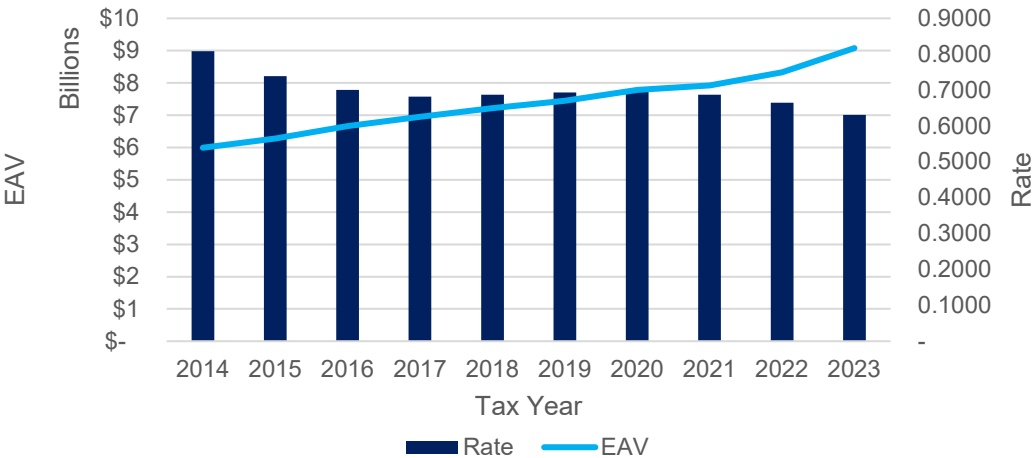
The City works hard to recruit and retain a talented workforce that meets the community's needs. Several measures in the 2024 budget address these trends, with compensation being a primary consideration. The 2024 budget recommendation includes a 4.0% non-union merit pool increase. Compensation for union employees will increase in line with established collective bargaining agreements.



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 2024 budget includes a total tax levy of \$57.27 million, an increase of \$2.05 million, or 3.7%, over last year.

The 2024 budget recommendation continues to take advantage of incremental equalized assessed valuation (EAV) growth, including new development, to maintain a low tax rate. EAV growth is estimated at 9% in 2024. That increase is based on the quadrennial reassessment of property values in the City, which considers real estate market trends over the prior four years. Based on the estimated EAV, the resulting property tax rate would decrease to 0.6309 compared to the current rate of 0.6645.



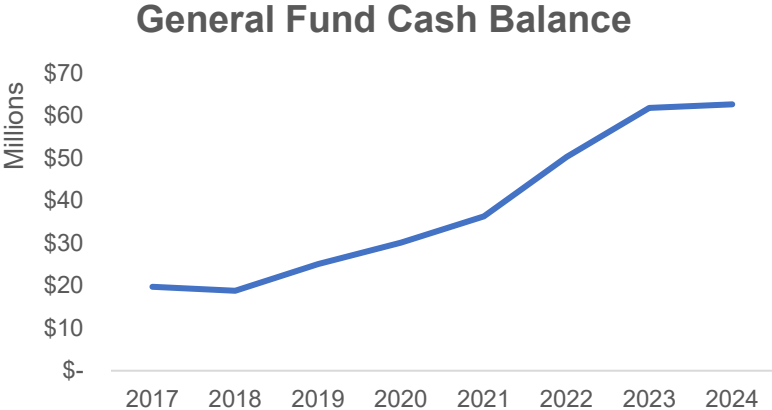
GENERAL FUND OVERVIEW

The General Fund budget totals \$156.35 million for 2024, an increase of \$9.87 million, or 6.7%, over the 2023 budget. Personnel costs primarily drive the General Fund budget, and adding 18 new personnel in 2024 accounts for much of the budget increase.

Expenditures are balanced by \$157.17 million in revenues. General Fund revenues remained strong in 2023, and it is anticipated that they will continue to support a high level of investment in the services provided to the community in 2024. Total revenue for 2024 is projected to increase by 5.0%, led by state sales tax and income tax increases.

	2023 Budget	2024 Budget	Change (\$)	Change (%)
Revenues				
Revenues	144,714,536	151,571,563	6,857,027	4.7%
Interfund Transfers (In)	4,960,518	5,600,273	639,755	12.9%
Revenue Total	149,675,054	157,171,836	7,496,782	5.0%
Expenditures				
Expenditures	142,863,003	151,135,521	8,272,519	5.8
Interfund Transfers (Out)	3,617,998	5,214,750	1,596,752	44.1%
Expenditure Total	146,481,001	156,350,271	9,869,271	6.7%

Consistent revenue growth over the past three 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 \$50.31 million at the end of 2022. Based on year-end estimates for 2023 and budget projections for 2024, the cash balance is expected to increase to more than \$62 million by the end of 2024.



ELECTRIC UTILITY FUND OVERVIEW

The 2024 budgeted revenues for the Electric Utility Fund total \$161.21 million. This is a decrease of \$10.31 million, or 6.0%, from the 2023 budget. Over the past two years, declining energy use by customers has led to revenues lower than what was projected in the Electric Utility’s 2021 rate study. For 2024, revenue has been adjusted to align with recent experience, which results in a \$17.31 million, or 10.8% decrease in electric charges. Also included is a rate increase programmed in 2021 that averages 0.5% across the various rate classes.

The 2024 budgeted expenses in the Electric Utility Fund total \$160.69 million, a decrease of \$10.78 million, or 6.3%. In alignment with the lower revenue, purchased electricity expenses are projected to decrease by \$14.66 million, or 12.4%. The Electric Utility will maintain its Capital Improvement Program at \$21.98 million for 2024; however, it is anticipated that a bond issuance of up to \$10 million will be needed to support the program. The utility will undergo a rate study in 2024 to set rates for the next three years; declining usage will be considered as part of that study.

	2023 Budget	2024 Budget	Change (\$)	Change (%)
Revenues				
Revenues	171,522,387	151,249,482	(20,272,905)	-11.8%
Other Financing Sources (Bonds)	-	9,962,000	9,962,000	-
Revenue Total	171,522,387	161,211,482	(10,310,905)	-6.0%
Expenditures				
Expenditures	170,031,656	159,245,571	(10,786,085)	-6.3%
Interfund Transfers (Out)	1,439,232	1,445,020	5,788	0.4%
Expenditure Total	171,470,888	160,690,591	(10,780,297)	-6.3%

WATER UTILITIES FUND OVERVIEW

The 2024 budgeted revenues for the Water Utilities Fund total \$78.25 million, an increase of \$3.15 million, or 4.2% from the 2023 budget. Revenues in the Water Utilities Fund primarily comprise user charges for water and wastewater. Water charges are budgeted at \$48.50 million, an increase of \$1.97 million, or 4.2%. Wastewater charges are budgeted at \$28.53 million, an increase of \$773,000, or 2.8%. Water and wastewater rates are also programmed to increase by an average of 4.6% across rate classes in 2024.

The 2023 budgeted expenses for water and wastewater services total \$78.25 million. This is an increase of \$3.15 million, or 4.2%. Purchased water for resale to customers represents the single largest expense at \$30.10 million. Another item of significance is an \$18.48 million transfer to the Water Capital Fund. This transfer funds a significant portion of the water infrastructure improvements included in the 2024 CIP.

	2023 Budget	2024 Budget	Change (\$)	Change (%)
Revenues				
Revenues	75,098,642	78,247,172	3,148,530	4.2%
Interfund Transfers (In)	-	-	-	-
Revenue Total	75,098,642	78,247,172	3,148,530	4.2%
Expenditures				
Expenditures	57,427,721	57,825,674	397,953	0.7%
Interfund Transfers (Out)	17,670,921	20,421,498	2,750,577	15.6%
Expenditure Total	75,098,642	78,247,172	3,148,530	4.2%

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 2024 CIP is valued at \$150.44 million, a 7.2% increase from the 2023 approved program of \$140.34 million. Significant capital investments are being made across several categories, including transportation and utility infrastructure. Planned improvements in these areas account for nearly 85% of the overall 2024 CIP. Technology projects represent the area of greatest growth in the CIP, with 2024 projects totaling \$12.10 million, almost twice as much as the prior year.

	2023	2024	Change (\$)	Change (%)
Buildings & Facilities	9.54	9.08	(0.46)	-4.8%
Electric Utility	22.14	18.34	(3.80)	-17.2%
Parks & Recreation	3.52	3.93	0.41	11.6%
Stormwater	2.55	2.35	(0.20)	-7.8%
Technology	6.13	12.10	5.97	97.5%
Transportation	46.79	51.53	4.74	10.1%
Vehicles & Mobile Equipment	5.36	8.18	2.82	52.7%
Water & Wastewater Utility	44.32	44.93	0.61	1.4%
Total	140.34	150.44	10.10	7.2%

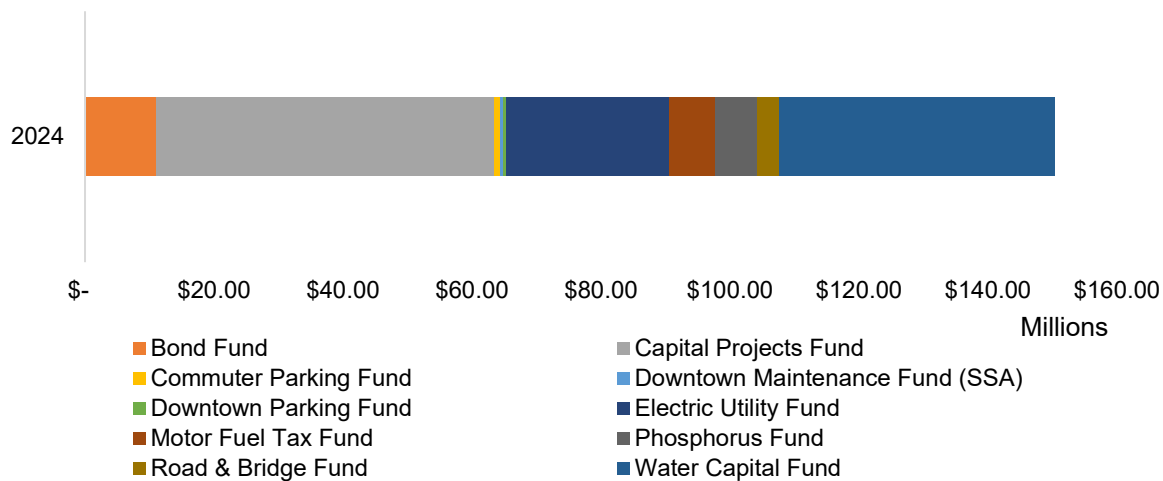
\$ in millions

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

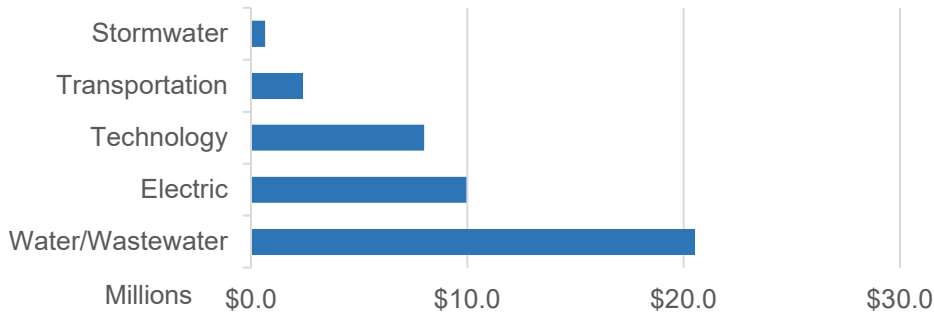
- Major road construction projects, including the North Aurora Road underpass improvements (\$12.2M), Columbia Street reconstruction (\$2.4M), Sylvan Circle reconstruction (\$3.0M), and downtown streetscape improvements (\$5.5M).
- Upgrades to the public safety mobile radio network (\$8.0M) and continued implementation of the new public safety Computer-Aided Dispatch-Records Management System (CAD-RMS) (\$1.8M).
- Water main replacement along River Road (\$5.2M), plus other water main replacements coordinated with road projects on Columbia Street, Sylvan Circle, and Washington Street (\$5.1M).
- Various improvements to the Springbrook Water Reclamation Center, including influent pump station and South Plant force main improvements (\$6.6M), nutrient removal and North Plant aeration improvements (\$4.3M), and electrical distribution system Improvements (\$3.9M).
- Electric system improvements, such as the Tollway Substation improvements (\$3.7M), cable replacement program (\$2.8M), and the River Road duct bank installation (\$2.5M).
- Enhancements to the Naperville Riverwalk, such as construction of the Eagle Street Gateway (\$2.1M) and design of the Riverwalk South Extension (\$365,000).

Major Funding Sources

Below is a chart breaking down the funding sources available to support the 2024 CIP.



Of the \$150.44 million budgeted for the 2024 CIP, \$106.07 million in funding was identified to support the program. Examples of major funding sources include home rule sales tax (\$20.43 million), state and local motor fuel taxes (\$9.20 million), federal and state grant funding (\$17.44 million), and contributions from developers and other governments (\$5.74 million). Other sources include utility charges and existing cash balances. This represents 70% of the total cost, leaving \$44.38 million of the capital program unfunded. The unfunded projects recommended for borrowing are broken into the following project categories:

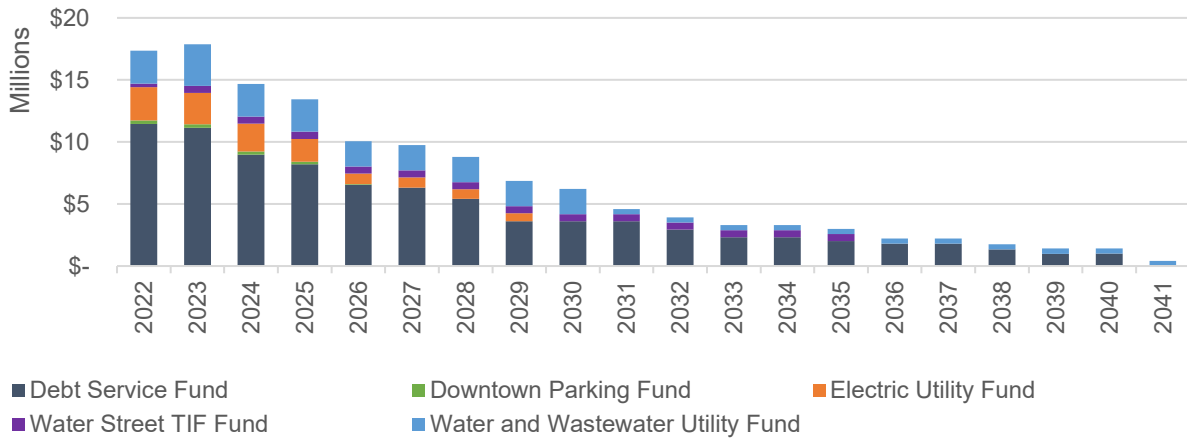


As a reminder, the City issues debt on a reimbursement basis. Therefore, bonds will only be issued if the overall capital program cannot be funded through identified sources. The amounts noted above are estimates, and the City aims to use debt to finance capital projects only when necessary.

PAYING DOWN DEBT

Over the past eight years, the City has reduced its general government debt by more than 25% 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 2024 through 2040 allows the City to continue funding capital projects through debt issuance without negatively impacting the property tax levy.

Debt Service by Fund



CONCLUSION

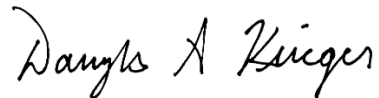
Putting together a budget that not only enhances services but also results in a lower property tax rate for our residents takes an extraordinary amount of teamwork and planning. Our professional staff works year-round to analyze budgetary trends so that we may always think about how to fund our community’s future and meet our short-term and long-term goals. We view the budget

as a fluid document that, while spanning one year, is the building block for all the years to come.

The 2024 budget builds on the priorities of the past two years, the wise financial decisions made over the last decade and through the pandemic, and addresses service gaps before they result in extreme operational deficiencies. Indeed, this budget is the epitome of our mission and values.

We look forward to our continued budget discussions later this month and in the coming weeks.

Sincerely,



Douglas A. Krieger
City Manager



Rachel Mayer
Director of Finance

