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Budget Message & Highlights



October 14, 2022

HONORABLE MAYOR STEVE CHIRICO AND THE NAPERVILLE CITY COUNCIL:

Priorities. Performance. Progress.

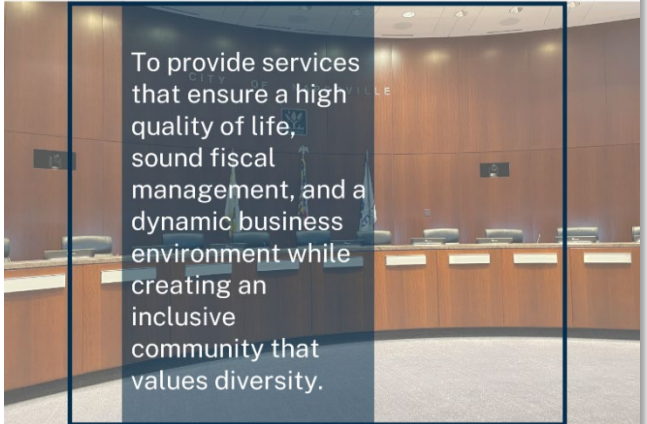
Each of these words exemplifies the mission of Naperville's city government, and together, they tell the story behind our organization's work every day. The 2023 City of Naperville Annual Operating Budget and 2023 – 2027 Capital Improvement Program are built on the idea that, as we continue navigating a post-pandemic economic reality, we must focus on our strategic **priorities** and budget the appropriate resources to drive **performance**. From that performance and resource allocation will come the **progress** that moves our community forward while maintaining financial strength and solvency.

In compiling the annual budget and CIP, staff first looked at the City's mission statement, which provides overarching guidance. From there, the organization's five strategic priorities guiding efforts in financial stability, housing choice, infrastructure and utilities, public safety, and sustainability, along with their associated goals, were evaluated for status and future resource needs. These efforts are detailed in this book's Priorities Plan and Performance Management document. Fiscal policies, revenue recovery, and the 2023 economic outlook were also significant drivers of budget development.

The remainder of this message provides a look at those economic drivers and trends impacting budget development, an overview of the 2023 budget, and a summary discussion of the City's three major operating and maintenance funds: the General Fund, Electric Utility Fund, and Water and Wastewater Fund. The narrative around significant capital investment will be provided, as will a summary of how the 2023 budget is the product of eight years of strategic policy and flexibility within that policy when warranted.

City of Naperville, Illinois

Mission Statement

A photograph of the City of Naperville City Council chamber, showing a large wooden conference table and chairs, with a blue overlay containing the mission statement text.

To provide services that ensure a high quality of life, sound fiscal management, and a dynamic business environment while creating an inclusive community that values diversity.

2023 FINANCIAL CLIMATE AND CONSIDERATIONS

Staff remained acutely aware of federal, state, and regional economic considerations while developing the 2023 budget. Naperville's continued AAA bond rating, consistently low property tax rate, financial principles, and revenue diversification play a significant role in the organization's financial strength despite short-term factors, including ongoing economic uncertainties around inflation and supply chain issues.

City staff continues to be mindful of ongoing economic volatility associated with the worldwide health, social, and geopolitical events of the 2020s. According to the Bureau of Labor Statistics, over the 12 months ending in June 2022, the consumer price index increased 9.1%, the most significant 12-month increase since 1981. While inflation eased somewhat in the later months of 2022, due partly to interest rate increases by the Federal Reserve, this impact will continue to be felt in various sectors moving into 2023, including commodities like natural gas and contracted services. Interest rate increases will also impact Naperville's housing market through a potential slowing of sales and associated real estate transfer tax. Actions at the federal and state level continue to be monitored.

On the state and local level, staff has seen a solid post-pandemic revenue shift that provides cautious optimism. Naperville has seen growth in state-shared taxes, with budgeted retail sales tax revenue set to increase 10.5% over 2022. Local taxes like food and beverage and hotel and motel are set to increase by 29.72% and 50.5%, respectively, over the 2022 budget. These increases are mainly based on actual performance in 2022, which exceeded budget projections in most categories. These are a more immediate indicator of the local economy's continued rebound. The City's diversified tax base continues to strengthen through new businesses and re-developments, including a second Amazon Fresh grocery store, significant re-development of the existing Market Meadows shopping plaza, and re-investment in office spaces near the I-88 corridor.

As much remains uncertain in the post-pandemic landscape, despite Naperville's significant financial strength, the City has again chosen a conservative approach to budgeting, balancing meeting the ongoing needs and resources of the community in the short-term with continued long-term stability.

2023 BUDGET HIGHLIGHTS

Keeping the current economic climate, our mission, and strategic priorities in mind, the 2023 City of Naperville budget is recommended at \$603.32 million, an overall increase of 11.6% from the \$540.58 million 2022 budget. Additional capital expenses are the primary driver behind this increased investment in our organization and community. It is worth noting that the 2023 budget leverages existing revenue streams and fiscal policies. ***No new taxes, fees, or other revenues are recommended to support the 2023 budget proposal.***

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 2023 budget recommendation continues to take advantage of incremental equalized assessed valuation (EAV) growth, including new development, to maintain a low tax rate. Using estimated EAV growth of 2%, the resulting **property tax rate would remain nearly flat** at 0.6875 compared to the current rate of 0.6874, which *results in a savings* of almost \$8 for the City's portion of the average Naperville homeowners' property tax bill, assuming all other factors are equal.

This year, staff divided the budget into four functional categories to highlight how the community's dollars and Council's budgetary allocation directly apply to service delivery. The 2023 budget highlights below summarize significant investments in each of these categories.

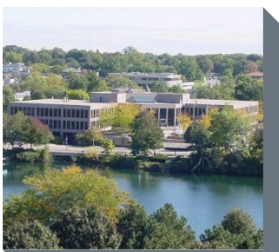


2023 Keeping Naperville Safe

- Since 2020, the Police Department has increased police officer staffing by eight. Six of those officers are assigned to the Strategic Response Unit (SRU) established that same year. This unit engages in high-volume and high-risk activity and has successfully addressed community risks, including those associated with weapons offenses. The unit currently operates with an officer-to-supervisor ratio of 9:1. The Police Department has requested an **additional Police Sergeant** at a salary and benefits cost of **\$150,000**, which will **enhance supervision and allow for expanded work hours for SRU**.
- The Police High-Tech Crimes Unit performs highly specialized and technical work investigating computer crimes, including forensic analysis and intelligence. The unit currently reports to the Sergeant assigned to Crimes Against Persons with a 9:1 officer-to-supervisor ratio. The Police Department has requested an additional **Police Sergeant** at a salary and benefits cost of **\$150,000**. This will provide **supervision in a highly specialized area and reduce the workload for the existing sergeant who manages the most serious crimes in Naperville**.
- The full implementation of a body-worn camera program in 2022 has resulted in an additional workload to fulfill Freedom of Information Act (FOIA) requests. These FOIA requests require significantly more hours to redact video. The Police Department has asked for an **additional Records Specialist** at a salary and benefits cost of **\$79,000** to **mitigate the impacts this additional FOIA workload will have on the department**.
- The Police and Fire departments, in collaboration with the Information Technology Department, will undertake two significant projects in 2023. The City's **computer-aided dispatch (CAD) and associated records management (RMS) programs will be replaced**. This project will improve technology critical to public safety communications and emergency response. The multi-year project is budgeted at **\$2.76 million for 2023**, with a total project cost estimated at \$5.75 million.
- The Police, Fire, and Information Technology departments will also initiate a multi-year project to **upgrade the City's outdated public safety mobile radio network**. This citywide radio network is one of the most critical components of the City's public safety system. The 2023 budget includes **\$1.0 million for project consulting and initial system upgrades**, with the total project estimated at \$20.0 million over the next five years.
- The Fire Department prides itself in achieving among the best cardiac resuscitation success rates in the nation. **Advanced cardiac monitors and auto pulse devices** are essential to this success and are due for replacement. The Fire Department has identified a managed services model that would replace all current equipment twice over 10 years

and provide for all warranties and ongoing maintenance. The annual cost of the program is **\$307,000 annually for 10 years**.

- Maintaining proper work facilities is key to the success of the City's public safety departments. Last year, the **Police Department** began a multi-year project to **update key spaces within that facility**. In 2023, that project will continue renovating the sergeants' and commanders' work areas for **\$481,000**. This includes much-needed electrical upgrades.
- The Fire Department will initiate a multi-year plan in 2023 to **update the living quarters in seven of the City's older fire stations**. These improvements, budgeted at **\$300,000 for 2023**, are necessary to improve gender equality and infection control in firefighter sleeping quarters.
- The Fire Department, in collaboration with other City departments, will begin an **assessment of the City's need for a centralized emergency management facility**. The vision is a facility that can serve as a location to deploy resources, provide training spaces, and serve as an emergency operations center. The 2023 budget includes **\$400,000**, funded through a state grant, that will support a needs analysis and define the project's scope. Ultimately, the outcome may be constructing a new facility or repurposing an existing City resource.
- The Police Department **body-worn camera program** is fully implemented, and in-car camera technology is currently being installed. These programs were funded through the Capital Projects Fund in 2022. In 2023, the **maintenance and data storage costs will shift to the General Fund at an annual cost of \$440,000**.
- Fire and police pensions represent a significant cost in the annual budget. Pension costs have risen steadily over the past decade. The City of Naperville has taken extraordinary steps to ensure that our public safety pension funds provide for the long-term security of our first responders while mitigating the impact on the City's overall fiscal health. In 2023, the **required annual contributions for fire and police pensions will decrease by \$762,354**, or 4.1%. This is the most notable decrease in required annual funding in nearly 20 years. The City will fund the required \$17.95 million through the property tax levy and an additional \$1.48 million through the Food & Beverage Tax.



2023 Supporting Effective Government

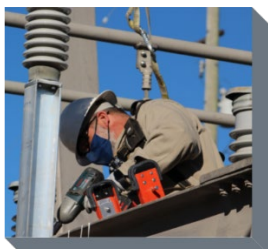
- As the fourth largest city in the state, the resources needed to support effective government continue to grow. The City Manager's Office ensures that all parts of the organization have those resources. This requires the City Manager's Office to be staffed to support daily operations, programs and projects while managing external demands, fostering community partnerships, and monitoring and responding to state legislative

matters. The City Manager's Office has requested a full-time **Assistant to the City Manager** at the cost of **\$113,000** for salary and benefits.

- The Legal Department provides ongoing support to all departments of the City as well as the City Council. The department has operated under a reduced staffing model for several years after eliminating two full-time positions in 2017, including the Deputy City Attorney. As workloads continue to grow, the Legal Department has identified a need to reinstate the **Deputy City Attorney** position at an annual cost of **\$187,000** for salary and benefits. **In addition to mitigating workload challenges, the position will help establish a succession plan**, as 40% of department staff may retire in the next three years.
- In 2023, the City Manager's Office will coordinate a **citizen engagement survey** to evaluate how the organization meets the community's needs and achieves its Priorities Plan. The last time this type of survey was conducted was in 2016. Now is the appropriate time to renew this survey, as demands have changed in many areas since the COVID-19 pandemic. The cost of consulting services for this project is **\$45,000**.
- The City continues its focus on efforts toward diversity, equity, and inclusion (DE&I). Over the past 18 months, the City's DE&I manager has worked to identify internal and external needs in this space and is establishing programming for the benefit of the City's workforce and in partnership with other local organizations to increase awareness in the community. The 2023 budget includes **\$40,000** for **DE&I initiatives**, including event programming and professional development.
- Technology continues to play a vital role in the effective delivery of local government in the 21st century. Replacing outdated systems and enhancing current technology solutions has become a continuous effort that consumes significant budgetary and human resources. Work on several long-term technology projects will continue in 2023, and several new projects will be initiated. In collaboration with the Finance and IT departments, the Transportation, Engineering, and Development Business Group (TED) made significant progress toward implementing the **Enterprise Licensing and Permitting component of the City's enterprise resource planning system**. Work in 2023 will focus on implementing the permitting module, the online submittal and payment portal, and the inspections module. **\$300,000** is budgeted for this work in 2023.
- The Finance Department recently learned that the City's vendor that provides our current employee timekeeping and leave management tool was acquired and plans to sunset the product in 18 months. Staff is in the process of implementing a plan to evaluate alternative solutions and will begin implementing a **new timekeeping solution** in 2023. The budget includes **\$25,000 for 2023**, with a total project cost estimated at \$825,000 over multiple years.
- As technology continues to evolve, so does cyber criminals' threat to the City. The IT Department has prioritized the **security of the City's network** and will add resources in 2023 in both the capital and operating budgets. The department will expand several professional services contracts and software/hardware maintenance agreements in 2023 for a budget increase of nearly **\$750,000**.
- Several capital projects are also included in the 2023 budget to improve network security and other aspects of the City's technology infrastructure. They include **data center**

improvements (\$75,000), data storage upgrade and expansion (\$360,000), and the implementation of application-centric infrastructure (\$200,000). The department will also lead the migration to the **next generation of geographic information system (GIS) technology (\$150,000).**

- Workforce trends have presented employers with numerous challenges in the post-pandemic era. The City works hard to recruit and retain a talented workforce capable of meeting the community's needs. Several measures in the 2023 budget work to address these trends, with compensation being a primary consideration. The 2023 budget recommendation includes a **4.0% non-union merit pool increase** with a value of \$1.20 million across all budgetary funds. Compensation for union employees will increase in line with established collective bargaining agreements.
- Compensation will also be addressed through a formal **compensation study** initiated in 2023. The Human Resources Department will lead this effort. The budget includes **\$125,000** for professional consulting services related to this project.
- Another component of the City recruitment and retention philosophy is employee training and professional development. The 2023 budget includes **\$1.50 million** in funding for training and professional development expenses. This is an increase of \$152,000, or 11%, over 2022. Notable additions include a \$31,000 increase in the Police training budget and a \$92,000 increase in the Electric Utility training budget.
- As the City navigates the challenges associated with the current labor market, several City departments have leveraged greater use of **contractual staffing services** to meet demands. Contracted staffing has helped fill gaps created by employee turnover, hiring lags, employee leave, and providing resources on special projects. These services have been utilized in Finance, IT, and Electric most recently, and the 2023 budget includes **\$589,000** to support contracted staffing.
- Providing quality healthcare benefits is essential to our workforce. In recent years, the Human Resources Department has worked with the City's health benefits consultant to provide high-quality coverage while keeping costs low. In 2023, **health insurance premiums will increase by 3.3%**, while dental premiums will remain unchanged. The 2023 budget includes **\$19.8 million** in total healthcare costs related to claims and administrative fees.

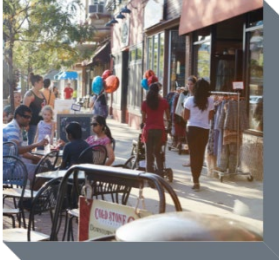


2023 Providing Naperville's Necessities

- As the Water Utilities work to expand their capital improvement programs to address aging water and wastewater infrastructure, the need for additional resources is apparent. The Utility has requested the addition of a full-time **Engineering Manager**. This position existed until it was eliminated in 2017, and the Deputy Director assumed the role. Given

the scale of the current water capital program compared to 2017, it is no longer practical for the Deputy Director to take on both roles. The Utility proposes repurposing a vacant part-time Administrative Assistant, so the headcount increase is 0.5 FTE. The budgetary impact is **\$134,000**, inclusive of salary and benefits.

- Capital investment in water and wastewater infrastructure will expand in 2023. The 2021 rate study contemplated annual capital spending of about \$28 million; however, an asset evaluation of the Springbrook Water Reclamation Center has advanced the need to invest more in that asset in the coming years. That need is driven by regulatory demands, such as phosphorus limits and wastewater capacity issues. The total Water CIP will expand to \$44.3 million in 2023, with more than **\$16.0 million in plant capacity and process improvements planned for SWRC**.
- The City also remains focused on replacing aging water mains in 2023, with more than **\$9.4 million** budgeted for three primary **water main projects** in 2023: Main & Porter area, River Road – Raymond to Aurora, and 11th Ave – Washington to Columbia. Water main will be replaced in several other locations in coordination with road and bridge construction projects led by TED.
- The Electric Utility continues its effort to maintain the City's electric grid, making strategic improvements where necessary. In 2023, the Utility will resume work on the **Edward Hospital Substation expansion**, budgeted at **\$350,000**, improving capacity at that location. Work will also continue on the **Tollway Substation improvements**. Over five years, this \$8.0 million project will improve reliability along the I-88 corridor. Work in 2023 is budgeted at **\$2.0 million**.
- The City continues pursuing federal funding for electric infrastructure improvements through our partnership with West Monroe Partners. The Electric Utility has identified more than \$47 million in eligible projects, including **undergrounding overhead power lines and fiber optic communications in the City's distribution automation network**. The 2023 budget includes **\$9.12 million** across these two projects; however, both are solely dependent on securing federal funds.
- Inflationary cost increases are being realized across several areas within the utility budgets. Both utilities have budgeted for **natural gas increases** totaling **\$38,000**, up 55%. The Water Utility is experiencing higher costs for salt and chemicals used in the water treatment process and budgeted a \$59,000, or 12%, increase for 2023. The most notable increase is seen in the Electric Utility's **operating supplies**, which increased \$2.0 million, or 50%, to **\$6.0 million** for 2023. This budget line accounts for the major components of the electric distribution system, including cable, transformers, switches, and other equipment used in capital and operating maintenance projects.
- The City will continue aiding residential customers of the Electric and Water utilities through the **Utility Bill Assistance Program**. The 2023 budget includes **\$300,000** for utility assistance, an amount previously set by the City Council. That amount includes fees paid to Loaves & Fishes for their program administration.



2023 Providing Quality of Life

- The Transportation, Engineering, and Development Business Group (TED) contributes to the City's high quality of life through its responsibility for ensuring that the built environment meets all established zoning and building codes. Assistant Planners are critical to that function as they review plans and permits in the single-family development process. TED employs one full-time and one temporary Assistant Planner. The department has requested that the temporary position be made a **permanent, full-time Assistant Planner** at an annual salary and benefits cost of **\$90,000**. The additional position would free senior planning staff to focus on more complex development cases and special projects, such as affordable housing, land use plan implementation, and historic preservation.
- TED also maintains primary responsibility for the City's transportation infrastructure, which is the largest share of the City's Capital Improvement Program (CIP) in most years. The value of TED's 2023 CIP is nearly \$50 million. TED has requested several additional resources in the 2023 budget to assist with the planning and execution of their CIP. An additional **Project Engineer** is asked for at the cost of **\$108,000**, including salary and benefits. The department has also requested funds for **contractual inspection services** related to the bridge inspection program (**\$30,000**) and the street maintenance program (**\$65,000**).
- In 2023, several significant capital projects will be undertaken to improve the community's functionality and aesthetic value. Considerable work will commence downtown with the long-awaited **Washington Street Bridge reconstruction**, which is budgeted at **\$3.8 million** for 2023. In coordination with that project, the next phase of the **Downtown Streetscape Project will begin along Washington Street between Benton and Chicago avenues**. 2023 construction and engineering is budgeted at **\$6.65 million** and includes more than \$1.0 million in utility infrastructure improvements. Other notable projects include the **North Aurora Road Underpass (\$14.5 million)**, **Columbia Street reconstruction – Monticello to Plank/5th (\$3.38 million)**, and the annual **Street Maintenance Program (\$13.0 million)**.
- As the City looks to the future, TED will update the **Long-Range Transportation Plan** at **\$125,000**. Last updated in 2007, most projects identified in the plan are completed or in progress. An updated plan will confirm that the remaining projects remain relevant and identify capacity needs to be addressed through future capital improvement projects.
- The City's sustainability efforts aim to improve the quality of life not just in the short term but for generations to come. The Community Services Department continues taking the lead on managing the sustainability work plan with the support of all other departments. The 2023 budget supports these efforts by adding several new programs or initiatives. In 2022, a successful pilot of an **electric lawn equipment rebate program** was conducted. That program will be expanded in 2023, providing **\$10,000** in rebates to residents who

switch from gas to electric lawn equipment. The budget also includes **\$25,000** for consulting services necessary to complete a **Greenhouse Gas Emissions Inventory**.

- In 2022, the Public Works Department began identifying areas needing aesthetic improvements throughout the city. These **community beautification** efforts focused on high visibility areas, such as entry points to the City, and made improvements to signage, landscaping, and other amenities. Public Works has included **\$100,000** in the budget to continue these efforts in 2023. Public Works has also included **\$200,000** to begin converting appropriate areas of City-owned property from turf grass to **native vegetation**. This program to create natural landscapes will enhance properties while contributing to sustainability efforts.
- Enhancements are also planned along the **Naperville Riverwalk**. Construction of the **Eagle Street Gateway** is planned for **\$2.1 million** in 2023. This project creates a scenic Riverwalk attraction that improves pedestrian circulation and accessibility. The City anticipates receiving **\$900,000 in federal funding** for the project. Other Riverwalk investments include significant repairs to the **Fredenhagen Park fountain**, budgeted at **\$445,000**, and **design engineering for the Riverwalk south extension for \$155,000**.
- Public Works and TED share the responsibility to manage stormwater to mitigate potential hazards and damage to public and private property. In 2023, Public Works will perform significant rehabilitation of the **Naper Boulevard Pump Station** located at the BNSF underpass for **\$1.5 million**. This includes new pumps, piping and valves, safety devices, lighting, ventilation, hatches, handrails, electrical devices, conduits, and additional controls. TED will conduct **preliminary engineering to replace culverts in Cress Creek** along Burning Tree Lane and Zaininger Avenue for **\$85,000**, with future construction estimated at \$425,000.
- **Public buildings and facilities** provide for quality of life for the citizens they serve and the employees who work in them. Public Works will continue to make investments necessary for the long-term use of public facilities. Maintenance of major building components includes **roofs (\$1.09 million)**, **windows and doors (\$495,000)**, and **HVAC systems (\$160,000)**. In 2023, work will begin to implement a five-year capital plan for Municipal Center improvements. The first phase will include **security improvements** to the lobby area at an estimated cost of **\$250,000**.
- Downtown public parking facilities will receive attention in 2023 with a **\$1.5 million** investment planned for the **Van Buren and Water Street parking decks**. The most substantial work will include repairing leaks to prevent structural deterioration at Van Buren and joint and sealant repairs at Water Street. Public Works also plans to refurbish the severely deteriorated driving surfaces on the lower level of the **Municipal Center parking deck** at the cost of **\$850,000**.
- The City will continue to provide all the services our community has come to appreciate in 2023, albeit at a greater cost in many areas. **Inflationary cost increases** are notable in the services provided by Public Works. These include snow removal, leaf and brush collection, street sweeping, and any other work in which fuel cost is a significant consideration. The City's **fuel budget increases 31%** in 2023 to \$1.68 million, while the cost of **road salt increases by 40%** to \$68.63 per ton. Efforts to reduce fuel consumption and salt usage will mitigate these cost increases.

- The 2023 budget supports the **Naperville Public Library** and **Naper Settlement**, two vital community amenities, through the annual property tax levy. The 2022 levy includes **\$15.96 million in property tax support for the Library, an increase of 4.2%, and \$4.16 million for Naper Settlement, an increase of 6.5%**. The City will also support key capital projects, including the construction of the **Innovation Gateway at Naper Settlement (\$1.2 million)** and **renovations at the Naper Boulevard Branch of the Library (\$650,000)**.

GENERAL FUND OVERVIEW

	2022 Budget	2023 Budget	Change (\$)	Change (%)
Revenue				
Charges for Service	8,608,127	9,845,174	1,237,047	14.4%
Fines, Fees, and Surcharges	2,015,000	2,023,500	8,500	0.4%
Licenses and Permits	2,014,280	1,978,625	(35,655)	-1.8%
Local Taxes	49,322,797	51,715,657	2,392,860	4.9%
Other Revenue	190,000	165,000	(25,000)	-13.2%
Outside Revenue Sources	3,655,104	3,215,217	(439,887)	-12.0%
Shared Revenues	67,457,547	75,771,363	8,313,816	12.3%
Interfund Transfers	4,145,323	4,360,518	215,195	5.2%
Revenue Total	137,408,178	149,075,054	11,666,876	8.5%
Expenses				
Salaries & Wages	72,343,382	76,705,084	4,361,702	6.0%
Benefits & Related	34,218,035	34,521,700	303,665	0.9%
Purchased Items	9,227,607	11,051,742	1,824,135	19.8%
Purchased Services	15,267,594	18,089,130	2,821,535	18.5%
Interfund TF	2,659,192	3,617,998	958,806	36.1%
Grants & Contributions	1,742,640	1,820,347	77,707	4.5%
Expense Total	135,458,450	145,806,001	10,347,550	7.6%

For 2023, budgeted revenues for the General Fund total \$149.08 million, which is \$11.67 million, or 8.5%, more than the 2022 budget. For 2023, General Fund budgeted expenses total \$145.81 million, an increase of \$10.35 million, or 7.6%.

Notable Changes – Revenue

- Total **retail sales tax** revenue for 2023 is estimated at **\$46.23** million, an increase of \$4.39 million, or 10.5%, over 2022. Sales tax incentive rebates reduce that amount by \$268,331 for net revenue of \$45.96 million. Actual receipts for 2022 have come in much higher than anticipated, but growth is expected to slow by Q4 of 2022. The 2023 estimate represents 1.8% growth over 2022 estimated receipts.
- **State income tax** revenues shared through the Local Government Distributive Fund (LGDF) are estimated at **\$21.98 million** for 2023, an increase of \$3.71 million, or 20.3%, from the 2022 budget. State income tax receipts have risen sharply over the past two years as unemployment declined and corporate profits increased. This increase is based

on Illinois Municipal League (IML) estimates for 2023. Growth in this revenue is expected to slow with the broader economy in 2023 compared to the prior two years.

- **Hotel & motel tax** is budgeted at **\$3.61 million** for 2023 before tax incentive rebates. This represents a \$1.21 million, or a 50.5% increase from the 2022 budget. The increase is attributable to the post-pandemic recovery of the hotel industry. The four active incentive rebates reduce this amount by \$1.26 million for total net revenue of \$2.34 million.
- **Ambulance fees** will increase by 16.7% to **\$7.0 million** in 2023. This revenue growth is in line with the actual revenues generated in 2021 and 2022 based on the GEMT cost-of-service recovery model.

Notable Changes – Expenses

- **Salaries and wages** will increase by **\$4.36 million**, or 6.0%. This includes all negotiated increases for union employees and a 4.0% merit pool wage increase for non-union employees. In addition, the budget includes requests for seven new positions allocated primarily to the General Fund.

The **required contribution to the Police and Fire pensions** decreases by \$762,354 in 2023. The General Fund will support the full contributions in 2023 with additional contributions made by the Food & Beverage Fund. Estimated **IMRF contributions** will decrease by 8.7% in 2023, with rates falling from 8.85% to 7.26%.

- **Purchased Services** will increase by **\$2.82 million**, or 18.5%. This is due to software and hardware expenses increasing, an uptick in temporary staffing in departments, IT security needs, and operational contracts, especially with service contracts where fuel prices have driven up costs.



- **Purchased Items** increased by **\$1.82 million**, or 19.8%. Much of this is due to increased fuel prices, salts and chemicals, and operating supplies impacted by inflation and technology replacement costs.

ELECTRIC FUND OVERVIEW

	2022 Budget	2023 Budget	Change (\$)	Change (%)
Revenue				
Charges for Service	159,061,985	159,553,939	491,954	0.3%
Fines, Fees, and Surcharges	2,529,790	2,700,723	170,933	6.8%
Other Revenue	100,359	140,959	40,600	40.5%
Outside Revenue Sources	548,399	6,766	(541,633)	-98.8%
Shared Revenues	-	9,120,000	9,120,000	-
Revenue Total	162,240,533	171,522,387	9,281,854	5.7%
Expenses				
Salaries & Wages	13,020,794	14,244,163	1,223,369	9.4%
Benefits & Related	4,062,129	4,451,510	389,381	9.6%
Debt Service	2,827,688	2,633,780	(193,908)	-6.9%
Purchased Items	121,268,864	125,236,863	3,967,999	3.3%
Purchased Services	6,220,114	7,216,940	996,826	16.0%
Capital Outlay	11,912,467	15,725,700	3,813,233	32.0%
Interfund TF	1,248,365	1,439,232	190,867	15.3%
Grants & Contributions	222,890	522,700	299,810	134.5%
Expense Total	160,783,311	171,470,888	10,687,577	6.6%

The 2023 budgeted revenues for the Electric Utility total \$171.52 million. This is an increase of \$9.28 million, or 5.7%, from the 2022 budget. The 2023 budgeted expenses for the Electric Utility total \$171.47 million, an increase of \$10.69 million, or 6.6%.

Notable Changes - Revenues

- **Electric charges** are budgeted at **\$159.52 million** for 2023, or 0.4% more than the 2022 budget. Charges include electric charges for general services, residential, small and large commercial, transmission, and metered lighting.
- **Federal grant funding** totaling **\$9.12 million** is included in the 2023 budget. If awarded, those funds will support capital infrastructure investment.

Notable Changes – Expenses

- **Purchased electricity** is the largest line item in the utility's budget. Based on historical usage and estimated IMEA rates, the cost for 2023 is expected to increase by 1.2% compared to the 2022 budget of \$118.18 million.
- Like many departments, the Electric Utility is seeing an increase in **purchased items**. For Electric, purchased items are increasing by **\$2.5 million**, or 56.4%. Of this amount, \$2.0 million is attributed to warehouse inventory, which includes cable, switches, and other capital infrastructure items. This increase is also driven by the rising cost of natural gas and advancing technology needs.
- Electric's total planned capital outlay in 2023 is **\$15.73 million**, an increase of \$3.8 million, or 32.0%. The main driver of the increase is \$9.12 million in capital projects dependent on

federal infrastructure funding. If funds are not secured, these projects will not proceed in 2023.

WATER AND WASTEWATER FUND OVERVIEW

	2022 Budget	2023 Budget	Change (\$)	Change (%)
Revenue				
Charges for Service	72,013,133	74,384,405	2,371,272	3.3%
Fines, Fees, and Surcharges	411,629	424,772	13,143	3.2%
Other Financing Sources	7,000,000	-	(7,000,000)	-100.0%
Other Revenue	275,000	275,000	-	0.0%
Outside Revenue Sources	142,505	14,465	(128,040)	-89.8%
Revenue Total	79,842,267	75,098,642	(4,743,625)	-5.9%
Expenses				
Salaries & Wages	9,255,622	9,906,611	650,989	7.0%
Benefits & Related	3,209,923	3,361,594	151,671	4.7%
Debt Service	2,199,400	3,337,900	1,138,500	51.8%
Purchased Items	30,788,648	34,358,814	3,570,166	11.6%
Purchased Services	5,408,176	6,245,302	837,126	15.5%
Interfund TF	19,250,490	17,670,921	(1,579,569)	-8.2%
Grants & Contributions	185,690	217,500	31,810	17.1%
Expense Total	70,297,949	75,098,642	4,800,693	6.8%

The 2023 budgeted revenues for the Water Utilities total \$75.09 million, a decrease of \$4.74 million from the 2022 budget. The 2023 budgeted expenses for water and wastewater services total \$75.09 million. This is an increase of \$4.80 million.

Notable Changes – Revenue

- **Water charges** make up 62.0% of the Water Utilities' revenues, totaling **\$46.53 million**. The estimated increase is approximately \$2.27 million more than the 2022 budget and aligns with the rate increase. This aligns with the rate increase in the 2021 rate study approved by the City Council that set water rates through 2024.
- **Wastewater charges** make up 37.0% of the Water Utilities' revenues, totaling **\$27.81 million**. The estimated increase is approximately \$97,670 more than the 2022 budget and aligns with the rate increase in the 2021 rate study.

Notable Changes – Expenses

- **Purchased water** is the most significant expense on the utility's budget, accounting for 37.8% of total expenses. Based on historical usage and the DuPage Water Commission rates, purchased water costs are projected at **\$29.57 million**, representing a 12.8 % increase over the 2022 budget.

- **Purchased services** will increase by **\$837,126**, or 15.5%. The increase is tied to engineering services to facilitate a space needs analysis of Water's facilities, the required five-year ARC flash survey by OSHA, and a \$139,125 increase in Human Resources services for contracted employees within the fund.
- The Water and Wastewater Fund will **transfer \$16.08 million to the Water Capital Fund** to support capital infrastructure investment.

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 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.



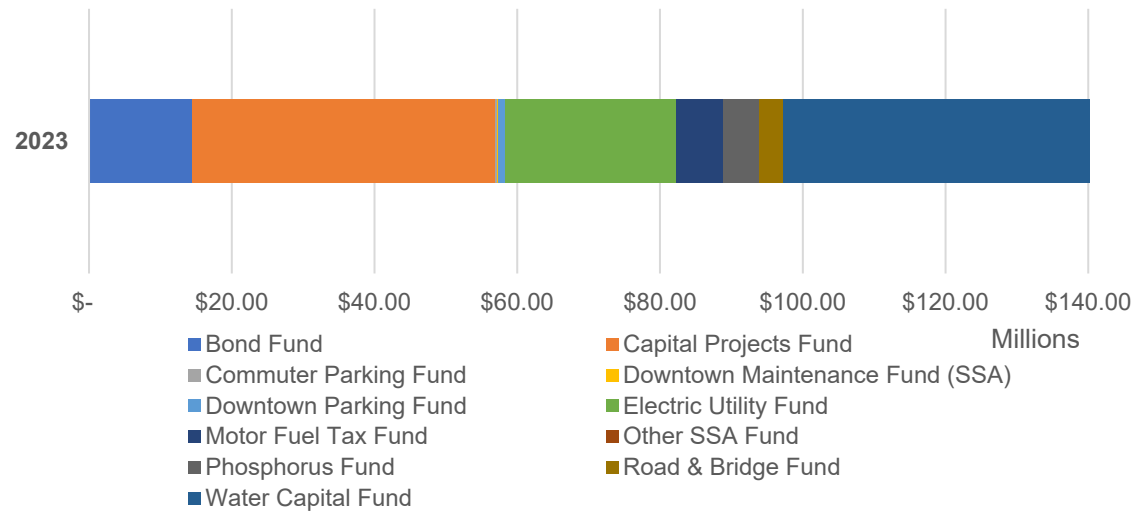
The 2023 CIP is valued at \$140.19 million, a 31% increase from the 2022 approved program of \$107.00 million. The CIP continues to reach new milestones as the City re-invests more in aging infrastructure and new capital programs. Significant increases in capital investment are being made across several categories, with the most notable occurring in the electric and water/wastewater utility infrastructure. Planned improvements in utility infrastructure account for 70% of the overall increase in the 2023 CIP. And, while technology investments account for only 4% of the total CIP, spending in that category will experience the most significant growth in 2023.

	2022	2023	Change (\$)	Change (%)
Buildings & Facilities	6.78	9.54	2.76	40.7%
Electric Utility	15.44	22.14	6.70	43.4%
Other Equipment	-	-	-	-
Parks & Recreation	1.69	3.37	1.68	99.4%
Stormwater	1.59	2.55	0.96	60.4%
Technology	1.89	6.13	4.24	224.2%
Transportation	45.35	46.79	1.44	3.2%
Vehicles & Mobile Equipment	6.80	5.36	-1.44	-21.2%
Water & Wastewater Utility	27.47	44.32	16.85	61.3%
Total	107.01	140.19	33.18	31.0%

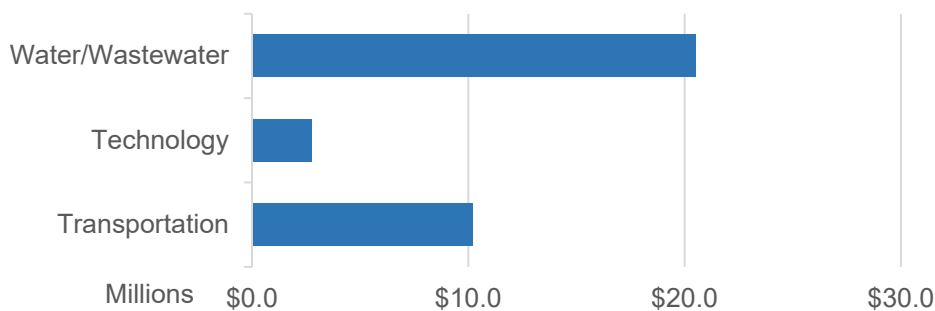
\$ in millions

Major Funding Sources

Below is a chart breaking down the funding sources available to support the 2023 CIP.



Of the \$140.19 million budget for the 2023 CIP, \$105.23 million in funding was identified to support the 2023 program. Examples of major funding sources include home rule sales tax (\$17.99 million), state and local motor fuel taxes (\$9.10 million), federal and state grant funding (\$22.22 million), and contributions from developers and other governments (\$9.45 million). Other sources include utility charges and existing cash balances. This represents 75% of the total cost, leaving \$34.96 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.

IN CONCLUSION

As policy setters, the City Council's decisions regarding Naperville's finances set the tone for preparing and implementing the City's annual operating budget and CIP. We would be remiss not to recognize outgoing Mayor Steve Chirico's leadership over the past eight years, especially in creating and advocating for Naperville's financial principles while remaining flexible throughout the extraordinary global events of the past three years. As we approach the formal end of these

principles' lifespan, we have met – and exceeded – each principle, including reducing the City's debt by an anticipated 33% and rebuilding cash reserves to more than 27%, all while maintaining City services and balanced budgets.

We also wish to thank Councilman Paul Hinterlong for his 13 years of service on the City Council and his strong dedication to being mindful of where our dollars come from – our community members.

On behalf of the City's executive leadership team, we look forward to discussing the proposed 2023 operating budget and CIP at the upcoming budget workshop series. The resources provided in this budget allow our departments to continue moving forward with the projects, priorities, and initiatives that have made Naperville a world-class community where the government does not just serve its citizens but instead serves those citizens well.

Respectfully,



Douglas Krieger
City Manager
City of Naperville



Rachel Mayer
Director of Finance
City of Naperville

