

October 2018

Dear Mayor and City Council:

It is with great pleasure that we present to you the proposed 2019 City of Naperville Annual Operating Budget and Capital Improvement Program. This document is the result of months of preparation, evaluation, and efforts by the Director Leadership Team to bring forth a document that adheres to our financial principles and meets the service needs of our residents while simultaneously advancing the City's goals and ends policies. Most importantly, this year's budget recommendation reflects the priorities and guidance provided by you, the policy makers, during our financial discussions earlier this fall.

During the preparation, staff sought the Council's guidance on financial priorities, including citywide service levels, long-term financial goals, and short-term financial impacts. This was due to the recognition that competing initiatives in the City's budget and the goals and principles could not be met under current conditions. Based upon City Council's input during these discussions, staff is pleased to bring forth a 2019 budget recommendation that continues to align with the City's financial principles.

City Council exerts primary control over four major areas that impact budgetary outcomes. Based upon the feedback provided, the following priorities were woven into the budget recommendation:

### **1. Service Levels**

The City needs to generate revenues through taxes and fees to support the many services our residents have come to expect. The setting of community service levels by the City Council ultimately dictates the revenue and expenditures requirements. There are three components of the service level discussion: continuity of existing service levels, addressing service level concerns and providing resources to achieve City goals.

The feedback received from City Council was that budgetary requests should be tied to the City's ends policies and that there must be justification provided to demonstrate service level issues. The budget documents detail the overall increases in the budget and how they tie back to service levels and the ends policies.

### **2. Property Taxes**

Property taxes primarily fund long-term obligations of the City such as public safety pensions, IMRF pensions and debt service payments. Property taxes are also the predominate funding source for the Library and Naper Settlement operations.

Staff sought guidance on two options: 1) maintaining a flat property tax levy, or 2) maintaining a flat property tax rate. The City Council was open to taking advantage of community growth through property taxes in the form of maintaining a flat rate. This increase is included in the budget recommendation, which allows the City to leverage EAV growth.

### **3. Debt Reduction**

Financial Principle #3 currently sets the parameters required to reduce debt by 25% by the end of 2022. This long-term financial goal is expected to reap positive impacts starting in 2024, when debt payments significantly decrease and eventually stabilize near 2030.

Staff sought Council guidance on the adjusting this goal in relationship to the amount of annual revenue generated to support capital reinvestment. The feedback received was that there was some flexibility related to debt reduction. Due to project deferrals and delays, that flexibility is not built into the 2019 budget recommendation, and staff is still in line to reduce debt by 25% by 2022. However, this flexibility may be a consideration for future year budgets.

#### **4. Reserve Levels**

Financial Principle #3 states that the City will actively seek to increase its reserves to 25% over eight years. The intent of this long-term goal included reversing historical drawdowns of cash, protection against a potential downgrade of the City's AAA bond rating and security in the event of financial hardship.


Staff sought guidance around the 25% cash reserve level goal, which impacts the amount of revenue available to support capital reinvestment. The City Council stated there was little to no flexibility related to changing the reserve level target. Therefore, no adjustments to reserve levels were included in the 2019 budget recommendations.

The 2019 operating budget is recommended at \$452.2 million, an overall increase of 2.2% from the \$442.4 million 2018 budget. This figure is the result of two rounds of reviews with the Finance Department and City Manager's Office to ensure departments' requests aligned with the above Council direction. All changes made during the review process are integrated into the proposed budget document. As noted earlier, the proposed budget also aligns with the City's three financial principles that were developed to promote the long-term financial success of the community.

<b>Principle #1</b>	<b>Principle #2</b>	<b>Principle #3</b>
The City will pass a structurally balanced operating budget annually	The City commits to continuous improvement in the delivery of necessary and cost-effective services	The City will actively seek to increase its reserves to 25% and reduce its debt by 25% in the next eight years.
<i>2019 Proposed - Achieved</i>	<i>2019 Proposed – On Target</i>	<i>2019 Proposed – On Target</i>

The City Council's proactive approach to fiscal management has put Naperville on solid financial ground. Council initiatives have led to pension stabilization, debt reduction, rebuilding of cash reserves and property tax reductions. In addition, the City's fiscal responsibility to the taxpayers results in continuous efforts to find efficiencies in service delivery and overall government performance. The 2019 budget delivers upon this philosophy as well as the three financial principles that serve as its guideposts. City staff looks forward to the upcoming budget workshops.

Respectfully submitted this 19<sup>th</sup> day of October 2018

  
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