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12/1/2020	1	City Council	closed	Pass

CITY COUNCIL AGENDA ITEM

ACTION REQUESTED:

Conduct the public hearing for the 2021 Annual Operating Budget (Item 1 of 2)

DEPARTMENT: Finance Department

SUBMITTED BY: Rachel Mayer, Finance Director

BOARD/COMMISSION REVIEW:

N/A

BACKGROUND:

The annual budget is the City's financial and operational plan. It serves as the guide for the upcoming budget year, as well as setting the stage for future years' efforts through initial budgetary investments in multi-year programs and services. The budget development process brings together input from elected officials, department directors, staff, and the public to shape the City's goals and objectives for the coming year and beyond.

Per state statute, a public hearing on the proposed 2021 Annual Budget will be held at the December 1, 2020 City Council meeting prior to the adoption of the budget ordinance. Once the hearing concludes, the budget may be revised and passed without further public inspection, notice, or hearing.

DISCUSSION:

Budget Process

Due to the onset of the COVID-19 global pandemic, the 2021 budget development process took a different approach than previous years. In March 2020, the City began experiencing the financial impacts of the pandemic, and, in response, began closely analyzing revenues and expenditures.

Since May, staff has presented monthly financial reports to the City Council. Those monthly reports included discussions on potential responses to the economic impacts of the pandemic and the appropriate timing of those actions. These discussions led to several actionable responses, including a \$25 million amendment to the 2020 capital improvement budget, an expanded debt issuance to take advantage of low interest rates, and an amendment to the Home Rule Sales Tax (HRST) and Food and Beverage Tax ordinances to allow for temporary alternative use of those revenues. Council and staff carefully considered each of these actions while understanding that the City's strong financial base allows for a more deliberate response to the economic downturn, and flexibility became the driving force behind the City's response to the pandemic.

Using monthly revenue analysis and reporting, staff began preparing the 2021 budget in August. Utilizing the financial principles, goals, and ends policies as a road map, staff set out to develop a budget that focuses on four pillars:

1. Services,
2. People,
3. Programs, and
4. Local economy

By investing in these four areas, the City aims to position itself for a rapid recovery once the pandemic has passed. While the 2021 annual budget spans a single year, it is an important component of the City's long-term financial plan. The primary goal of the 2021 budget is to preserve core services while continuing to make capital investments that will allow for continuous improvement of service delivery now and in the future.

In summary, the 2021 annual budget continues to fund City services at existing levels. While fiscal constraints resulting from the pandemic do not allow for expansion of services in 2021, some small strategic investments were made according to Council direction. These investments, along with the continued investments in capital programs, were made with a focus on fiscal responsibility and avoid additional burdens on the community's taxpayers.

Guiding Principles

The City's mission statement, its ends policies, and its financial principles are primary guiding influences in the budget development process. With service delivery at the core of each City department's daily efforts, those services are reflected in the final budget recommendation. Staff believes the budget lays out the resources necessary to accomplish the City's goals and maintain the high-quality service levels Naperville's residents and business community have come to expect. This is all done while being mindful of the challenges facing residents and businesses throughout the community.

The 2021 budget focuses on the following four key pillars, each of which supports one or more of the City's ends policies:

Services - Includes tangible and intangible services provided to the community, including public safety, snow removal, leaf collection, public utilities, and financial services. Items in the budget include commodities and annual actions provided to the community as part of the City's inherent responsibility as a municipal government. This pillar aligns with our Public Safety and High Performing Government ends policies.

People - Includes the expenses related to personnel, including salary and benefits, training, and resources necessary to support the work people perform. People are the primary component to service delivery, and Naperville's employees are proud to not just serve the community but serve it well. This pillar also aligns with our Public Safety and High Performing Government ends policies.

Programs - Includes capital and infrastructure expenses, along with major projects and initiatives that span one or more years with a definitive end date. This contrasts with annual recurring programs and initiatives, which more closely align with the services pillar in the 2021 budget. The programs pillar aligns with our High Performing Government, Economic Development, Financial Stability, and Public Safety ends policies.

Local Economy - Encompasses initiatives and resources that drive the City's facilitation of development initiatives, economic development tools, and community assistance programs. The 2021 budget continues to focus on improving the vibrancy of the City's economic base. These initiatives align with the Economic Development and Financial Stability ends policies.

Financial Principles

In 2015, the City implemented three financial principles that guide financial decisions and align with the City's ends policy of financial stability. These principles were developed to promote the long-term financial success of the community. Council initiatives have led to pension stabilization, debt reduction, the rebuilding of cash reserves, and property tax reductions. Adherence to these financial principles placed the City on a solid financial footing that allowed us to weather the impacts of the pandemic in 2020 and continue providing the same level of high-quality services without jeopardizing the City's financial future.

The following priorities were woven into the 2021 budget recommendation as it relates to the financial principles:

Principle #1 - The City will pass a structurally balanced operating budget annually

The 2021 annual budget is once again structurally balanced, including a balanced General Fund. While revenue constraints resulting from the pandemic would have otherwise left this fund unbalanced, the temporary measure of reallocating \$6.25 million in HRST to the General Fund makes it balanced. This amount is equal to forecasted revenue declines in primary General Fund revenues, such as Sales Tax and Income Tax. These reallocated funds make it possible to fund existing City services at their current levels and do not support new or expanded programs or services.

One of the major policy decisions related to Principle #1 is property taxes. Property taxes are the primary funding source for long-term obligations of the City, such as public safety pensions, IMRF pensions, and debt service payments. Property taxes are also the predominant funding source for the Library and Naper Settlement operations. The 2021 budget recommendation continues to take advantage of community growth through property taxes in the form of maintaining a flat tax rate, tentatively estimated at 0.6871. This would remain one of the lowest rates of the last 50 years; the 2021 bill is projected at \$865 for the median home, a decrease of \$4 from the 2020 bill. Property assessments would determine how much each individual bill would change.

Staff will continue to closely monitor revenue trends throughout 2021 and will provide financial status reports to Council monthly.

Principle #2 - The City commits to continuous improvement in the delivery of necessary and cost-effective services

The City needs to generate revenues through taxes and fees to support the many services residents have come to expect. The setting of community service levels by the City Council ultimately dictates the revenue and expenditure requirements of the City. 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.

Due to pandemic related revenue constraints, staff sought to establish a budget that maintains existing services at current levels in a cost-effective manner. Because economic conditions do not allow for expansion of services, staff has focused on efforts to improve services and find efficiencies with the realm of our existing resources.

Principle #3 - The City will actively seek to increase its reserves to 25% and reduce its debt by 25% in the next eight years

The first component of 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. The City remains on track with this component and the City's AAA bond rating was reaffirmed in 2020. The City ended 2019 with a General Fund balance of \$34.2 million, or 27.9% of 2019 actual General Fund expenditures. It is not anticipated that the City will draw down any General Fund cash reserves in 2020.

The second component of Principle #3 sets the goal 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 around 2030. Although previously on track to reach this goal, the City has taken advantage of historically low interest rates to borrow additional dollars for capital project funding in 2020. Additional borrowing is contemplated in 2021. This reduces the likelihood of attaining this goal; however, overall debt reduction remains intact and debt service payments will continue to decline over the coming years.

Budget Recommendation Changes, Impacts, and Follow-up from Third Workshop

The budget is the result of months of preparation, evaluation, and efforts by the City Council and staff. The final recommendation is the result of two rounds of reviews with the Finance Department and City Manager's Office to ensure departments' requests aligned with City Council guidance and adherence to the City's financial principles. Additionally, staff presented the budget recommendation to the City Council during three workshops in October and November.

During the three budget workshops, the City Council discussed several components of the budget, including proposals for service level and programmatic additions that were not included in the initial budget proposal. After discussion, the City Council directed staff to make the following modifications to the final budget recommendation.

Additional Staffing - Police

In the first of three budget workshops, the City Council discussed the potential of adding up to five additional police officers to the Traffic Unit. That discussion progressed over the following two

workshops to include alternate assignment of the proposed police officers within the department. At the third workshop, the City Council expressed support for the addition of five personnel to the department to include four police officers to be allocated among the Traffic Unit and Special Response Units and one civilian social worker.

As part of the discussion around the addition of police officer positions to the 2021 budget, several councilmembers requested additional information on the total costs associated with hiring and maintaining those positions in the long run. The table below offers a cost projection for years one, three, and eight. Year eight is an important milestone as that is when a police officer reaches the top step in the contractual wage scale. Because collective bargaining agreements do not extend as far out as year eight, the projection assumes a 2.5% annual wage growth. It is also worth noting that pension impacts are not realized in the first year of hire as the City's actuary determines future year contributions based on the prior year's financials. That said, a Tier 2 pension participant is funded at approximately 23% of payroll in 2021.

Police Officer Cost Projection						
	Salary	Pension - Police*	Medical & Dental	Other**	Total Salary & Benefits	Total - Four Officers
Year 1	\$76,580	-	\$15,197	\$1,318	\$110,709	\$442,836
Year 3	\$93,449	\$21,493	\$16,736	\$1,563	\$133,240	\$532,960
Year 8	\$128,575	\$29,572	\$21,302	\$2,072	\$181,521	\$726,084
* Pension impacts occur in second year as 2021 actuarial contribution is based on prior year						
** Other benefits include Medicare, life insurance, and unemployment insurance						

Other costs associated with the hire of a new police officer include basic academy training at \$6,000 and uniforms and equipment at \$3,000. No additional dollars have been added to the Police Department's training or equipment accounts as current budget amounts should be sufficient to accommodate the addition of four new police officers.

The cost projection for the social worker is different in that the position is not on a contractual wage scale and is a member of the IMRF pension system. The projections below assume 2.5% annual wage growth.

Police Social Worker Cost Projection					
	Salary	Pension - IMRF	Medical & Dental	Other*	Total Salary & Benefits
Year 1	\$76,000	\$8,246	\$15,197	\$6,022	\$105,465
Year 3	\$79,847	\$8,663	\$16,736	\$6,316	\$110,023
Year 8	\$92,599	\$10,047	\$21,302	\$7,292	\$125,134

* Other benefits include FICA, Medicare, life insurance, and unemployment insurance.
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Additional Staffing - Sustainability

Another initiative discussed during the budget workshops was increasing sustainability efforts across the City. To advance these efforts, the Council requested one full-time staff member to develop and coordinate sustainability programs. The scope and responsibility of this position, initially budgeted in Transportation, Engineering & Development (TED), will be developed over the coming months.

The cost projection for this position is similar to the projection for the social worker as both are civilian positions with similar benefits packages; however, the Human Resources Department has not yet conducted any level of job analysis to determine the appropriate pay grade.

The additional personnel in Police and TED are not fully budgeted for 2021 as the positions would not be filled on January 1, 2021. Police officer positions are budgeted at 90% as eligibility lists already exist to fill those positions. The social worker is budgeted at 75% as that is an established position but will require a full recruitment process. The sustainability position requires more lead time, including development of a job description and defining the scope of work within the organization. As such, that position is budgeted at 60%. All six positions will be fully budgeted in 2022.

Delay Downtown Streetscape Project

Due to concerns over the impact on businesses already struggling to navigate the pandemic, Council directed staff to delay the Downtown Streetscape project until 2024 or following completion of the Washington Street Bridge project. This includes the removal of all direct costs and related utility projects. The total budget decrease across all impacted funds is \$5.26 million. This action also removes \$3.22 million in projected bond proceed revenue from the budget.

Expanded Water CIP

Aging infrastructure across the Water Utility has resulted in greater need for capital improvement projects in 2021. Estimated costs associated with an expanded capital program exceed available funding under the current pay-as-you-go model. Council supported the expanded capital program and the issuance of an estimated \$14.5 million in bonds to fund projects.

Increase Property Tax Levy

To address the additions to the 2021 budget, the City Council supported increasing the property tax level to capture growth in the City's equalized assessed value (EAV). The initial budget proposal estimated a conservative 3.5% growth in EAV. Since that time, staff has received preliminary EAV estimates from the townships' assessors that indicate a 6% increase in EAV. While final exemptions have yet to be applied, staff is confident that final EAV growth is more likely to be between 4.5% and 5.0%, rather than the initial 3.5% estimate. Maintaining the same rate of 0.6871 with an assumed 4.5% growth rate results in an additional \$511,435 in property tax dollars. The average homeowner would still see an approximate \$4 decrease in the City portion of their bill because the rate is lower than the previous year.

Final Budget Recommendation

Staff presented the initial 2021 budget proposal to Council on October 16, 2020. The proposed budget included total expenditures of \$507.3 million. Through budget discussions and workshops, several changes occurred resulting in an overall reduction of \$4.8 million. Funds impacted by these

changes are detailed below.

Fund	Account Type	Increase / (Decrease)	Reason
General Fund	Expense	\$346,028	Add Police Officers (4)
General Fund	Expense	\$83,402	Add Police Social Worker (1)
General Fund	Expense	\$34,137	Add Sustainability Coordinator (.50)
Electric Fund	Expense	\$17,073	Add Sustainability Coordinator (.25)
Water Fund	Expense	\$17,073	Add Sustainability Coordinator (.25)
SSA 30 Fund	Expense	(\$3,220,000)	Remove Downtown Streetscape
Water Fund	Expense	(\$1,620,000)	Remove Downtown Streetscape
Electric Fund	Expense	(\$420,000)	Remove Downtown Streetscape
SSA 30 Fund	Revenue	(\$3,220,000)	Remove Downtown Streetscape
Water Fund	Revenue	\$14,457,394	Expanded Water CIP
General Fund	Revenue	\$511,435	Property Tax - EAV Growth

The City of Naperville's 2021 budget is recommended at \$502.4 million, an overall increase of 7.7% from the \$466.3 million amended 2020 budget.

Per state statute, the Council must adopt a budget prior to the beginning of the fiscal year on January 1, 2021. At its December 15 meeting, Council will be asked to approve a tax levy ordinance, after which time staff will file the levy with the DuPage and Will County clerks prior to the last Tuesday in December, as required by statute.

FISCAL IMPACT:

Staff recommends Council adopt the 2021 Annual Budget totaling \$502,423,551.