



Legislation Text

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FINANCIAL ADVISORY BOARD AGENDA ITEM

ACTION REQUESTED:

Receive the report on the 2019 annual operating budget

DEPARTMENT: Finance Department

SUBMITTED BY: Franco Bottalico, Budget Analyst

BOARD/COMMISSION REVIEW:

N/A

BACKGROUND:

Staff preparation for the budget began in August with departments developing and submitting their operating budget and capital improvement program (CIP) recommendations. Two rounds of reviews followed; first with the Finance Department and the other with the City Manager's Office. These assessments reviewed operational changes, discussed objectives and analyzed recommendations. Continuing again from last year, the opportunity existed for departments to observe, ask questions, and provide ideas during other departments' budgetary reviews.

DISCUSSION:

Process

The 2019 budget recommendation adheres to the City's established three financial principles and meets the service needs of the community's citizens while simultaneously advancing Naperville's goals and ends policies. The recommendation also reflects the priorities and guidance provided by City Council during financial discussions earlier this fall. During these discussions, staff sought guidance on several financial priorities, including citywide service levels, long-term financial goals, and short-term financial impacts. Based upon City Council's engagement and guidance, staff has brought forth a budget that continues to align with the City's financial principles.

The City's fiscal responsibility to Naperville's taxpayers results in a continuous improvement model to find efficiencies in delivering services. Staff continually reviews expenditures, revenues, and service delivery methods throughout the year to capitalize on efficiencies.

Guiding Principles

The City's mission statement, ends policies and 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, which staff believes 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.

The 2019 budget encompasses major changes, additions and expenses for the coming year and how they directly tie back to the City's ends policies and goals.

Public Safety *Naperville will deliver highly-responsive emergency services to provide for a safe community*

The City's public safety ends policy focuses on maintaining response times, reducing the cost of service delivery and reducing recidivism amongst the mental health community. The 2019 budget includes \$700,000 in expenditure recommendations that support this ends policy.

High Performing Government *Naperville will provide reliable, efficient, and high-quality services*

The City's high performing government ends policy focuses on improving customer convenience, including online services such as electronic payment, building permits, service requests and licensing. The policy also focuses on improving transparency, communication and providing quality service levels to businesses and residents. The 2019 budget includes \$7.7 million in expenditure recommendations that support this ends policy.

Economic Development *Naperville will be the location of choice for businesses*

The City's economic development ends policy focuses on improving the vibrancy of the City's economic base, increasing sales tax and filling vacant commercial space. The 2019 budget includes \$2.4 million in expenditure recommendations that support this ends policy.

Financial Stability *Naperville will be financially stable and maintain a AAA bond rating*

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, rebuilding of cash reserves and property tax reductions. The 2019 budget includes a \$2.0 million decrease in expenditures due to the actions influenced by this ends policy.

Financial Principles

The budget recommendation aligns with the City's three financial principles.

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

In combination with these three financial principles, City Council exerts control over the policy decisions that impact budgetary outcomes. Based upon the feedback provided by City Council through the budget workshops in October and November, the following priorities were woven into the 2019 budget:

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

The major policy decision 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 predominate funding source for the Library and Naper Settlement operations.

The initial feedback received from City Council in early autumn was an openness to taking advantage of community growth through property taxes in the form of maintaining a flat rate. This increase is included in the budget, which allows the City to leverage EAV growth throughout Naperville.

Since that time, there have been questions from Council about maintaining a flat property tax levy amount through usage of other revenues, such as an increase in the food and beverage tax. This is based upon alignment with four revenue concepts that help maintain long-term revenue diversification:

- The City wants to make sure that a revenue is going to provide **consistent** dollars over a period of time. For instance, as the telecommunications tax continues to decline, staff recognizes that will not be a stable funding source over time.
- The City wants to make sure that a revenue isn't going to negatively impact local businesses' **competitive advantage** compared to similar communities. For instance, the City's food and beverage tax is set at the average of Naperville's comparable communities, and any increase could negate that advantage.
- Revenues should be **aligned with services** and draw from people or businesses that derive value from the service. For instance, utility rates are based upon the cost of providing that service. Similarly, the City only charges refuse to residents who receive that service.
- The final concept is **diversification**. Staff believes the City's revenue sources should be balanced and that no one revenue source should be overly burdensome to either businesses or residents. By keeping the City's revenues diversified, it helps to reduce Naperville's risk of

exposure to any particular source during economic downturns.

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 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.

The feedback received from City Council was that budgetary requests should be tied to the City's ends policies and that there should be justification provided to demonstrate service level issues. The 2019 budget lays out increases in the City's budget and how they tie back to the City's service levels and the City's ends policies.

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 sets the parameter 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.

The feedback received from City Council 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, and staff is still in line to reduce debt by 25% by 2022. However, this flexibility may be a consideration for future year budgets.

The second 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 feedback received from City Council was that 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.

Budget Recommendation Changes and Impacts

The budget is the result of months of preparation, evaluation and efforts by City Council and staff. The final recommendation figure 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 City Council during the two workshops in October and November. Based upon questions and proposals provided by City Council, there have been several modifications to the final budget recommendation. This includes the following:

Type	Line Item	Action	Amount
Expense	Ladder Truck Maintenance	Increase	\$50,000
Expense	Ladder Truck Replacement	Decrease	\$1,300,000
Expense	Traffic Study	Increase	\$50,000
Expense	Modify Finance Position Request to Part-Time	Decrease	\$13,500
Revenue	Development Based Fees	Increase	\$200,000

Each of these budgetary modifications has an impact on the overall budget recommendation, including the tax levy, borrowing and fund margins:

- Those modifications that impact the General Fund include ladder truck maintenance, increasing development based fees, and the addition of a traffic study. If approved, these items the potential to reduce the overall property tax levy by \$100,000.
- Deferring the ladder truck replacement reduces borrowing by \$1.3 million.
- Amending the recommendation for a full-time customer care specialist position to part-time positions saves on benefit costs and provides greater coverage. As this position is funded through the Electric and Water Utility rates, a change in the position type and resulting savings increases utility fund margins.

Adopted Budget

At the adoption of the 2019 budget on December 4, 2018, City Council approved the above changes recommended by staff.

The City's 2019 approved budget is \$451,398,341, which is an overall increase of 2.02% from the \$442.4 million 2018 budget. Additionally, \$125,878,907 is the 2019 General Fund budget, which is an increase of 3.8% from the \$121.2 million 2018 budget. Staff has attached both Exhibits A and B for the FAB's reference.

2019 CIP Overview

The 2019 CIP is valued at \$62.53 million, which is a 21.1% increase from the 2018 approved program of \$51.6 million. This year's program is the highest level in the past 10 years as the City continues to invest more in its aging infrastructure. Staff has attached Exhibits C and D for the FAB's reference.

Note: Exhibit C (which is from the proposed 2019 budget) does not reflect the deferral of the Fire Department's ladder truck replacement totaling \$1.3 million. The 2019 budget book was printed prior to the City Council's adoption of the 2019 budget.