



Legislation Text

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CITY COUNCIL AGENDA ITEM

ACTION REQUESTED:

Conduct the public hearing for the 2020 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 and serves as the guide for the upcoming budget year. The budget development process brings together input from elected officials, department directors, departmental staff and the public to shape the City's goals and objectives.

Per state statute, a public hearing on the proposed 2020 Annual Budget will be held on December 3, 2019, at the City Council meeting prior to adoption of the ordinance. Once the hearing concludes, the budget may be revised and passed without further public inspection, notice or hearing.

DISCUSSION:

Process

To prepare the 2020 budget, staff not only looked at the City's financial principles, goals, and ends policies, but also kept the concept of refocusing in mind throughout the planning process. As the City's budget reflects Naperville's goals, actions, and efforts to appropriately plan and position the City for the future, staff spent time looking at past actions, resetting priorities based on lessons learned, researching and developing opportunities for the community, and planning for future needs in preparing the 2020 budget.

In summary, many of the budgetary additions granted in 2019 helped staff refocus on new and existing projects and guided staff in planning the budget to continue to appropriately meet the needs of the community in the new decade. In addition, the 2020 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 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 2020 budget recommendation encompasses major changes, additions or expenses being requested 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 2020 budget submission includes \$4.6 million in new 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. The policy also focuses on transparency, communication and providing quality service levels to businesses and residents. The 2020 budget submission includes \$25.5 million in new 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 2020 budget submission includes \$700,000 in new 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 2020 budget submission includes \$4.9 million in new 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	Principle #2	Principle #3
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.
2020 Proposal - Achieved	2020 Proposal - On Target	2020 Proposal - On Target

In combination with these three financial principles, City Council exerts control over the policy decisions that impact budgetary outcomes. The following priorities were woven into the 2020 budget recommendation:

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 2020 budget recommendation takes advantage of community growth through property taxes in the form of maintaining a flat tax rate, tentatively estimated at 0.6870. This would remain one of the lowest rates of the last 50 years; the 2020 bill is projected to stay consistent with the 2019 bill at \$861. Property assessments would determine how much an individual's bill would change.

One question raised throughout the budget process was how the City could position itself best to mitigate the impacts of any future recession. While the City cannot control global and national market forces, it can - and has - controlled how it reacts and prepares. A major component of this preparation involves the concept of revenue diversification. Naperville looks at its revenue mix based upon consistency, competitive advantage, service alignment, and diversification. This revenue balance has been consistent since 2016 and this balanced portfolio would reduce the risk to any one funding source during any future economic downturn.

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 budget recommendation 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. In addition, the 2020 budget recommendation seeks to heighten transparency through creation of a Solid Waste Fund. This enterprise fund for refuse fees paid per household per month for garbage and recycling service aligns with other cost-of-service enterprise funds in the City.

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 City remains on track with this component.

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 City also remains on track with this component

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 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:

- **Foreign Fire Insurance Fund:** After review of the initial budget proposal, staff realized an oversight was made on the Foreign Fire Insurance Fund. After reviewing historic spending totals and needs for next year, revenues for the fund were set at \$225,750 and expenses were adjusted to \$323,000. Revenues added included contributions (\$225,000) and gains on investments (\$750). The expenses were entirely associated with operating supplies.
- **General Fund:** Two additional expenses were added to the General Fund following the first budget workshop. First, is a \$3,860 increase to the Mayor-City Council budget to allow the City entry into the Metropolitan Mayors Caucus. Staff also added \$50,000 for decorative signs and banners to be displayed along Ogden Avenue and Washington Street in honor of military service within the community.
- **Naper Settlement Fund:** Revenues for the Settlement Fund were adjusted after review of historic contributions, resulting in a decrease of \$545,127. To offset the revenues and balance the fund, the Settlement reduced their payroll budget by \$545,127. The reduction in payroll did not include elimination of any positions. Settlement reduced the expenses after recognizing the impact vacancies historically had on their actual spend within payroll accounts.

Final Budget Recommendation

The City of Naperville's 2020 budget is recommended at \$491.5 million, an overall increase of 8.9% from the \$451.4 million 2019 budget.

Per state statute, Council must adopt a budget prior to the beginning of the fiscal year on January 1, 2020. At its December 17 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.

FISCAL IMPACT:

Staff is recommending Council adopt the 2020 Annual Budget totaling \$491,503,165.

The original proposed budget presented to Council on October 18, 2019. The propose budget included total expenditures of \$491,671,522. Through budget discussions and workshop, several changes occurred resulting in an overall reduction of \$168,357. Accounts impact are detailed below.

Account	Fund	Account Type	Amount
3500-461101	Foreign Fire Insurance	Revenue	\$750
3500-464102	Foreign Fire Insurance	Revenues	\$225,000
3500-541407	Foreign Fire Insurance	Expenses	\$323,000
10101100-532315	General Fund	Expenses	\$3,860
31251100-531309	General Fund	Expenses	\$50,000
51003200-464202	Naper Settlement	Revenues	(\$545,127)
51103200-511131	Naper Settlement	Expenses	(\$545,127)