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TO: All Departments, Boards, Committees and Commissions
FROM: Richard A. Montuori, Town Manager
DATE: October 22, 2024
RE: FY2026 Budget Message

The following is the Fiscal Year 2026 Budget Message for your Department Budgets. As it has been in the past, the goal for the FY26 budget process and budget development is to continue building upon the success of previous years, and to ensure the budget developed in FY26 does not cause financial hardship in future years. The FY26 budget year will be the beginning of what is projected to be the start of five incredibly challenging fiscal years for the Town. The cost of employee salaries and benefits, property and liability insurance and health insurance, the retirement assessment and overall supplies and services are increasing at a rate higher than the Town's revenues. With the constraints of Proposition 2½, the minimal growth in State Aid, and a concern about the State's finances in the future; each of the next five years project to have deficits.

Since we have been conservative in our revenue projections, prudent in our approach to developing budgets, we should be able to get through the next two or three years. We will be able to accomplish this by continuing to be disciplined in our approach to developing the budget, as well as beginning to slightly raise revenue projections to address projected deficits. How budgets are developed in FY26 will set the foundation for how the Town will address the challenges over the next five years. Continuing to show fiscal constraint will be the key to the Town's future success. The plan will be to maintain current service levels and to not ask for any additional programs, services or special salary increases or adjustments. Departments should continue to focus on developing conservative budgets, prudently managing the Town's finances for the upcoming fiscal year, as well as planning for future fiscal years challenges. Nothing new should be built into any Department budget. This financial approach has guided us over the past thirteen years, prevented operating deficits that surrounding communities have faced, while also allowing us to attain our annual goals; while simultaneously continuing to provide outstanding service to the Community.

As in the past, we were able to address important priorities in FY25. We have come to agreements with all bargaining units, provided good cost of living adjustments for all employees and maintained department budgets and services for the residents. That was because the Department's did exceptionally well at developing their FY25 budgets. We will need the same effort and attention when developing budgets in FY26.

The FY26 budget process looks to have more unfavorable economic challenges than FY25. Costs such as Middlesex Retirement will increase 7.75% or \$902,062, Health Insurance is projected to increase 8% or \$1,228,586. Other fixed costs such as Medicare, Property and Casualty Insurance and Solid Waste Collection and Disposal will see a sizable increase that will

have an impact on the FY26 Budget. As I have stressed in the past, the budget being prepared is for FY26, but all decisions will be made with a conscious understanding of how today's decisions impact future budgets. This is even more critical over the next five years.

We already know the Middlesex Retirement Assessment and Health Insurance, State and County Charges, and Solid Waste collection and disposal will continue to increase in future years. The current and future economy seems to be slowing down, but we do not know how it will impact local government. Knowing these issues and concerns exist will only add to our cautious approach and we will proceed with the best information possible. Department Heads should always be prepared to adjust their budget at any time during the FY26 process, specifically if cuts need to be made if the economy changes.

As in the past, the goal will be to present a balanced budget that utilizes recurring revenues to fund the Operating Budget and one-time non-recurring revenues or the Stabilization Fund to fund the Capital Budget. The Stabilization Fund, Free Cash or any reserves will not be used to fund the FY26 Operating Budget. Using reserves to fund the operating budget is viewed unfavorably by the Town's credit rating agencies, which could negatively have an impact on the Town's future borrowing costs if the Town's credit was downgraded.

Each department will be required to present their budget under the following guidelines for both the operating budget and capital budget:

Operating Budget:

The budget format for FY26 will involve the same budget worksheets used for the previous year's operating budgets. The sheets include the same line-items and areas to provide in-depth information as in the previous fiscal years. The Fiscal Year 2026 budgets are in Excel and will be provided electronically. As in the past, the operating budget will be broken down into Salaries, Operating, and Capital Outlay.

Salary Line-Items:

The salary line-items shall include current base salaries with the employee's salary and step increase for FY26. Please use 52.2 weeks to calculate salary amounts. The Human Resources Director will send a FY26 Wage Schedule to be used when developing your salary line-items. Any additional salary benefits (such as longevity, wage deferral, educational incentive, etc.) must also be included in the relevant columns within the worksheet. When calculating salary changes, include the calculation within the worksheet provided. For example, if an employee is receiving a step increase during the Fiscal Year, provide their information on two separate lines on the worksheet. The first line should be the current salary for a certain number of months and the second line should be their salary for the remainder of the Fiscal Year. The detailed budget sheets for salaries are to include: each employee's name, anniversary date (date of hire), step, base salary, distinct breakdown of all additional salary benefits and a total salary benefit per employee.

I want to **stress** that each Department Head is responsible for confirming that grades, steps and salaries for each fiscal year (proposed, current and previous) are correct and included in the worksheet. There will be no upgrades or additional step increases contemplated in the FY26 Budget. Any request for upgrades, additional step increases or additional staffing should not be

in the budget request, but instead part of a separate write-up as a priority that you would like to have funded. The information within the write-up should detail the reason and a rationale for the request.

Each Department should include funding to fill vacancies that will occur in FY26, and all vacancies will be reviewed on an individual basis with Department Heads and determine if the need exists to fill the opening. Please budget estimated amounts for Terminal Leave and the Sick Leave Incentive Program in account number 5160. If Terminal Leave or Sick Leave Incentive was budgeted in FY24 and is not needed in FY25, then delete the amount from your budget; do not assume it remains as part of your funding. Salary Budgets are to reflect the cost of current personnel and any savings due to retirements or filling vacancies with lower salary personnel does not automatically go back into the Department's Budget.

Operating Line-Items:

The operating portion of the budget will be broken down into line items like your previous fiscal year's budgets, which are the basic operating costs for your department. Include a very detailed description under each line item justifying the expense. Operating Budgets should be level service which means the amount presented to Annual Town Meeting in May 2024 and adjusted at the October 2024 Special Town Meeting. If an Operating Budget was increased at the October Special Town Meeting for a one-time special purpose or expenditure it should be removed from the FY26 Budget, only recurring expenses that were funded at Special Town Meeting should be in the FY26 Budget. All increases to a Department's level service budget must have the necessary, supported, and justifiable information for increase to the line-item. Line-items such as office supplies and All Other Supplies should be level funded. Level Service does not mean increasing your operating budget for new items, initiatives, or new requests. If an increase is needed within the level service request, please identify the item that is increasing, the reason and the amount within the description of your line-item to highlight the change. If any further adjustments are made, they will be made after reviewing budgets with Department Heads. If a line item is not funded sufficiently and you believe the lack of funding is impacting service to the residents, please make a notation within the specific line-item description and narrative and indicate the amount needed. The intent of this information is to bring attention to the issue, but it must be a funding concern that directly relates to a service provided to the Community. If there is a decrease in any operating line item, please provide information about the area being reduced and do not include savings in another operating line-item within the budget; the savings amount should be removed. Finally, I am **stressing this year** that each Department Head provides as much detail as possible for each line and breakdown the cost of each request. For example, show the cost of both gas and electricity separately in the Utilities line item, not just one number for all utilities. For purposes of developing the utilities budget, gas supply has a fixed price cost is 5.822/Dth and electric supply has a fixed price of 0.08960/kWh, this does not include any added fees or costs National Grid normally charges. These are known as Delivery Services Charges, and Department Heads should compare the previous Fiscal Year invoices to this year's current invoices. Finally, please review your gas and electricity invoices to ensure the supplier for electricity is Constellation and for gas is Direct Energy to take advantage of the fixed pricing.

Capital Outlay:

The line-item Capital Outlay will be for items as defined in the General By-Law 2.20.035 and it reads as follows:

For budget purposes, “capital outlay” is defined as moveable property, of a relatively permanent nature having a normal life expectancy of more than three years or having a purchase cost of \$10,000.00 per item or more and including items such as furniture, office equipment, rolling stock including items purchased on a leasing or lease-purchase basis. Items purchased on a leasing, or a lease-purchased basis is subject to annual appropriation. (Art. 23, STM 2001)

In addition to this definition, there will be a cap of \$35,000 on items budgeted in the Capital Outlay Account. There should be no requests for funds within the Capital Outlay line-item except for Police Department Cruisers. Do not assume because this account was funded at a certain level in the FY25 Budget that the line-item automatically receives the same funding in FY26 or any reduction in this area from the previous fiscal year should not be added back into this line-item or to your Department’s overall budget. As an alternative to requesting Capital Outlay funds **please provide in a separate document no more than three priorities** you would have requested if funds were to become available.

Department Narratives:

Departments are required to provide a cover narrative describing your department and the services provided. Please keep the narrative to no more than two pages and limit financial information since that should be in the budget worksheets. Those Departments with vehicles must provide a list of each with the year, mileage, purpose and maintenance plan if one exists. The narrative and vehicle list should be provided electronically when your budget is submitted. Those departments that have statistics regarding the service they provide residents please include those in a separate sheet from the budget narrative.

As part of the narrative, Department Heads should provide **three priorities that you would fund** if salary and operating budgets were increased beyond the current level of service. You should provide a brief description and justification of the priority and an estimated cost. If an upgrade or extra step increase is requested, it should be part of the three priorities presented with supporting information. If a priority assists in achieving the overall Town priorities outlined in this message, please explain how. If a Department is requesting additional staffing, they should follow the guidelines stated above under the salary section and that request will be one of the three priorities. Once again, there is no guarantee that these priorities will be funded, and in some cases, certain Department’s priorities may be funded, and others may not. Funding, if available, will be limited and not all priorities can be addressed, if any.

Finally in the past the Finance Committee has asked for a variety of metrics and statistics from certain Departments. Please make sure those are provided with your budgets.

Department Heads must review their budgets to ensure all columns and rows are adding correctly. **Do not** change or add/alter formulas unless you are ensuring the columns or rows add properly. **Do not** work on or change the cover sheet to your budget. This is the “Budget” tab within the workbook, and it is mostly formulas and there is no need for any edits to this page except for the section regarding the number of employees. Also **Do not** edit or work within the box at the top of each Line-item page. If a new line-item is needed, please contact me and I will adjust the document to reflect the change. Since the sheets have formulas, do not add one on your own and do not add any new worksheets to the budget workbook. Finally, when sending the budget back, do not change the name of the budget document.

Capital Budget:

Capital Budget requests shall be submitted on the updated form developed for FY2026. Capital Budget requests are for one-time expenses including public works projects, vehicles, and extraordinary repairs of \$35,000 and greater. Each department is to provide requests for FY2026 as well as for Capital requests through the year FY2030. All requests are to be prioritized in each fiscal year, and the number of requests should be structured to allow them to be realistically carried out and completed on a timely basis.

All operating and capital budget requests are due **November 8, 2024, and** are to be completed on these sheets and in this format. There will be no exceptions. Budgets and related documents are to be submitted to me electronically. The deadline for **budget submission is a hard deadline** so please work to meet it if not sooner. I plan to start meetings on Department Budgets November 27, 2023, and to have all Department meetings completed well before the second week in December.

Finally, please be prepared to make budget adjustments if the economic forecasts change. It is important to note that my goal will be to only make reductions to the operating budget based upon the Town’s financial outlook and standard budgetary review. I would also emphasize that I may need to alter the guidelines for a specific reason or item within a department. All budget decisions are final pending Select Board and Finance Committee review. The budget process will follow the standard procedure, which includes my review, my recommendation to the Select Board and the Finance Committee, and the Finance Committee’s review and recommendation to Town Meeting.