



Town of Stow
Office of the
Town Administrator

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To: Select Board, Finance Committee, and Stow Residents

From: Denise M. Dembkoski, Town Administrator

Re: FY25 Budget Recommendations

Date: April 2, 2024

The Fiscal Year 2025 (FY25) Operating Budget process provided an opportunity for management to, once again, undertake an honest assessment of town functions to determine what is working and what changes are necessary. Some of the recommended changes contained within this memorandum will have cost implications for the FY25 budget. Beginning in the FY24 budget, we started making some necessary staffing changes, which would bring the needed staffing levels up to par on an operational standpoint. This FY25 budget includes some modified staffing to take the next step towards our goal of providing the most resources to our residents, while maintaining a streamlined and efficient budget.

Like last year, we are still getting out from under the accumulation of years of conservative budgeting, which while assisting the town in limiting our expenditure outlay and increased our Unused Levy Capacity to \$2.4M, created other operational issues within the Town. Over the last few years, we took major steps with the addition of an Assistant Town Administrator to function as the Human Resources Director, and were also able to add highway, library staff, as well as facilities and community services staff. This year, we have no new full-time staff being added.

At the 2021 Annual Town Meeting, I presented changes to the Wage & Classification Schedules after a consultant was brought in to review the salaries of non-union staff. With these new schedules in place, employees receive a step increase every other year. Therefore, this year, in addition to the 2.5% Cost of Living Adjustment (COLA), all employees in Grades 6 – 8, who were in steps 1 thru 11 will be granted a step increase. Employees in Grades 1 to 5 will be given the 2.5% COLA, as their next step increase is not until next year (FY26).

The Highway, Fire, and Dispatch Union contracts are currently active. As the writing of this letter, the negotiations for the Police Union are still ongoing, so we made some assumptions for salary and budgetary purposes.

For FY25, the only personnel adjustments are the following:

- Procurement/Grants Administrator – this position was added in fall 2022 and funded through ARPA funds. For FY24, we continued using ARPA funds to supplement a portion of the salary. For FY25, the entire salary is now contained within the general fund budget.

- As we work to consolidate the Highway and Cemetery Department under a Department of Public Works, we have realigned staff. It was determined that we do not need an Assistant Superintendent, but instead, added more responsibility to the administrative position and upgraded it to the Business Manager. In addition, we added some funds to create a part-time mechanic position. The full-time mechanic has been working on, not only the highway vehicles, but the vehicles for all other departments, saving money on outside repairs and maintenance. This has been extremely beneficial and has saved the departments money, but can only be done as his time allows. Adding a part-time person to assist our Mechanic will allow the DPW to continue servicing all town vehicles and equipment.

I am still working on consolidating all facility expenses. In the past, some buildings had to budget for their own heating, electric, trash pickup, landscaping, while the Town Building and Pompo were consolidated under the facilities budget. Last year, we consolidated a number of expenses into the facilities budget, but there were still some outliers that were adjusted this year. We are also dealing with the rising cost of maintaining our buildings. Between cost escalation and labor shortages, addressing building issues has been a major factor. We have been fortunate to have American Recovery Plan Act (ARPA) funds, which has been used to cover a lot of our building maintenance issues. However, as those funds are running out, we will need to revert back to relying on the general fund for these matters.

Expenses across all municipal departments remain level. Minimal increases have been added to address contractual increases or unfunded mandates. As mentioned above, there is an increase in our facilities expenses to address rising utility costs and increased repairs. The Town Clerk's expense line increased to account for the Presidential Election in November. Both Police and Fire have an increase in expenses, much of which are contractual, as a result of contract negotiations with personnel in those departments.

Municipal

For the proposed FY25 Budget, municipal salaries account for 54% of the municipal budget and 18% of the entire General Fund Budget. Municipal expenses make up 15% of the municipal budget and only 5% of the overall General Fund Budget. Municipal Insurance and Debt Service represents 31% of the Municipal Budget and 10% of the overall General Fund Budget. The total increase on the municipal side, inclusive of debt is \$215,335, which equates to \$585,905 **less** than the additional revenue we can collect under Prop 2 ½.

This year, the General Fund article requests have decreased from the prior year requests. The total of articles seeking to raise and appropriate from taxes is \$570,950 as opposed to \$763,733 in FY24.

For every one dollar of taxes paid to the Town of Stow, thirty-four (\$.34) cents covers the Municipal Budget, including insurance and non-excluded debt.

Education

As is the case most years, we have received assessments from the two school districts (Nashoba Regional School and Minuteman Vocational) with increases totaling more than \$1.4M combined. This total increase is more than 6.71% over the FY24 assessments and \$650,441 **more** than the increased tax revenue we project under Prop 2 ½. The assessments from the two schools utilizes the entire Prop 2 ½ increase plus more than half a million dollars in other new revenue.

The assessment increase (\$179,527) at Minuteman is mainly due to increased enrollment and less out-of-district students attending. Since the new school opened, Minuteman has seen an increase in applications, primarily from member towns. As a result of fewer out-of-district students attending, the member towns need to pay more to cover those costs. Additionally, over the last several years, Stow's enrollment at Minuteman is up to 72 students up from just 19 students five years ago.

The Nashoba increase is not as cut and dry to articulate. They have established their budget with an overall increase of about 6.71% over FY24 (inclusive of Debt Service). As a result of their total budget increase, Stow's assessment (inclusive of debt) has increased 6.67% (or \$1.2M) over the FY24 assessment.

For every one dollar of taxes paid to the Town of Stow, fifty-nine (\$.59) cents goes towards the Nashoba and Minuteman Education Budgets.

The total FY25 Budget recommendation is an increase of 5.03% over FY24. The two schools represent a total of 66% of the General Fund Budget and have an FY25 increase of \$1.4M combined or by 6.71% and the municipal budgets have increased by 2.50% or \$215,335.

For every one dollar of taxes paid to the Town of Stow, seven (\$0.7) cents is used to pay the debt exclusions voted on by the taxpayers at the ballot. For the Fiscal Year 2024 tax rate, there is no debt included for the Randall Library Renovations or the New High School.

There were other small changes within the FY25 Budget Proposal, but all other budgetary impacts were minor, as there are no proposed new programs. During FY25, we will continue to look for ways to make doing business with the Town more efficient while also remaining cost effective.

We ended Fiscal Year 2023 with a very healthy Free Cash balance of \$3,276,056, with \$1M attributable to the Lower Village Legal Settlement the town made. As a result of the healthy available funds, I am supporting appropriating free cash in the amount of \$1.8M through a number of articles, with the majority being for capital projects.

The Capital Plan requests also increased this year. As a result, I am recommending a combination of using free cash and borrowing (and ARPA). The recommendation for funding with free cash is \$1,021,515, which is up from last year's recommendation of \$583,298. And I am recommending one item to be borrowed and paid for within the town's tax levy. That request is for a Fire Pumper for a total of \$990,000. With vehicle and large equipment inventory delays of up to two years, this will allow us to sign a purchase order, but not hold up cash, while we wait one to two years for delivery. It will also allow us to repair aging infrastructure within the general fund budget, while budgeting for a principal and interest payment over a number of years and not all at once. This plan of sharing the expenditures between the town and the taxpayers is looked upon favorably by the rating agencies and is expected to have a positive impact on future borrowings.

In addition to the Capital Plan, I am also recommending \$200k be transferred from free cash into the Stabilization account and \$100k into the Capital Stabilization account to build up our reserves. Also, I am recommending \$235k be transferred to the OPEB account, to continue contributing to our unfunded liability. Finally, I am requesting to fund three articles with free cash. One for \$50k to fund the remainder of funds needed for the Lake Boon Dam Project Manager. In 2023, I brought on a PM to oversee the project from the Town's side and have funded the position through ARPA funds. The availability of ARPA funds will cease before the dam project is finalized. This will allow us to continue having a professional oversee the project for the duration.

I am also recommending \$160,045 be used from free cash to cover the roll out claims of the Minuteman Nashoba Health Group (MNHG), that provides insurance for Stow employees. As of June 30, 2024, they are dissolving and we are obligated to pay claims incurred, but not yet billed. The MNGH actuary calculated the amount each entity owes, and Stow is at \$160K.

Even before we were aware of the MNHG dissolution, we were obtaining quotes to reevaluate the health insurance offered to employees. As of July 1, 2024, we will be changing to the MIIA Health Insurance Group, with level rates to the current plan. As a result, there is only a minimal increase in the health insurance line, just to cover the potential of people taking or switching their plans.

Finally, I am recommending \$100,000 be used of free cash for the Planning Board to complete their work with the Comprehensive Plan.

As the Town Administrator, I am very cognizant of the rising values in Stow and the average tax bill. While each year we evaluate staffing levels to ensure that the service level we provide to our residents continues to increase but in the most cost-effective and efficient manner, the cost of doing business across the country rises. Municipal Department Heads do a tremendous job of evaluating their departmental costs and cutting where they can. In this environment, having a municipal general fund budget maintain an increase within the parameters of Prop 2 ½ is truly commendable. Departments have absorbed contractual salary increases, rising service costs, and increased expenses and kept the overall municipal side to a minimal increase which I applaud.

I believe this FY25 budget is necessary for effective Town operations and ask for your support. I welcome an opportunity to discuss the FY25 Budget and answer any questions anyone may have.

Thank you.