

FY 2026 BUDGET MESSAGE

August 19, 2025

Honorable Members of the City Council,

It is my privilege to come before you as the Mayor of the City of Montgomery to present the FY 2026 budget message.

Budgets are where our values show up in real numbers. They reveal not only what we can afford, but what we believe in. This proposed budget is balanced, responsible, and designed to sustain Montgomery's growth while serving every neighborhood in our city.

This budget reflects our continued commitment to fiscal responsibility, strategic investment, and inclusive economic growth. As Montgomery evolves into a premier logistics and industrial hub in the Southeast, our financial planning must match the scale of our ambition. The FY 2026 proposed budget builds upon the momentum of transformative developments, prudent revenue management, and a shared vision for a vibrant future for all citizens of our city.

Montgomery's economic landscape is undergoing a renaissance, driven by major corporate investments and infrastructure expansion. As mentioned in my budget message a year ago, Montgomery has become more vibrant because of its economic development.

Amazon invested \$100 million dollars in a 650,000-square-foot inbound cross-dock facility that is now operational. This facility has brought 500 jobs and positioned Montgomery as a critical connection in national logistics. It enhances connectivity and strengthens our role in regional supply chains.

Manna Capital Partners have invested nearly \$600 million dollars in a 1.7-million-square foot beverage production and distribution complex.

Located off I-65 South, this “beverage park” will create 280 full-time jobs and serve as a launching pad for minority and women-owned businesses through its research and development center.

Diageo North America is nearing completion of a \$415 million dollar manufacturing and warehousing facility. It will house 100 full-time staff and has supported 750 construction jobs. Once operational, the facility will serve as a logistics hub for Diageo’s southern distribution network.

The Montgomery Inland Port Facility—a \$94 million-dollar Intermodal Container Transfer Facility, developed in partnership with CSX and the Alabama Port Authority, is a game changer. It will streamline freight movement, attract global commerce, and support over \$33 billion dollars in surrounding private investment.

These developments are not isolated, they are synergistic. Together, they signal a new era of industrial vitality and community opportunity.

As Montgomery grows, city services must grow with it. That means adding more staff to meet new demands. This sets off a domino effect: more employees lead to higher expenses, and those expenses, in turn, increase the overall size of the city’s budget.

The city’s financial health continues to be underpinned by growth in three primary revenue streams: sales and use taxes, business license fees, and ad valorem taxes.

Sales and use taxes account for nearly 50% of the city’s revenue. Although FY 2024 saw a 5% year-over-year increase in this revenue source, it has not been as robust in the current fiscal year. Year-over-year, the increase is hovering at 2% in FY 2025. This revenue stream is projected to be flat or at the same level as FY 2024 at the end of the current fiscal year.

Business license fees, unchanged for more than a decade, were adjusted for the current fiscal year to reflect the city’s expanding base. It is

projected that this revenue increase will generate additional revenue while maintaining fairness and competitiveness for businesses operating in the city.

Ad valorem taxes (property tax revenues) continue to grow steadily, driven by rising property values and new developments. These funds support essential services and infrastructure investments, ensuring that growth is matched by quality-of-life improvements.

Together, these revenue sources provide a stable foundation for the city's operating budget and allow us to invest confidently in public safety, infrastructure, and workforce development.

Because of attrition and growth from certain revenue streams, the city will continue making investments in basic services. This includes replacing an outdated communication system for the Montgomery Police Department, repairing or replacing roofs on various city buildings, implementing a wayfinding (signage) project, repairing or replacing elevators, and adding cameras throughout the city. Additionally, the city will purchase new rolling stock — including open-body trucks, bucket trucks, and heavy-duty landfill equipment — to replace vehicles that have exceeded their useful life and become too costly to maintain.

Revenues have continued to grow for the largest revenue streams that constitute more than 86% of the proposed budget for FY 2026. The current year's revenue projection includes growth based on actual revenue collected through July and forecasted through September.

As the fiscal year closes on September 30th, the city's sales and use tax revenue is projected to be flat compared to the previous year. But growth in other revenue streams and underspending by some departments due to attrition will allow us to pay for AEDs, computers, copiers, economic development incentives, and additional rolling stock. These practical purchases improve efficiency, reliability, and service delivery.

Finally, projected savings from the General Fund will support the growth of the city's fund balance or reserves. As the city grows, so must the General Fund Operating and Debt Service Budget to provide services for all citizens. It is vital that this administration ensures that reserves keep the pace, remaining as near to twenty percent of the General Fund as possible.

This administration continues to take a proactive approach when constructing the General Fund Operating and Debt Service Budget. That approach is no different for the FY 2026 budget. As with past years, we use zero-based budgeting to ensure that employee positions are funded, and the needs of citizens are met.

Being proactive is crucial to hiring and retaining qualified employees. City department heads continue to fill vacancies because this administration has ensured that salaries remain competitive.

This administration knows that being competitive with salaries will allow the city to continue in its efforts of hiring and retaining qualified employees. **The FY 2026 budget has merit increases included in it for every city employee!** This includes those employees who are at the top of their pay grade. So, you are probably wondering how all city employees will receive a merit increase if they have topped out at their pay grade. Let me explain!

As an incentive to retain employees who have reached the top of their pay grades, I approved increasing the number of steps in each pay grade. I hope increasing the steps on each pay plan will incentivize employees at the top of their pay grade to consider deferring their retirement date for one to four years. Deferring their retirement date will ensure an increase in the amount of their pensions and this will allow the city to retain their institutional knowledge. Retention of these employees allows city department heads to fill vacancies and ensures cross-training occurs before the experienced worker retires. This a "win-win": employees benefit financially, and the city benefits from continuity and expertise.

Additionally, moving to pay plans with higher pay grades makes Montgomery more competitive with other entities that already pay higher wages.

I am grateful for the persistence of our employees, citywide, who work above and beyond. They ensure services are provided to the citizens of Montgomery. Many of them understand public service is more about completing a task rather than completing an 8-hour shift.

Next, I am going to present to you what is included in the FY 2026 Proposed Operating and Debt Service Budget. As mentioned previously, this proposed budget has a merit increase included in it for all city employees. To hire and retain employees, the city must remain competitive. Consequently, it is important to keep merit increases in the budget for those employees who are eligible for those increases. If merit raises are not included in the budget, employee salaries will begin to trail those salaries of comparable positions in government and the private sector.

Now, let me explain to you how the city will afford the increases in this proposed budget. In addition to stable growth of certain revenue streams, new businesses such as Manna and Diageo will increase the business license fees collected in FY 2026.

The city is still benefitting from lowering total debt and not having to service any short-term debt. The long-term debt in this budget is approximately \$25.5 million dollars. Consequently, the growth in business license revenue, combined with stable overall revenues and savings from reduced debt, will support the increases outlined in this proposed budget.

Additionally, there is an inter-fund transfer amount of \$6.8 million dollars that is less than 2% of the total budget. These funds are from special revenue funds that can be transferred to the General Fund to offset the cost of debt service expenditures.

Sales and use tax revenues constitute approximately 46.5% of the proposed budget. The overall increase in this revenue stream, year-over-year, is projected to be 2%. Nearly 37.7% of the revenue is derived from ad valorem taxes, business licenses, and sanitation fees. The remaining 15.8% is derived from lodging taxes, rental taxes, interfund transfers, and various miscellaneous revenues.

This proposed budget does not include increases in allotments to outside agencies because sales and use tax revenue are projected to be flat and this revenue stream constitutes more than 47% of the total revenue budget. Additionally, the cost of employee and retiree fringe benefits (i.e., health insurance) continue to increase which also circumvents increasing allotments.

Today, I am presenting to you a balanced General Fund Operating and Debt Service Budget that is \$21.6 million dollars more than the current year's budget which includes merit increases and accompanying fringe benefits such as FICA/Medicare, Retirement and Health Insurance expenditures. The percentage increase for the total proposed budget is 6.5% more than the current year's budget.

Those City Council Members who attended the budget meetings heard Cabinet Members and Department Heads express their requests and justification for the increases in their departmental operating budgets to continue providing high standards of services that are paid for and rightly expected by the citizens of this city. Consequently, the increases in the proposed budget are due to those factors which have resulted in the 6.5% increase. Thank you for your observations and comments that helped with the composition of the FY 2026 proposed budget.

It is projected that revenue collected in the City in the current year will provide an additional increase to fund balance (reserve) that will help the city grow its savings so it can be prepared for unforeseen emergency situations. Plus, increasing the reserve will keep the city in a good posture to maintain its current bond rating or be upgraded by rating agencies such as Moody's, Standard and Poor's, or Fitch.

I want to spend a few minutes acknowledging the hard work that allowed us to get to this point. Our Cabinet Members, City Department Heads and their staff members spent a lot of time over the course of the last few months preparing zero-based budgets and evaluating their operations down to the smallest detail to prepare their budgets.

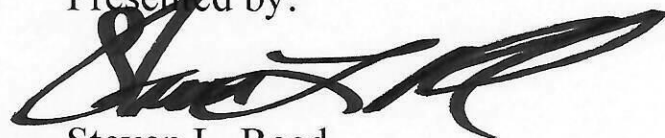
Many thanks to every employee for their hard, and often, difficult work that they do every day to provide first-class services to the citizens of Montgomery. Again, I offer my sincerest thanks to all city employees for their hard work and dedication to the pursuit of our purpose to restore and enhance lives, businesses and communities.

Also, deserving of our thanks are those employees who spent many long days, nights, and weekends preparing the final budget document. The Chief Financial Officer, Betty Beville, and her staff in the Finance Department have worked persistently projecting revenues, screening expenditures, answering questions, emails and text messages related to the FY 2026 proposed budget.

This administration will continue to move forward to build a “better Montgomery” for all residents where everyone can live, learn and earn. My plan is to continue to move forward until that plan becomes a reality for our citizens.

In conclusion, the proposed FY 2026 General Fund Operating and Debt Service Budget being presented to you today is \$353,242,591 dollars for your approval. I have confidence that this proposed budget will allow the city to move forward in building a better Montgomery for its citizens.

Presented by:

A large, stylized handwritten signature in black ink, appearing to read 'Steven L. Reed'.

Steven L. Reed
Mayor