



City of Meriden, Connecticut

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CITY MANAGER

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Mayor Santos and Members of the City Council:

The two main factors that will drive budget deliberations this year are the required increase in payments on bonded indebtedness resulting mainly from the high school and other school building projects, and the necessary increase in pension plan funding following the most recent actuarial valuation. These two increases alone amount to more than \$3 million, an amount greater than the amount of revenue resulting from a one mill increase in taxes. In addition, next year's budget must deal with impact of a significant rise in the cost of electricity, contractual wage increases, additional funding necessary to begin the revaluation process and a decrease in projected non-tax revenues. My proposed budget reduces departmental expenditure requests by \$6,148,864, reduces the size of the city workforce slightly and projects some decreases in other cost centers that are dependent on favorable experience both this year and next. Overall, proposed expenditures are higher than the current year by 1.45% (\$2,680,319). A small net decrease of \$329,521 in all revenues, except for current year taxes, is projected even though the proposed budget also assumes some revenue levels that will be difficult to achieve. Despite those cuts to department budget requests and a somewhat optimistic forecast of non-tax revenues, the projected gap between revenues and expenditures will require a .97 mill increase in the tax rate in order to produce a balanced budget.

That change in the tax rate would result in a tax increase of \$116 a year for the owner of the median value single family home. It is worth noting that even so, 42% of residential property owners would pay less in taxes than the amount they paid four years ago. The cumulative increase over those four years is less than five percent for nearly two-thirds (62%) of residential owners.

The revenue side of the budget presents a mixed picture. State revenues in the proposed budget, although relatively stable compared to some prior years, are lower by \$432,939 compared to the current year budget. That projection is based on the Governor's proposed budget, with the exception of including State housing pilot funding. For several years housing pilot funding has been eliminated in the Governor's budget but restored by the Legislature. I have included it in this budget proposal in the amount of \$137,590. Lower levels of funding for the State property and hospital PILOT payments and in State reimbursed property tax exemptions are not quite offset by an increase in municipal revenue sharing. I am projecting an increase in Building Division fees of \$90,000 and in City Clerk fees of \$50,000 based on current year experience to date and other signs of better economic conditions. The budget includes \$382,776 in 9-1-1 revenue based on the assumption that emergency medical dispatch will be implemented in the 2015-16 fiscal year. Affecting the overall revenue budget is a decrease of \$223,225 in delinquent tax payments, the current year budget having included a large projected payment on a specific single property. Tax revenue calculations are based on the assumption that there will be no change in the grand list, which has not been completed at time of this message.

Expenditures, as noted above, are most significantly affected by the increase in the payments due on bonded indebtedness. Over the past several years, the City had significantly reduced the overall debt

level and the consequent amount due to service that debt. From 2013 to 2015, payments on bonded indebtedness remained level, despite increased borrowing (\$24.4 million) for the high school renovations and other Board of Education projects. However, in the 2015-16 budget, payments on bonded indebtedness for school projects will increase by \$3,133,990. The net increase in overall debt service to is \$1,717,363. Borrowings for the two high school projects to date total \$39,304,603. Additional borrowing of approximately \$11,135,000 is anticipated in 2016, which amount would be sufficient to complete the high school projects based on their approved budgets.

As also noted above, the actuarially required payments to the City's pension plans are greater than the current year by a total of \$1,323,339. The City's defined benefit pension plans are evaluated every two years. Both investment gains and losses are "smoothed", or spread over several years by actuaries when doing such an evaluation to lessen the amount of year to year change in payments that would otherwise be due. The recently completed valuation takes into account a percentage of losses incurred during the stock market crash in 2009. Of the overall pension funding amount, \$5,950,284 represents payments on accrued obligations in the police and fire pension plans that were not funded in past prior years. The City has amortized and is paying a portion of those obligations each year in accordance with a long term plan. Assuming stable investment returns, going forward the City should be able to shorten the number of years required to fund those obligations.

As mentioned, there are other expenses which will unavoidably increase in the next year. The City has benefited from a low price for electricity (and other commodities) for several years by conducting reverse auctions and by negotiating with suppliers. The City is paying 6.4 cents per kilowatt hour this year, the last year of an existing agreement. The lowest price the City could obtain for the next fiscal year was 10.4 per kWh. That is itself a solid market price, but obviously higher than the current year. As a result, the recommended budget for electricity is \$363,000 more for 2015-16 than in the current year, a significant increase. The City did lock in lower than current pricing for gasoline and heating oil to somewhat offset that increase. During the next year, the City must begin the State-mandated revaluation process for the grand list of October 1, 2016. I have budgeted \$215,160 to begin that process. Insurance premiums are budgeted \$78,742 higher than the current year. That figure assumes final cost will be somewhat lower than currently quoted. I have included additional funding in the amount of \$137,000 in the Law Department to cover anticipated insurance deductibles and attorney fees for special counsel. The current year budget was reduced through the veto process. The amount recommended is still much less than the actual expenses of the past two years.

The budgets for operating departments include contractually obligated wage increases only for bargaining units with existing contracts. The Fire Department salary line is \$177,364 higher, an increase that does not take into account the pending wage reopener arbitration or include any funding for any wage increase that may result from negotiations following the expiration of the current fire fighters contract. The proposed budget also does not include any wage increases for any other bargaining units whose contracts have or will expire at the end of the current fiscal year. That should be borne in mind during the budget review process.

With regard to personnel, I am proposing combining the duties of one housing inspector position with the existing position of Neighborhood Preservation Specialist. I have cut two police service technician positions and one part-time police records clerk position for which funding was requested. Funding for the Risk Manager position, the duties of which have been divided between the Personnel and Law Departments, has been eliminated. I have funded police officer positions at 122, the present funded level, two positions fewer than the full authorized force of 124. I am recommending the funding of

one additional inspector position in the Fire Marshal's office in order to allow that office to more nearly complete the required number of fire code inspections. That office has been understaffed for many years and presently has one inspector with a worker's compensation injury. I have not funded additional positions requested, as needed, by the Building, Planning and Engineering divisions, the City Clerk, and by the Fire Department.

To further limit the impact of expenditure increases, I have budgeted health benefits and worker's compensation line items at levels lower than in the current year. This is based on good experience to date this year in both areas. Reducing those budgets as recommended will leave the health benefit and worker's compensation funds at the lowest minimally acceptable level only if that good experience continues for the remainder of the current year and the next year. Without the other budgetary pressures described, I would have proposed level funding for those line items. I have budgeted capital expenses at \$392,300 less than requested and \$180,713 less than the current year. That recommendation includes funding for only two additional police cruisers. Funding capital expenses at this level is not sustainable and, again, a recommendation I would not make except for the other unavoidable expenditure increases. Office expense and supply accounts, which fund a variety of services and supplies, have been basically level funded for the eighth year, except for specific necessary and unavoidable additional expenses for particular items or services.

As is the case with pension funding, a new actuarial evaluation has been completed for accrued post-employment benefits, mainly retiree health benefits, (OPEB). This budget reduces the level of OPEB funding by \$516,270, which represents maintenance of our current effort. Although we have yet to fund to the full annual amount necessary to pay the accrued obligation in the future and our accrued liability continues to increase, we have substantially reduced the overall obligation. The City is one of the few municipalities in Connecticut that has formed an OPEB trust and one of very few that has actually accumulated assets in its trust. Based on the last information examined, our current funded level of 23.83% is the third highest funded level, behind only Greenwich and Westport. We also have increased the amount employees pay into the trust fund and have eliminated retiree health benefits for employees hired after June 30, 2011. As I have said in prior budget messages, this funding level is not ideal, certainly needs to be maintained and will need to be reexamined in future years. The proposed level of OPEB funding remains reasonable and prudent given other budgetary issues. It should be noted that this is an obligation agreed to by the City in the past which was not previously funded. Had this obligation and past pension obligations been appropriately funded, this budget could be reduced by \$8,586,169, a reduction in the tax rate equal to 2.77 mills.

For the first time in several years, the Board of Education will not receive significant new State assistance under the Governor's budget proposal. Although State funding did increase significantly in past years, the City has not increased its local appropriation to the Board since 2010. Having noted that, it needs to be emphasized that the City has significantly increased education expenditures related to capital facility improvements and to funding for the share of retiree health benefits attributable to Board employees. This includes funding for the high school projects, elementary school roof replacement projects and boiler replacement projects (which have helped limit heating expenses). The City has issued bonds for these projects in the amount of \$45,682,427 since 2010 and will pay \$4,181,200 on that indebtedness in the proposed budget, an amount that will increase again in subsequent years. Of the total funding for OPEB in this budget, \$1,223,600 is attributable to benefits due to Board employees and is an additional education expense funded in recent years. In this budget, the Board's payment to the health fund for health benefits will decrease significantly, so that from the overall appropriation, even at current levels, the Board will have an increase in available

funding for all other expenses of \$938,015. The Board continues to have the capacity to prefund some or all of its increased expenses out of anticipated surplus in the current year budget.

The Board has acted responsibly in formulating its budget request and may be able to reduce it further as the budget continues to be reviewed. The Board administration has reduced expenses or limited increases in many areas by taking a smart and innovative approach to the education budget. Based on the Governor's budget, the Board is facing cuts to or elimination of funding for other valuable programs currently funded by the State. For all of those reasons and to partially offset those anticipated budget cuts, I am recommending an increase of \$150,000 to the City's appropriation to the Board.

There will be a very slight increase in the inner district mill rate of .01 of a mill from 2.09 mills to 2.10 due to contractual increases and capital equipment cost that exceed a reduction in the per ton solid waste disposal cost.

As planned, discussed and approved each of the last two years, an increase of twenty cents in the water rate is included in the Water Division enterprise budget. This will offset part of the anticipated cost of the upgrade to the Broad Brook water treatment plant and avoid a large one-year spike in the rates due to that project. There will be no increase in the sewer rate. The overall impact to the average family of the increase in the water rate would be approximately \$24 a year.

The Capital Improvement Plan (CIP), including capital funding requests for the next year, is also presented in this budget proposal. The Capital Improvement Plan sets out planned capital projects contemplated for the succeeding five year period, providing a solid basis for future financial planning. The CIP is subject to the City's self-imposed cap, which is the sum equal to one-half the principal payments made during the preceding year for general fund projects subject to the cap. Capital expenditures for the Board of Education and those funded by the enterprise funds are not subject to the cap. Expenditures for flood control purposes also historically have been considered separately. By City ordinance, the cap may not be exceeded except upon a two-thirds vote of the City Council. The City has exercised great fiscal restraint with regard to capital projects, which greatly reduced payments on bonded indebtedness from prior levels and better positioned the City to undertake the high school renovation projects. However, the current, much reduced cap amount has reached a level that makes it very difficult to fund needed projects properly.

The CIP proposal is based on the recommendation of the Interdepartmental Review Committee, which is composed of several Department heads and other city staff with expertise in capital project planning. The Committee met with each Department and reviewed the required information accompanying each individual request. The Committee then prioritized those requests to fit within the authorized bonding cap. I have reviewed the committee's recommendation and reduced the requested funding further before submitting this plan. The City's self-imposed bonding authorization cap for next year is \$4,524,101. This year's requests are \$263,000 under the cap.

Most of the items in the CIP are a continuation of ongoing plans for road and sidewalk work, building repairs and renovations, park renovations and upgrades, capital equipment replacement, and water, sewer and flood control projects. Included in the CIP is funding for architectural services regarding the Library. The Library building is in need of repair, renovation and updating. The probable cost of such a project will not fit within the regular bonding cap. I will be submitting a request to form a Library Building Committee to work with the Director of the Library, the Library Board and other supportive

residents to identify the building needs and formulate a plan for funding, including State and public support. I have included funds to replace a chiller at the Nathan Hale School which needs to be replaced, but have deferred other Board of Education requests given the great amount of financial resources currently being spent on school building projects. The CIP includes replacement of a four wheel excavator needed at the transfer station, the funding for which will be financed from the inner district tax and the cost for which is therefore not included in the cap calculation.

The proposed budget provides the funding necessary for those essential services that our residents and local business expect and deserve while maintaining the sound fiscal status the City has achieved. Within the past several years, we have adhered to our approved financial policies, increased the City reserves from a negative balance to an acceptable level, taken many steps to cut future expenses, addressed budgeting deficiencies rooted in the past and balanced our annual budgets in a reasonable and prudent manner. In that period of time, we have received very positive feedback on the City's financial management from bond rating agencies and had our bond rating raised four times to the AA level. All of that has been done in a period of great economic distress nationally and a period of consequent reductions in City revenues. If we continue to do address budgetary issues in this manner, I expect that future budgets will pose less difficulty. It is important that all ideas on how to maintain services, adhere to our financial policies, and not unduly burden our taxpayers be shared and have a full discussion before the budget is approved. As always, City staff and I stand ready to assist you as you review this proposal.

Respectfully submitted,



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