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Mayor Scarpati and Members of the City Council:

Changes in State revenues, both good and bad, and necessary expenditure increases, most notably for public safety, debt service and benefits, are the factors that have the greatest impact on the budget proposal for the next fiscal year. If approved by the Legislature, the combination of the proposed State municipal revenue sharing payment, intended to provide tax relief to local taxpayers and the cuts to State funding approved during the current fiscal year will provide additional revenue in the net amount of \$1,671,550. The State imposed cap on the mill rate that can be levied on motor vehicles, approved in the last legislative session, will reduce motor vehicle tax revenue. A new State grant in the amount of \$1,245,477 will not quite make up for that revenue loss. That change will affect taxpayers differently depending on the value of any real estate and personal property owned by them compared to the value of their motor vehicles. Expenditure increases in the public safety budgets for police, fire and emergency communications total \$1,322,167. Payments on bonded indebtedness are higher by \$1,179,186, resulting mainly from the high school and other school building projects. The cost of certain employee benefits (health, OPEB, pension, various police and fire benefits) is higher by \$932,340. Although the proposed budget cuts departmental expenditure requests by \$4,959,680, the overall increase in the budget is 2.06% (\$3,875,489).

To balance the budget an increase in the mill rate from 36.63 to 37.47 (.84 of a mill or 2.29%) is necessary. However, this will be partially offset by a decrease in the motor vehicle mill rate from 36.63 to 32 mills, a reduction of 4.63 mills or 12.64%. As indicated, these two changes will affect taxpayers in different ways dependent on individual circumstances. However, the owner of the median value single family home with the average number of motor vehicles of average value would pay an additional tax of \$28 per year if this budget is adopted as proposed.

As indicated above, projected revenues in State funded programs will change more than other revenue sources. The new Municipal Revenue Sharing Account, funded from sales tax and hotel tax proceeds, was approved as part of the two year State budget and, if it remains in the State budget as finally approved, will provide new revenue of \$1,893,412. The new Special Pilot Fund similarly would increase revenues by \$259,564. Cuts in other State funds approved this fiscal year to address the State budget deficit- the State property PILOT (\$216,757), hospital PILOT (\$14,068), school transportation (\$64,088) and the Pequot/Mohegan grant (\$47,807), offset

those increases, as does the elimination of the State Housing Authority PILOT (\$138,706). Those cuts total \$481,426. Also as indicated, the State approved a cap on the motor vehicle tax mill rate and approved funding intended to make up for that revenue loss. The proposed funding of \$1,245,477 is based on the prior year grand list and the prior year mill rate. This results in a loss of \$69,752 in revenue from motor vehicle taxes. I have included the new revenues in my proposed budget, but given the State's fiscal situation, the decisions of the Legislature on the State budget must be closely monitored during the budget review. Like the current year budget, the proposed budget anticipates higher revenues from Building Division fees (\$100,000) and in City Clerk fees (\$35,000) based on current year experience to date and other signs of better economic conditions. Additional revenue in the amount of \$409,896 will result from growth of the Grand List. Those and other higher revenues are offset by projected decreases in interest on delinquent taxes (\$75,000), special education and transfers-in (\$574,039) and E 9-1-1 revenue. I have not included the additional revenue -the current year estimate was \$370,551- that would be received from the State following implementation of emergency medical dispatch.

The increase of \$1,322,167 in the public safety budgets results from a variety of causes. The Police Department budget salary line for regular officers is higher by \$517,222 because it incorporates two salary increases because the police contract was not settled until after the current year budget was adopted. In addition, one position, crisis intervention specialist, has been moved from the Health Department budget to the police budget to more accurately reflect the duties of that position. I have added one new Police Service Technician position to handle NCIC duties and proposed a civilian training coordinator position to free up a regular police officer position. The additional wage cost of those positions is \$125,817. In addition, the proposed police budget includes new funding for body cameras and taser replacement in the amount of \$131,000. Overall, the police department budget is \$742,298 higher than the current year. The Fire Department budget is higher by \$344,361. Contractual settlements have increased the firefighter wage line by \$269,514. I am recommending funding a new position to relieve some of the workload on the Chief and Deputy Chief regarding building renovations and other similar functions and to assist the Fire Mechanic, at a cost of \$57,595. In addition, I have increased overtime funding by \$50,000 to reflect past and current year experience and the wage increases. The Emergency Communications Department budget reflects the recommendations of the outside consultant's recently completed study and the team of city officials working with the Department. The budget would fund two new dispatch shift supervisors, so that there is a supervisory dispatcher on each shift, and three new regular dispatch positions. The funding necessary to bring staffing up to the recommended level is \$231,264.

The proposed budget is again significantly affected by the increase in the payments due on bonded indebtedness, which for this budget will be \$1,179,186. 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 \$74.8 million in borrowing during that period for the renovation of the two high schools and other Board of Education projects. However, in the 2015-16 budget, payments on bonded indebtedness for school projects increased by \$3,133,990. That increase was offset to some extent by bond premiums from the last bond sale. There is no such offset in the proposed budget. Of the total amount due, \$5,255,087 is debt service for school construction projects. Additional borrowing of approximately \$11,135,000 for the high school projects is anticipated in 2016, which should be sufficient to complete the projects based on their approved budgets.

As noted above, various employee benefit costs are increasing by a total of \$877,754. This includes higher health benefit funding in the amount of \$192,252. The amount necessary to restore the cut in funding in the current year budget for Other Post-Employment Benefits (OPEB) is an additional \$271,173. Required contributions to both the defined benefit and defined contribution pension plans are \$166,005 higher. I have recommended an increase in the police and fire benefit lines of \$151,189 to account for the increase in wages and based on the past two years actual experience. It should continue to be kept in mind that the budget funds police and fire pension and retiree health obligations that were not properly funded in the past. Had these obligations been funded when accrued, this budget would be reduced by \$6,898,847 for pensions and \$5,649,236 for retiree health, a reduction in the tax rate equal to 4.34 mills.

Most of the other departmental budgets do not significantly differ from the current year, some being lower and some higher by relatively small amounts. I have included funding for the Associate Planner and Chief Surveyor positions, which previously had been handled by one individual with both qualifications who has since retired. Both positions were approved for the current year by the Finance Committee. In addition, per our recent discussion, I have included funding for the new position of Special Projects Manager, the funding for which is partially offset by the decrease in funding for the Purchasing Officer position. Also, I have included funding for two part-time positions to provide services for the new downtown park. Funding for capital equipment is \$221,580 higher than the current year, the budget for which was reduced by purchases made in the prior fiscal year. Other budget lines for commodities such as heating oil and gasoline have been reduced to reflect the excellent pricing obtained for the next year. The budget for outside legal fees has been reduced by \$60,000 due to the conclusion of some prior litigation. I have included an increase in funding for economic development projects of \$25,000. These funds are used to complete studies and tasks that leverage much higher

amounts of grant funds and to assist other economic development efforts. I also have modified the special events budget to include certain events which the City has funded on an ad hoc basis, to provide needed funding for the Daffodil Festival and in anticipation of events to be held at the new downtown park. No additional funding is included for wages of bargaining units which have contracts due to expire at the end of the current fiscal year.

The Board of Education will not receive significant new State assistance under the Governor's budget proposal. State ECS funding directly to the Board did increase significantly in past years and the proposed State budget maintains that increased level of funding. The Board budget also has benefited from past changes in the magnet school funding formula. The City has not increased its local appropriation to the Board since 2010 except for an increase of \$150,000 in the current year. However, as I stated in last year's budget message, the City has significantly increased education expenditures related to capital facility improvements as requested by the Board. This includes funding for the high school projects, elementary school roof replacement projects and boiler replacement projects. Since 2010 The City has issued bonds for these projects in the amount of \$44,741,427 and paid \$6,103,408 on that debt during that period of time. The City will pay an additional \$3,631,751 on that indebtedness in the proposed budget. All of that represents additional support for the educational system which should be taken into account. Decisions made to fund these necessary repairs, renovations and improvements clearly have had a significant impact on the City budget. The City also increased funding for the share of retiree health benefits attributable to Board employees during the same period. Of the total funding for OPEB in this budget, \$1,199,205 is attributable to benefits due to Board employees. The Board's payment to the health fund for health benefits will decrease again this year, providing additional funding for other purposes in the amount of \$69,421, in addition to last year's reduction of \$1,066,004.

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. As has been the case for the past two years, the Board administration has demonstrated a capacity to prefund some or all of its increased expenses out of anticipated surplus in the current year budget. Additionally, as has been the case during my tenure as City Manager, the amount of actual expenditure from certain Board line items has consistently been less than the Board budgeted amount, which in turn has been less than the amount of the Board request for those line items. Given these factors, I believe that the Board can maintain current services within its existing budget. Therefore, I am not recommending an increase to the general appropriation to the Board for the next year. That said, if State funding to the Board

is not increased in future years, it will be necessary for the City to find a way to increase its appropriation.

There will be a slight increase in the inner district mill rate of .09 of a mill from 2.14 mills to 2.23 due to a decrease in the inner district real estate portion of the Grand List.

Water division enterprise fund expenditures will increase due mostly to bond payments required to pay the bonded indebtedness incurred for the Broad Brook water treatment upgrade. The proposed budget will require a rate increase of 13 cents. Once again, there will be no increase in the sewer rate. The overall impact to the average family would be approximately \$15 a year.

The Capital Improvement Plan (CIP) also is included in the budget proposal. The Capital Improvement Plan sets out planned capital projects for the next year and those 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 of 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 fiscal restraint in adhering to this policy, which has significantly reduced payments on bonded indebtedness for such projects from prior levels. However, it should be noted that it has become increasingly difficult to fit the cost of necessary capital projects under the cap.

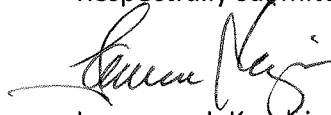
The CIP proposal is based on the recommendation of the Interdepartmental Review Committee, which is composed of several Department heads and other city staff with expertise in capital project planning. The Committee meets with each Department and reviews the required information accompanying each individual request. The Committee then prioritizes 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 \$4,225,949, which is \$298,152 less than the current year. The cost of the recommended projects is \$109,949 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. I am recommending funding for the

Roger Sherman roof replacement project, with a cost net of anticipated grants of \$802,176 and for Casmir Pulaski blacktop replacement at a cost of \$225,937.

This is my twelfth, and last, budget proposal. I am proud that during those years, we have adopted and adhered to our approved financial policies, increased the City reserves from a negative balance to an a reserve level funded at the recommended amount, 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. All of those efforts have consistently received support from the City Council. In that period of time, we have received very positive feedback on the City's financial management from bond rating agencies and our bond rating has been raised four times to the AA level. Finding the means to provide the funding necessary for the essential services that our residents and local businesses expect and deserve while maintaining the sound fiscal status the City has achieved without unduly burdening has been and will continue to be difficult. Fully sharing information and ideas and having a full discussion of the City's priorities is the best means to achieve that goal. As always, City staff and I stand ready to assist you as you review and discuss this proposal

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Lawrence J. Kendzior". The signature is fluid and cursive, with a long horizontal stroke extending to the left.

Lawrence J. Kendzior

City Manager