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Mayor Scarpati and Members of the Meriden City Council:

It is my honor to bring this budget proposal for the 2019 fiscal year to you. I wish to thank the City Council for having the confidence in me to act as the Acting City Manager during what is a challenging time. As a city, we are in a fiscal dilemma that will extend from our current budget, through this proposed budget. The uncertainty of state revenue along with an ever-changing municipal support formula certainly makes this process hard. The dynamics of a diverse city, as well as the necessity for public safety, infrastructure maintenance, debt service, and employee benefits; greatly affect the ability to fiscally manage the City.

The Budget Process

As is usual procedure, each department's budget submission was received and the needs identified. The process started with \$206.7 million in requests (including \$6.2 million BOE Alliance Funds), which was related to a spending increase of \$13.3 million. Through a cooperative effort between the department heads, and myself those request were reduced to \$197.4 million. This relates to a 2.01% growth rate. Acceptable growth is difficult to quantify; however, this is in line with the last several years. The bulk of the increase is due to contractual wage increases, increasing insurance costs, fees, and health care. The remainder are related to "actualizing" costs of departments underfunded last year. Those departments with significant increases include Legal; 23.8%; associated with an increase in attorneys fees and funding an essential position that was fiscally

eliminated from last year's budget but retained as essential to their service; and Parks has an increase in overtime consistent with their average yearly use to support outside city events.

The largest request comes from the Board of Education. Health Insurance funding has been a budget issue for several years, and this year is no exception. Estimated health care costs request increased 19.7 percent. Some of this increase can be attributed to underfunding last year's budget but a change in the "method of funding"; beginning this year the General Fund will change to using a census count multiplied by the number of participants, and simply rising health care costs. The Board of Education is remaining flat funded at this time. There remain several moving parts in the Board of Education budget that may affect this number, and as such, it remains a work in progress. Finally, there has been a contingency included if you will, for the possible additional reduction of revenue from state sources, as we are uncertain of the Governors' intent with budget funding this year. This budget has allotted a \$1 Million dollar contingency to be prepared for state changes.

The Grand List

The Grand List was signed with the .92% reduction (\$28.4 million). This real estate reduction (\$17.6 mil) was mainly due to settlement revaluation appeals. Of those appeals. Many involved large appeals with sufficient reserves budgeted. In general there were 42 settlements for almost \$25 million dollars. If you factor this out of the reduction, real estate would have risen by \$7-8 million dollars. This is indicative of a trend in a positive direction. The City also saw numerous exemption increases (4.31%) for projects such as solar panels, which increase the personal property line item but increase the exemption line by the same amount. Downtown development projects continue and had a positive effect on the grand list. Some of the projects contain tax abatements (0-80%); these values are included in the exemption line. This is reflected in the budget proposal.

Streamlining the Organization

Organizational changes are included in this budget, which resulted some minor savings. I have split up the IT/Facilities moving the Facilities functions as a division in the Parks Department. This change allows all of the facilities maintenance personnel to be under a single department head. It will again become its own department managed by its own supervisor.

The cost savings from the eliminated Director Position will be used to fund an additional Systems Administrator resulting in a small net cost savings. This will increase efficiency within that department as they continue to upgrade the City's IT infrastructure. I have also proposed that the Network Specialist be moved to the Fire Department to address the increasing IT infrastructure need there. Currently the Fire Department does not have IT support dedicated to the department. This has been requested for the last several years, but never funded. The increase in technology within that department has consumed a large amount of the administration's time. This is a cost neutral change. The position will remain available to assist the IT department when necessary as is currently done in MPD. Finally, you will see that the Volunteer Fire Department has been incorporated into the Fire budget. This reflects how that department actually does function. In past budgets the VFD has had a limited budget not reflective of their needs and operation. This necessitated fiscal support for the Fire budget. This change allows for greater oversight regarding large purchases and allows for the standardization of purchases.

Capital Improvement Program

As you see the proposed 2019 CIP budget the City "Self-imposed Cap" is \$3.77 Million. This made choosing the important projects difficult given the necessity for infrastructure upkeep and improvements. Initial CIP requests amounted to \$9.35 million (\$7.08 net of grants), \$7.56 Million (\$6.36 net of grants) without the BOE Requests. Essential items that were reduced or removed included Fire Department

pavement repairs, prisoner cell refurbishment and upgrades, traffic signal upgrades, and spacing critical radio replacement for the Fire Department over three years rather than a single year; in all the CIP was reduced to 3.67 million, approximately \$100,000 under the cap.

As the City's infrastructure continues to age, City departments are finding it increasingly difficult to manage requests and needs to available funds. The CIP cap has worked as intended in reducing the overall CIP spending, and indebtedness, but at what cost? Are managing the cost/benefit ration adequately? I urge the City Council to re-visit the cap, and determine if the formula needs to be revised, or in lieu of a new formula, a fixed dollar cap introduced.

The Budget Result

This budget proposal has an increase in expenditure spending versus last year. The increase of 2.01% seems reasonable; there were root causes for this increase. First, the 2018 budget was enacted with some lines underfunded based on needs established through historical performance. This effect was increased when a couple of the largest union negotiated increases were applied to existing wage schedules. On the revenue side of the budget was uncertainty in state funding. Ultimately, state funding was reduced following the adoption of the budget. Additionally, several other revenues were overstated. Once the state budget was adopted and the funding level was established, there was a realized deficit, the City did not choose to issue supplemental tax bills as many other municipalities did.

The budget presented has included all known decreases in state funding as of the time of printing and expenditure item adjustment as necessary. I have included contingencies should the state change the funding commitment again. Additionally, projected revenue from the enterprise funds are listed lower pending an ongoing study that is currently underway; results may be known by the end of the budget process and will be adjusted accordingly.

Creating this budget was not easy, and was not taken lightly. It took collaboration between department heads, the Director of Finance, and myself to come to a difficult formula to maintain essential services and do such with less. I greatly appreciate each of them as we worked through this collaborative process. We have developed creative means to provide the necessary for the essential services that our residents and local businesses expect. 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 'K. Morgan', is written over a circular stamp or seal that is partially obscured.

Kenneth E. Morgan, Ph. D., EFO, CFO
Acting City Manager