

**CITY MANAGER'S
BUDGET MESSAGE
2010-2011**



City of Meriden, Connecticut

OFFICE OF THE CITY MANAGER

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CITY MANAGER

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Dear Mayor Rohde and Members of the City Council:

The downturn in the national economy and the worsening State fiscal situation continue to impact the City budget negatively for a second consecutive year. Decreases in anticipated revenues combined with unavoidable increases in the cost of certain City contractual obligations will once again pose difficult decisions for you to consider. The efforts of the past few years to control City expenditures will offset that difficulty to some degree. Adopting a budget for the next fiscal year that adequately funds essential municipal services and does not cause an unreasonable increase in local taxes will require the best effort of all involved in City government.

It is anticipated that year over year revenue losses will total approximately \$1,807,209. That total does not include the LoCIP grant, which I have recommended removing from the general fund budget and placing in a dedicated account to which eligible expenses will be charged, so that the funds can carry over from year to year for capital expenditures. Of that total, State revenues will decrease by a net \$291,233 if the Governor's budget proposal is approved and if the State housing PILOT is funded, which the Governor did not recommend. That will need to be tracked as our budget process continues, although any decision on the State budget is likely to occur after our local budget has been adopted, and there is little prospect that those revenues will be increased.

Other significant revenue decreases other than state grants include a \$318,684 decrease in the NRG payment. As noted in last year's budget message, it would have been preferable to budget NRG revenue at the lowest of the payments due over the five year period of scheduled decreases, but that was not possible last year nor this year given our other budgetary needs. Income from investment is projected to be \$219,750 less than the current year despite our improved financial situation because of the decrease in interest rates. The lease of the Superior Court building on West Main Street expired this past September, reducing that revenue a further \$134,358. Lower revenues from building permit fees (\$100,000) and conveyance and other City Clerk fees (\$100,000) are a consequence of the deterioration in the building and housing markets. Motor vehicle supplemental taxes are budgeted to decrease a further \$100,000 to bring that revenue in line with this year's experience. Current year tax collections, at the current mill rate and given no growth in the grand list, have been reduced by \$193,840 to reflect anticipated assessment appeals and mid-year corrections to the grand list. That loss will increase after the Board of Assessment Appeals acts on appeals filed this year.

The revenue estimates included in the proposed budget are intended to be reasonable and as accurate as possible. Nevertheless, the following caveats apply. The State's budget gap for this year and next year is an ever increasing amount. Including the Governor's proposed budget numbers is not a conservative approach as it would have been in past years; that outcome is by no means assured. Also included in the budget is a significant increase in E911 revenue. That increase is dependent on the City handling medical dispatch with its own forces, a change that has not yet been implemented. Interest on delinquent taxes has been budgeted \$100,000 higher than last year, a reflection of our improved delinquent tax collections efforts but by no means an assured result. Current year tax revenue is calculated in accordance with our recently adopted financial policies. The tax collection rate remained stable last year at 97.24%. We have been able to maintain that rate this year up to the last quarterly payment due date. However, residential properties continue to be foreclosed and sold for prices much below the normal market. In past similar economic conditions, that has led to deterioration in the tax collection rate and delinquent collections. Given that the expenditure side of the City budget has no slack in it, it would be more conservative to reduce estimated tax revenues. These factors should be kept in mind as you deliberate over revisions to the proposed budget.

The expenditure side of the budget contains notable increases for employee wages and benefits. The last budget was based on lower increases in contractual wages due to "furlough" agreements with several employee union groups. Those savings helped reduce the mill rate increase last year but add to the additional amount of year over year wage increases that must be funded in this budget. Police wages will increase by \$398,380 to fund the current force level, Fire by \$222,725 and Public Works employees by \$83,473. Overtime costs also will increase due to the increase in wages. Included in the budget is the planned \$1,000,000 increase in OPEB funding and increases in health benefit costs. That increase is necessary to satisfy the actuarial assumptions by which the City's overall obligation for post employment retiree health benefits is calculated. To offset the impact of that increase, I have recommended that it be funded from undesignated reserves. The City's commitment to increase funding in equal amounts over a five year period to the actuarially required contribution level resulted in a decrease of over \$100 million in the calculation of the City's obligation. That commitment needs to be maintained. Although the pace of increase of health benefits has been much reduced over the past few years due to changes in benefit plans, increased employee payments and cost sharing and good experience, health benefit costs this year have been close to projections. Therefore, health benefit funding must be increased to maintain the health benefit fund at an adequate level. Revaluation looms ahead, due for the 2011 grand list. That work must be started in the next year to be completed in a timely fashion. An increase of \$400,000 has been included in the budget for that purpose. Changes in funding for the code enforcement program due to CDBG HUD requirements have increased general fund costs by \$100,000. The prospect of two primaries for state office requires an additional \$41,000 for elections. The contingency fund has been increased by \$150,000 to the prior year level of \$500,000 to provide a better margin for unanticipated expenses.

Those increases are offset only by a few significant decreases in expenditures. Most notable is a decrease in payment on bonded indebtedness in the amount of \$1,918,436. This, the result of many years of restricting spending on capital projects and increased grant funding of certain capital improvements, could not be more timely. Spending on capital equipment has been reduced in this proposal by \$171,000. Funding of pension obligations has decreased by \$32,584, notable only for the fact that the losses experienced in pension investments last year will not impact the city budget until the 2011-2012 budget year, after the next actuarial calculation.

Non-education expenses in this budget proposal are less than the prior year by \$221,706. That calculation takes into account the exclusion from the budget of LoCIP funding and expenditures that was described above, and does not include the increased funding for OPEB, which is an obligation incurred for both city and Board of Education employees. If adopted, this would be the fourth consecutive budget in which those non-education expenditures have been reduced. Keeping city operational costs level for that period of time is an outstanding achievement. It should be noted that the difference between the amounts requested by the various City departments, including the Board of Education, and the original revenue estimates was \$12,194,268. Department budget requests totaled \$8,059,025 more than recommended in this budget proposal. However, projecting ahead, it will not be possible to limit city operational expenses in this manner in the future without a wholesale change in employee wage and benefit costs, something that will be pursued in the next round of labor negotiations.

This budget proposal does not recommend the elimination of any employee positions. Many such cuts have been implemented in the past few budgets, which has enabled the City to mitigate other increased expenditures. Experience has shown that a few positions that were eliminated needed to be restored to maintain services. This budget proposal does increase funding for one Parks maintainer position, which was not included in the current year budget. I also am recommending increased funding for three new Police Service Technician part-time positions, which should allow two police officers to be deployed to regular patrol duties and is a less expensive and more efficient alternative to funding additional police officers. That, with the reassignment of the middle school resource officers, would bring the available patrol resources to the level necessary for the Police Department to keep overtime costs to the amount proposed in this budget. Also included in the Police Department budget is funding for the operations of the dog warden, including an additional assistant position, expenses that have been charged to the Department in the past without being budgeted. I also am recommending the addition of one dispatch employee to bring the number of dispatchers up to the level that does not require overtime to fill out the regular shifts. The cost of this should be partially offset by a reduction in overtime. A limited number of additional personnel hours for library operations have also been recommended.

I am recommending that funding for services to city residents provided by various non-profit organizations be maintained at current levels. Reductions in such funding have been made in the past two years, and other proposed reductions have been fully debated. It also is my intention to reinstitute the Neighborhood Preservation Program. Adjustments

have been made to the level of CDBG funding for code enforcement to ensure funding allocations are compliant with HUD requirements, progress has been made in addressing lead abatement issues with past NPP loans, and the personnel time required for NSP projects should decrease in the next budget year as that program winds down.

With regard to the Board of Education budget, I am recommending that funding be maintained at the current year level. In addition to the general fund appropriation, the Board will continue to receive \$7,673,053 in federal ARRA education stabilization funds. The Board has \$935,000 remaining in IDEA stimulus funds to offset next year's budget increases and has \$871,083 available in Title 1 stimulus funds, which funds have been mostly used to fund positions that were formerly funded by other grants. These are both the same amounts that it budgeted for the current year. The Board funding request indicates that it will have at least \$1,083,552 in its general fund budget that will not be needed in the current year to maintain current year services. This is notwithstanding the recent allocation of funds for the hiring of additional paraprofessionals (\$84,000 for partial year) and for the purchase of library books (\$50,000).

The Board in its funding request indicated it "may have to" spend this anticipated surplus to cover expenditures in the next fiscal year. The Board included this in its request despite the fact that members are aware that the City faces a deficit in the current fiscal year in excess of \$1.5 million as of the last completed projection. In effect, the Board is indicating that its financial needs for the current year are at least a million dollars less than its funding for the current year. That comports with the fact that magnet school expenditures are \$750,000 less than projected in their current year budget request and their current budget includes a "contingency" line for the first time of \$250,000. If funding is maintained at current levels, the Board will have that million dollars to fund increased expenses in the next fiscal year. If the Board also expends \$1,083,522 in funds from the current year budget on next year expenses, the funds available for increased spending in the next year budget will total \$2,083,522. As a percentage of the current year general fund spending, this is well within the norm of requested Board of Education increases across the State and exceeds the request of many similar or wealthier communities. Even after taking into account the projected increased in health benefit costs, there will be funding to cover an additional \$1,108,540 in increased expenditures, an amount only \$300,000 less than the average increase in the last two years. That is a gap that would be closed if certain expenditures prove to be less costly than estimated, as shown below.

A few points concerning the Board funding request are in order to place that request in an accurate framework. The Board has termed its request a three percent increase in funding. While that may be technically accurate, it overlooks the facts that that the Board's current year appropriation was reduced by the amount of federal stabilization funds that are paid to the Board directly, that it requested and received funds for Edison in an amount \$750,000 higher than needed, and that the Board has indicated that in order to limit its request it contemplates using over \$1 million from this year's appropriation to pay expenses in the next fiscal year. Taking those factors into account, the actual increase in general fund spending contained in the Board request on a percentage basis is 5.3%.

In addition, because the Board request is due at the same early point in the budget process as other department budgets, it is necessarily based on best estimates at the time it is made. Those estimates sometimes prove to be higher than actual. For example, the estimate for heating oil was based on an expected increase, but the City has secured a contract at no increase. The Board administration estimates this will save \$157,390. The budget contemplated higher increases in pupil transportation than the City expects to secure. The City has an agreement for a first year increase with one vendor of three percent. If we are able to secure a similar agreement with the other vendor, the Board administration estimates the savings will be \$314,807. The Board request included a wage increase for members of the administrators union, which was denied in arbitration, a savings of \$54,527. The savings from those three items alone totals \$526,724. It also should be noted that the amount to be paid by the Board into the health benefits fund is computed at the COBRA rate based on current staffing levels. Should staffing levels be reduced and result in fewer personnel being covered by city health benefits, the difference in costs could be shifted by the Board to other expenses, as has been the case in the current fiscal year.

The Board administration takes an admittedly conservative approach in formulating the Board budget request to ensure that the Board does not overspend its appropriated budget. Historically, actual expenditures in many areas have been significantly less than the estimates used in Board requests. For example, for the fiscal years from FY06-09, the estimates in the Board requests for certified salaries totaled \$187,689,783 while the actual expenditures for those years totaled 184,441,516, a difference of \$3,248,267, which is an average difference of \$812,066 annually. The Board request and my recommendation should be examined from a perspective that keeps the above factors in mind.

Board members have often been quoted in local media reports as subscribing to the philosophy that it is the function of the Board to decide what the funding level for education should be and the function of the City Council to decide what funding level is affordable. Given the further revenue losses that the City must bear, the fact that non-education expenditures have not been increased for the past three consecutive years while funding for education has been increased each of those years, the lack of growth in the grand list, the slim prospect of increased state assistance in the next year or the year thereafter, the expectation that pension, health and retiree health benefit costs will continue to increase in future years, and the need to use undesignated reserves and to increase the tax rate to keep the budget in balance, it is my recommendation that the City Council decide that maintaining the current funding level for the Board of Education is the most that is affordable to City residents and taxpayers.

Every tax increase is to be avoided, especially at a time when many residents are struggling financially because of current economic conditions. Even with the limitations on spending that are proposed, the decrease in revenues and the unavoidable increases in certain expenditures require that the mill rate be increased by .68 of a mill to produce the revenue needed to balance the budget. That would result in a tax increase of \$96 a year on a home with the median value of \$202,000. As indicated above, I also have proposed

using \$1 million of undesignated reserves, the so-called rainy day fund. The use of undesignated reserves is a practice that also should be used only in the most extreme fiscal conditions. Through our efforts over the past few years, the City is better able than before to use reserves to defray a higher tax rate increase, but the maintenance of adequate reserves is necessary to maintain or improve the City's bond rating and to provide a cushion against even more difficult budget years in the future.

A slight increase of .07 of a mill, bringing the inner district mill rate to 1.81, is necessary because of an increase in solid waste disposal fees and a slight decrease in the inner district tax base. Contracts for those solid waste and recycling services will be put out to bid and responded to prior to final budget adoption, which may change the final inner district mill rate.

Included in the budget presentation is the Capital Improvement Plan (CIP), including capital funding requests for the next year. The improvement in the capital planning process and our strict adherence to the City's self imposed bond authorization limit resulted in the decrease in our debt payment that offset other expenditure increases in this year's proposed budget. That restraint is continued in this year's request, which is nearly one million dollars below the cap. The Capital Improvement Plan also sets out planned capital projects for the succeeding five-year period, providing a solid basis for future financial planning. I wish again to thank the staff CIP committee members for their work on this plan and for the progress that has been made in improving the process by which capital projects are recommended for approval and tracked thereafter.

The proposal that I submit to you today provides you with reliable information and clearly defined issues for your consideration. These are difficult economic times in which to make decisions on how best to fund essential city services, fully fund City obligations, provide necessary and desirable capital investment, and maintain an affordable tax rate. The prudent fiscal decisions made by you in the past few years have better positioned the City to do so. City staff and I stand ready to assist you in your deliberations.

Respectfully submitted,



Lawrence J. Kendzior
City Manager