



City of Meriden, Connecticut

OFFICE OF THE CITY MANAGER

142 East Main Street, City Hall

Meriden, CT 06450-5605

Telephone (203) 630-4123 • Fax (203) 630-4274

LAWRENCE J. KENDZIOR
CITY MANAGER

March 5, 2012

Dear Mayor Rohde and Members of the City Council:

The issues addressed in this budget proposal are similar to those of the past few years, with one major difference. The downturn in the national economy continues to have a negative impact on non-tax revenues. Meeting our policy goal to fund the City's benefit obligations as actuarially required, including those that historically were not properly funded, remains a challenge. However, although the effect of those issues on City taxpayers is significant, it is minimal compared to the changes in taxes that will result from the recently completed revaluation.

Based on this budget proposal, taxes on the median value single family residential home will decrease by \$181. This is true notwithstanding that the mill rate will be adjusted to 34.56 to account for the change in the Grand List resulting from the overall decrease in the value of real property since the 2006 revaluation. As was the case following that revaluation, there is a wide range in the changes in value in all three classes of real property- residential, commercial and industrial. That is also true with regard to properties within the same class. Taxes on approximately two-thirds of all residential properties (one, two and three family homes) will decrease. Taxes on another twenty percent of residential properties will increase by no more than five percent.

Those and other disparate effects on taxpayers are rooted in the changes in value among those classes of property. As measured by the recently completed revaluation, the value of the median single family home decreased by 17.3%. That is typical of the change found in other communities that have completed revaluation, which is required every five years by State law. Commercial properties on average did not experience similar decreases in value. As a result, the percentage of the entire value of the grand list represented by commercial properties increased by five percent from 17% to 22%, while the percentage of value of residential properties decreased by six percent from 74% to 68%. Consequently, the overall tax burden will shift somewhat to commercial properties and to other classes of property. This represents a partial reversal of the significant shift in the tax burden from commercial to residential that occurred following the 2006 revaluation.

The most notable change in revenues is an increase in ECS funding recommended by the Governor as part of an education proposal requiring certain programmatic benchmarks to be met. If that proposal is adopted, Meriden will receive an increase of \$1,777,411. I have included that sum in revenues and increased the contingency fund by that amount, earmarked for the Board of Education, pending legislative approval of the Governor's recommendation. Other State revenues have decreased by \$413,947. That decrease may potentially be offset by an increase of approximately \$300,000 in the new Municipal Revenue Sharing Fund approved last year. Because this fund comes partially from sales tax and hotel tax receipts, the full payment from this fund for the current fiscal year will not be calculated and made until August, 2012. The sum from this source included in this budget proposal for the next fiscal year certainly is our best projection, but clearly one that bears close examination. Significant decreases in local revenues including city clerk fees, health care funding under the Affordable Health Care Act, the NRG contract, investment interest, interest on delinquent taxes and motor vehicle supplemental taxes total \$801,147.

Revenue estimates included in the proposed budget are intended to be reasonable and as accurate as possible, neither overly optimistic nor conservative. That said, achieving the budgeted amounts for collection of delinquent revenue and interest on unpaid taxes will be difficult. As was the case last year, the amounts included for city clerk fees and building permit fees are lower than the prior year, but could reasonably be lower still. The proposed budget does not yet take into account the impact of assessments that may be lowered by the Board of Assessment Appeals or the potential impact of outstanding assessment appeals. This is particularly significant in the first year following revaluation. We anticipate that more than 400 assessment appeals, mostly on large commercial properties, will be filed. These factors should be kept in mind as you deliberate over revisions to the proposed budget.

The proposed budget includes the use of \$1.2 million in fund balance. Current undesignated reserves are approximately \$17 million and slightly exceed the amount required by the City's adopted financial policies. A similar amount of fund balance was included in the current year budget. The projection for the current fiscal year is that this year's budget will not end with sufficient surplus from other sources to make the use of those reserves unnecessary, as has been the case in past years. The use of fund balance has been endorsed in the past few years in order to offset to some degree the additional cost to taxpayers required to meet the City's plan to fund accrued retiree health benefit liabilities (OPEB). This is not a practice that can be continued indefinitely without adversely affecting the City's financial standing. It should also be borne in mind that the use of undesignated reserves automatically creates a revenue shortfall for the following year. As always, we will need to make every effort during the budget review process to ensure that the revenue projections are realistic.

General fund spending, excluding employee benefits and the additional funding for the Board of Education, increases under this budget proposal by \$768,132, which is nine one-hundredths of one percent (.09%). Of that amount, increases in funding for additional public safety positions, intended to provide better service and to reduce overtime costs, total \$620,260. I have recommended funding three additional firefighter positions. Our analysis shows that the cost of funding the new positions will reduce overtime in an amount greater than the cost of the additional positions. I also have recommended adding three new dispatch positions. This will allow the City to staff a fourth emergency answering point and also will reduce overtime. The City received federal grant funding for four new positions in the Police Department. The grant funds those positions at the entry level of a non-certified officer. I have recommended that two of those positions be filled by certified officers so that the officers can immediately take up the new duties of those positions. I also have recommended an increase in overtime funding for the Police Department. Our efforts to reduce overtime in all three departments are ongoing, but the time has come to recognize that increased funding in these areas is necessary to ensure a balanced budget at year end. In addition to the public safety staffing changes described above, the decrease in available Community Development Block Grant (CDBG) funds has resulted in shifting an additional \$91,510 in personnel expenses from CDBG to the general fund.

This year, I asked each department to prepare a budget request intended to provide a service that has been needed but not funded in prior years. I have recommended approval of some of those requests in this budget proposal: additional funds in the Public Works Department for line painting, a common constituent request; funding to undertake a comparative study of Fire Department procedures and practices; a realignment of one position in the Health and Human Services Department, intended to provide a better staffing succession track; and a new 15 hour per week position in the Parks Department to provide better maintenance coverage for the linear trail and the downtown area. I also have recommended funding the staff attorney position in the Law Department in order to address delinquent tax collection and worker compensation issues. As mentioned above, meeting our delinquent tax goals will be difficult but doing so is essential to balancing the budget. Increased collections and the savings from handling more worker compensation issues in-house are expected to cover more than the expense of funding the additional position.

Certain benefit costs in this proposed budget have increased by a total of \$2,091,479. Of that amount, \$1,200,913 is the increase recommended to meet our goal to fund accrued (OPEB) obligations. That includes the cost of providing such benefits for retired teachers as required by State law. OPEB funding in the general fund and enterprise funds will total \$4,500,000. As of the latest information available from the State, Meriden is one of only thirty-five municipalities that have established an OPEB trust and one of only eight communities with more than \$1,000,000 in trust assets, with the third highest amount of funds overall. Meriden also is one of only eleven towns in the State that has fully funded its municipal pension plan. As you will recall, recently negotiated

contracts have included agreements for increases in employee contributions toward retiree health costs that nearly equal those costs and have provided that employees hired after July 1, 2011 will not be entitled to those benefits. Additionally, contributions by current employees to the municipal pension plan were increased and new employees will be in a defined contribution plan rather than a defined benefit plan. Those changes and the steps taken to fund already accrued obligations increase our fiscal stability and financial standing. They alleviate the very substantial burden that otherwise would have challenged the City and its taxpayers in future years as those liabilities come due. Pension funding, social security increases and small increases in the cost of health benefits total \$400,133. Increased worker compensation and hypertension payments require additional funding in the amount of \$490,433.

Payments on bonded indebtedness will decrease by \$785,903. This decrease results from strict adherence to the City's policy of authorizing no more than one half of the principle amount of bonded indebtedness paid in the preceding year. It should be noted that the decrease in the annual payment on bonded indebtedness required in next year's budget compared to FY2007 is \$5,966,892. Had we not taken the steps necessary to reduce our bonded indebtedness that difference alone would result in an increase to the mill rate of 1.90 mills. The other notable decrease in year over year expenditures is for the cost of the recently completed revaluation, a difference of \$230,651. Although there is a small decrease in waste collection costs due to the fact that the tip fee for recycling materials has been reduced to zero, the decrease in the inner city grand list will cause a slight increase of .26 mills to 2.08 mills for waste collection services in the inner tax district.

With regard to the Board of Education budget, as indicated above, I have included additional funding of \$1,777,411, the increase in ECS that Meriden would receive if the Governor's education funding proposal is adopted by the Legislature. I have placed that amount in the contingency fund to be transferred to the Board of Education after legislative approval. The Board of Education administration is seeking an equitable revision of the magnet school funding formula that would significantly reduce the cost of tuition for City students to attend Edison Middle School. The proposed budget reduces the cost of health care benefits allocated to the Board budget by \$73,501. That will produce a savings of approximately \$400,000 in the proposed Board budget. This is due to the fact that the projected increase in the cost of health care benefits is offset by the fact that the Board has fewer covered employees. This demonstrates the value of the efforts undertaken to control the rate of increase in the cost of health care benefits.

The Board administration and I agree that if the additional ECS funds and the legislative revision of the magnet school funding procedure are approved, the Board will have sufficient funding to meet the goals of their proposed budget. If that proves not to be the case, I would anticipate that the further discussion of the Board's budget proposal will ensue. Without going into what may

prove to be unnecessary detail, it remains my opinion that the increase in the Board request can be substantially reduced as further information on tuitions, special education and other costs become available, that there will be sufficient surplus in the Board budget for the current year to allow for the prepayment of certain next year costs from the current year funds available to the Board and that the Board has overestimated certain costs due to the conservative approach by which the Board budget request is formulated. That has proven to be the case for each of those factors for each of the past several years.

Increases to the water and sewer rates averaging less than \$50 annually for a typical family are recommended to offset slightly higher expenditures in the water division and to preserve fund balance as we prepare for future capital projects. Water Division expenditures increase by \$315,668 (3.5%). Sewer Division costs decrease by \$946,122, (9%). The golf enterprise fund request reduces expenses by \$96,037, a decrease of 8.5%. This reflects the reduction in the number of full-time personnel put into place at the beginning of this calendar year in an effort to balance the golf budget going forward.

The Capital Improvement Plan (CIP), including capital funding requests for the next year, is also presented in this budget proposal. The bonding authorization cap for next year is \$4,479,581. The cap 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. This year's requests are \$91,747 under the cap.

Notable in the proposed CIP is a recommended increase in funding for road paving projects. The amount requested is \$1,000,000, double the amount of the last few years. That amount does not include \$519,121 in road projects funded by the LoCIP state grant. It also does not include the additional \$1,000,000 in road work scheduled for this spring. This funding will allow the City to address many needed road repairs during a period when pricing for such work is advantageous. Other requests are for funding for the new aerial ladder truck for the Fire Department, for which the City has received grant funding for one-half the \$1,200,000 cost. Funding is included to install a generator in the Library building, a need demonstrated during the October, 2011 storm. Having a building which the public can use during such an emergency for daytime warming and the charging of cell phones and other devices is a service we should provide. We also are seeking \$200,000 for replacement of the granite curbs in the monuments area of Broad Street. A memorial to those who have served our country in the military, this area should be as well maintained as possible.

Also included in the CIP is funding for Board of Education, water, sewer and flood control projects. \$490,000 is recommended for the replacement of the Hanover School boiler. A study indicates that this will produce a substantial return on investment because of decreased energy use and the switch to using natural gas as a fuel source. This is the first of four boiler projects recommended for funding in the next three years. Funds are included for the architectural fees associated with the repair of the Israel Putnam roof. This also is part of roof replacement projects including the roofs at Nathan Hale and Roger Sherman schools scheduled between 2013 and 2017. Requests for funding necessary water and sewer projects, the cost of which is paid through user fees, total \$1,014,000. Flood control project requests, net of grants that are being sought, total \$550,000 and include design work to alleviate flooding caused by the AMTRAK railroad bridge and for the Dog's Misery Swamp mitigation project. That project is expected to be a condition of approval of the DEEP and Army Corps permits for the Harbor Brook Flood Control Plan. The Capital Improvement Plan also sets out planned capital projects contemplated for the succeeding five-year period, providing a solid basis for future financial planning.

This budget proposal reasonably estimates anticipated revenues and expenses in a fiscally prudent manner. It balances the need for essential services against the ability of our residents and businesses to pay for those services. It fully funds City obligations in accordance with our financial policies, addresses long term budgetary issues and provides necessary and desirable capital investment. As always, City staff and I stand ready to assist you as you review this proposal.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Lawrence J. Kendzior". The signature is fluid and cursive, with the first name being the most prominent.

Lawrence J. Kendzior
City Manager