

March 2, 2009

Dear Mayor Rohde and Members of the City Council:

It is not possible to overstate the negative impact that the downturn in the national economy will have on our City budget in the next fiscal year. The current economic situation will result in significant decreases in state assistance, local taxes and other local revenues. Compounding the difficulties posed by these revenues losses are unavoidable increases in certain expenditures like wages, health care, pension contributions and payments on indebtedness. Resolving the difficulties posed by the revenue losses and expenditure increases will require that we use all means and methods available to ensure that essential municipal services are adequately funded without causing an unreasonable increase in the local tax burden on our residents and businesses. The decisions that this budget proposal requires you to consider could not be more difficult.

Year over year revenue losses total approximately \$4,900,000. That total includes a decrease in state grants of \$576,633, assuming that the Governor's proposed funding levels are approved. Although the Governor announced in her budget address that she was proposing to flat fund municipal grants, the levels proposed in her budget correspond to the prior year levels without taking into account the use of state surplus amounts added by the Legislature. State pilots will decrease because funding levels remain the same but more property statewide is eligible for reimbursement. Although the Governor did not fund the state housing pilots in her proposal, I have included income of \$129,000 for that item in the City budget, anticipating that the Legislature will restore that program. If not, or if the Legislature reduces municipal funding, the loss in state assistance will be greater than indicated above.

Local revenues other than taxes also will decrease. The twenty year lease between the City and the State for the Superior Court building on West Main Street expires during the fiscal year. The State will own the courthouse and the City will not receive annual rental payments of \$506,508. The budget anticipates that other local revenues also will decrease because of current economic conditions. These include losses attributable to the decline in the housing market, including conveyance tax fees (\$250,000) and building permit fees (\$300,000), and a decline in investment income estimated at \$550,000 due to lower interest rates. The last portion of the bond funds transferred into reserves several years ago were used last year, resulting in a year over year revenue decrease of \$275,000. Changes in other revenue, consisting of miscellaneous revenue funds, bond premiums and the sale of surplus property, will result in a further revenue decrease of \$809,061.

This budget also anticipates that, apart from any increase in the tax rate, local tax revenues will decrease. Current year tax revenue at the present mill rate would be lower by approximately \$600,000. This is mostly due to a decrease in the motor vehicle portion of the grand list that is largely attributable to lower motor vehicle valuations and decreased new motor vehicle purchases. In addition, motor vehicle supplemental taxes, which result from transfers during the assessment year, have been budgeted in a more

realistic amount, \$525,000 less than in the current year budget. Delinquent tax collections, which were very aggressively budgeted last year, have been reduced by \$500,000 to bring that revenue line to a still aggressive but achievable level.

Several caveats with regard to the revenue estimates contained in this budget proposal need to be stated. For purposes of our budget deliberations, I have generally assumed that the Governor's proposed funding level for state grants will be adopted. Although that is the most reasonable assumption to make at this point, that outcome is by no means assured. Estimates of the state budget deficit increase with every announcement and there does not appear to be bipartisan agreement on how to balance the State budget. Nor is it likely that the State budget will be adopted prior to the date by which the City must adopt its final budget. Also, I have projected current year tax revenue at the same collection rate as the preceding budget, 97.25 percent. We have achieved that rate during the current fiscal year, but clearly that will become more difficult as more residential properties are foreclosed and business and residents struggle to pay current expenses. The same can be said of the amount of delinquent revenue included in the budget.

Offsetting these significant revenue losses are very few increases in budgeted revenue. The revenue from the NRG tax agreement will increase by \$831,600 on a budgetary basis following the conclusion of the litigation with NRG. It will not be necessary to reserve any of the payment due, but it should be noted that this revenue will decrease over the next four years. It would have been preferable to budget this revenue at the lowest of the anticipated payments, but the exigencies of this budget militate against that. Other increased revenues include the amount taken from the health special projects fund, something that will not be maintainable, and a small increase in the enterprise fund cost allocation amount. Budgeted ECS revenue should increase by approximately \$450,000 if current law is not amended. In the preceding year, that amount was withheld from the payment to the City and paid over directly to the Board of Education as part of the so-called "accountability" grant. Because the Governor has recommended that ECS be flat funded, there is no increase and therefore no percentage of increase to withhold, meaning that the entire ECS amount should be paid over to the City. This is a projection that bears watchfulness during the legislative session.

To ensure a perfect budgetary storm, certain city expenditures also will unavoidably increase: payments on bonded indebtedness by nearly \$700,000, police and fire pension contributions by over \$250,000, city bargaining unit wage increases per contract by approximately \$1,100,000 and health fund contributions by more than \$1,200,000. The change in accounting standards concerning the funding of other post-employment benefits (OPEB), primarily retiree health care benefits, dictates that the City begin funding its accrued obligation in the manner that it funds for future pension obligations. This budget includes funding for this obligation in the amount of \$1,500,000, which is less than the actuarially indicated amount and an amount that will need to be increased in future years. Although these are significant year over year increases, it should be noted that even so the City has made great strides in controlling the increases in these and other expenditures in the last few years. That has placed the City in a better position to address the issues of this budget than it otherwise would have been. In addition to the above, the

Board of Education has requested an increase in funding of \$5,800,000. The difference between the amounts requested by the various City departments, including the Board of Education, and the original revenue estimates was \$13,579,598.

As indicated at the beginning, there is no one good way to close a budget gap of that proportion. I am recommending various means to do so, none of which will please anyone and all of which will have some impact on City services and City taxpayers. Those with the least fiscal impact but some undeniable symbolic value include the following. I have eliminated funding in the budget for management increases. I will not request or accept a salary increase for the next fiscal year. I will not approve increases for department heads that received increases in the current year. Salary increases, if any, for other management, non-union personnel will be dependent on overall budget status and the ability to fund such increases out of savings in departmental budgets. Although I encourage professional development and place a high value on continuing education, I have proposed that funding for out of state conference and seminars be eliminated from the general fund budget. Such travel will be approved only if funded from other sources or from savings in departmental budgets.

I am recommending the elimination or reduction of funding for more than thirty different city positions. The savings, counting only wages, if all of these recommendations were adopted, is \$1,775,225. Nearly all of these are positions that were necessary to assure the provision of important and valuable service to the public and no recommendation in this regard has been made lightly. However, the City's financial situation requires that we take steps to reduce expenditures that go further than previously contemplated.

The recommendations include the elimination of funding for the non-union Account Clerk position in the City Clerk's office based on reduced land transfers and other workload, a reduction in hours for the Assistant Registrars, the elimination of the Computer System Operator position in MIS, the elimination of the part-time Building Official position based on fewer new building projects, the elimination of the part-time account clerk position in Finance and of the part-time Account Clerk position in the Assessment and Collections Division, and the substitution of a Librarian I position for the recently approved Librarian II vacancy. Also recommended are the elimination of a Laborer I position in the Parks Division, which would require reorganization of Parks assignments to continue downtown maintenance, changing the currently vacant Recreation Director position to a part-time or seasonal position or positions, eliminating the position of City Engineer but funding an additional Associate City Engineer, eliminating the Traffic Sign Coordinator position, eliminating an Administrative Assistant position and a reduction in hours of the Mini Bus Driver position in the Senior Center, and a reduction of hours of public school or change of schedule for a nursing position or positions.

In the public safety area, I am recommending that only the currently filled 120 police positions be funded, in the expectation that federal funding will allow for additional positions to be filled. I am recommending elimination of funding for the Crime Analyst position due to an upgrade in Police Department software capabilities. I also am

recommending the closing of the Broad Street firehouse. I have included funding for four fewer positions in the Fire Service, including one Captain, one Lieutenant and two Firefighters. This recommendation anticipates that there will be sufficient retirements or resignations to bring the filled positions down to the number funded and that the remaining personnel from Engine 3 will be reassigned to other companies. The savings in wages and overtime if this recommendation is approved is estimated to be in excess of \$620,000. The significant increase and overruns in the Fire Department overtime budget line is something that has needed to be addressed for some time. This is, of course, a very difficult recommendation to make. However, I believe that reorganizing the Fire Service can be accomplished in a manner that will ensure continued protection for the public while yielding substantial savings. Certainly, this will be a difficult proposal to evaluate but due consideration should be given to this proposal in the absence of any other fiscally prudent alternative.

I am recommending the suspension of two valuable City programs that provide important benefits to our residents and property owners. First, I am recommending the suspension of the bulky waste residential pickup program. Revenues for this program as currently constituted have not met expectations. Suspension of the program will allow for the elimination of one Highway Laborer II position and the reassignment of half-time funding to the Highway Division of a Maintainer position. Residents will continue to be able to bring bulky waste directly to the transfer station or to arrange for private pickup. The other program that I am recommending be suspended is the Neighborhood Preservation Program (NPP). This program has been a valuable tool in the City's code enforcement efforts. However, the number of new loans processed is lower than would be expected given the level of expenditures for program administration. Recent difficulties in complying with all federal funding requirements have been encountered. All outstanding compliance issues ideally should be resolved before proceeding with new loans. In addition, the City will be administering a new program funded through the federal Neighborhood Stabilization Program (NSP). The suspension of the NPP will allow the Community Development Block Grant (CDBG) funds supporting that program to be reallocated to fund two Housing Inspectors currently funded from the general fund and to support the implementation of the NSP program, which will focus on the acquisition and resale of foreclosed properties. The position of Rehabilitation Specialist would not be funded. The position of Neighborhood Preservation Specialist would be eliminated but a new position to provide administrative services for the NSP program would be funded through a combination of CDBG funds and NSP funds.

I also am recommending that the 10-217a program that provides certain services to parochial schools through City personnel be eliminated. Ours is the only municipality that provides those services directly and not through the local school district. This proposal would not fund three full time and three part-time positions, a reduction in expenditures of \$300,740.

Other savings that I am proposing would reduce or end funding for various programs provided by other organizations that the City has supported for a number of years. These include funding for the Nerden RTC Day Camp, funding for teen activities and summer

camp programs provided by the YMCA, Women and Families Center, Boys and Girls Club and Girls, Inc. and for the Record Journal summer camp program, the Curtis Center and Gallery 53. Funding would be reduced for economic development activities and marketing, and the City would discontinue its membership in the Regional Growth Partnership and the Metro Hartford Alliance, both regional economic development organizations. I also have significantly reduced funding for street line painting, which had been included last year in the operating budget. The total savings from those items amounts to \$381,000.

With regard to the Board of Education budget, I am recommending an increase of \$968,818, the amount equal to the increase budgeted for Board of Education health benefits. My recommendation assumes that the Board will receive increased federal funding under Title I and IDEA that can be utilized to offset increase in Board expenditures. The latest information available to me indicates that the Meriden school district will receive an additional \$2,332,000 in Title 1-A funding and \$2,608,000 in IDEA, Part B funding, a total of \$4,939,000. The accuracy of this information and the utility of this funding to Board current operations will need to be examined during the budget deliberations.

In total, non-education expenditures in this budget proposal, excluding OPEB, are \$350,000 less than the preceding year's approved budget. This is particularly notable in view of the increases in wages, benefits, and payments on indebtedness described above. This would be the third consecutive year that City non-education budgeted expenditures have been reduced, albeit at the cost of valuable services and programs. Even so, those reductions do not nearly result in a balanced budget.

Therefore, with great reluctance, I am recommending an increase in the tax rate of .98 of a mill and the use of undesignated reserves--the so-called "rainy day" fund--in the amount of \$1 million in order to balance the budget. That tax rate increase would result in a tax increase of \$137 a year on a home with the median assessment of \$140,000, or \$200,000 full value. Every tax increase is to be avoided, especially at a time when many residents are struggling financially because of current economic conditions. The use of undesignated reserves is a practice that also should be used only in the fiscal *extremis*, especially given the low amount of our City's reserves. However, in order to fund essential city services, both steps are necessary.

With regard to the additional mill rate for the inner district that funds solid waste disposal, based on savings that we have been able to achieve in the cost of our contract for solid waste pickup and the stability of the proposed rate for disposal, the additional mill rate for inner district real property will be reduced from 1.93 to 1.74. This would decrease the overall increase in the combined mill rate for inner district real property to .79 of a mill, an increase for the median assessed property of \$111 annually.

Included in the budget presentation is the Capital Improvement Plan (CIP), including capital funding requests for the next year. I am pleased to report that our capital planning process has improved greatly in the past few years. As you know, notwithstanding this

year's increase, over the last few years we have reduced the amount of our payments on indebtedness, strictly adhered to the City's self-imposed bonding cap of one-half of the principal amount of bonds paid the preceding year, and greatly reduced the overall amount of bonded indebtedness as a percentage of our operating budget. This year's request is more than ten percent below the cap. The plan also provides a workable roadmap for future capital funding over the succeeding five-year period. I wish 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 budget proposal outlined above poses many difficult decisions for your consideration. However, if adopted, the budget would fund essential city services, fully fund pension and other City obligations, and increase the tax rate by only a relatively modest amount considering current economic conditions. It does so in a fiscally prudent manner and provides clear, specific and reliable information on which to base your decisions. While the current economic climate has posed many challenges this year, we should note that the City has not been impacted nearly as much as other cities, towns and regions throughout Connecticut and the nation due in part to many prudent fiscal actions you have taken over the past several years. We are hopeful that we will be able to mitigate the potential impacts of a continuing economic slowdown by adequately funding municipal services without unreasonably burdening the local taxpayers, making sensible decisions for the City's long term fiscal health, and taking advantage of every opportunity to leverage state and federal funding that may become available for city services and capital projects. As always, City staff and I stand ready to assist you in your deliberations.

Respectfully submitted,

Lawrence J. Kendzior
City Manager