# City of Meriden, Connecticut

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*LAWRENCE J. KENDZIOR*
*CITY MANAGER*


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Dear Mayor Santos and Members of the City Council:

The major issue that must be addressed in next year's budget is the need to increase funding for health benefits and for worker compensation benefits. These two cost centers alone will require additional funding in the amount of $3,181,125, a sum that by itself is equal to one mill of taxes. Part of the increase is due to a significant rise in the number of large claims in the past few years due to serious illnesses. Part of the increase is due to decisions made last year to reduce the increase in taxes in the current year to the lowest possible level by prefunding health and worker compensation costs. Health care funding in the current year budget was reduced by $2 million by paying that amount into the health fund in the prior year. Workers compensation funding was reduced by $904,063, also on the basis of payments made in the prior year. Those reductions in current year funding must be restored in next year's budget. Other expenditure increases in the amount of $2,081,329 are necessary due to contractual obligations, to increases in operating expenses or to ensure that needed services are delivered as required. Overall, expenditures in the proposed budget are higher than the current year by 2.92%.

Some of that amount is offset by non-tax revenues that are anticipated to exceed the current budgeted level by $2,617,804. Those revenue increases result largely from higher State revenues than were anticipated when the current year budget was set and better interest and delinquent tax payments. Nonetheless, an increase in the tax rate of .85 of a mill is necessary to balance the proposed budget, resulting in a tax increase of $102 a year for the owner of the median value single family home. It is worth noting that even so, approximately one-quarter of residential property owners would pay less in taxes if this proposed budget were adopted than the amount they paid three years ago, and nearly two-thirds of residential owners have a total increase over those three years of less than five percent. These calculations are based on the assumption that there will be no change in the grand list, which has not been completed at time of this message.

It is expected that the local revenue levels set for the second year of the biennial State budget will not change significantly. State revenues in the proposed budget are higher year over year in the amount of $1,054,245. As indicated above, this is mostly due to the fact that State revenues as finally approved by the State last year were higher than anticipated at the time the City budget was adopted. In addition, I have assumed that the

State will reinstitute a portion of the Municipal Revenue Sharing grant that was inadvertently eliminated last year in the State budget implementer. That assumption will need to be closely monitored during the budget process. If that action is not taken by the State, it would reduce anticipated revenues by $607,510. I also have assumed that the State public housing PILOT in the amount of $95,853 will continue to be funded, although as is always the case, it is not included in the proposed State budget amounts.

The proposed budget also assumes some increases in collection of delinquent taxes, interest paid on delinquent taxes and motor vehicle supplemental taxes. These total $769,225 over the current year budgeted amount. These assumptions are based on past years' actual performance and trends in the current year that are subject to change.

Prior to the 2012 fiscal year, the City's health claim experience had been very positive for a number of years. Our rate of increase in cost was less than projected, and we were able to reduce health benefit funding below budgeted amounts. We changed administrators and achieved savings both in administration and claims. We had instituted a wellness program that identified serious illnesses among our employees at an early stage, helping to keep costs for serious illnesses to a manageable level and improving employee health. Changes that we made to employee contributions and deductibles resulted in additional savings. Many of our employees are now enrolled in health savings accounts. All of that has stabilized the cost of ordinary health expenses.

However, as stated in last year's budget message, expenditures exceeded revenues in the health fund in the 2012 fiscal year, reducing the balance in the health fund by $1.3 million. This was mostly due to an unusual number of serious illnesses resulting in high individual claims. The City is self-insured for health claims up to $250,000. Over the three years prior to 2012, the average number of such claims was 2.33 and the total annual expenditure averaged $974,000. In the 2012 year, the total number of such large claims was six and the total cost was $3,150,000. Although we increased health benefit funding in the following year, actual experience far exceeded the past trend. In the 2013 fiscal year, there were ten claims in excess of $250,000, the total cost for which was $4,300,000.

In that year, the City Council approved an additional appropriation to the health fund of $2 million from funds that otherwise would have been surplus. The budgeted amount in the current year was reduced accordingly to offset a higher tax increase. Even with that additional funding, the balance in the health fund dropped from a beginning balance of $5,562,149 to a year end balance of $3,140,020. This trend of an unusual amount of large claims has continued. The Finance Director is forecasting, as of December, 2013, a year end balance in the health fund of approximately $670,000. That end result is not acceptable. Because we are presently projecting a surplus in this year's budget, we expect that we will be able to increase the current year funding and bring the health fund to a somewhat better balance by year end. However, we must ensure that funding for next

year is sufficient to bring the health fund closer to a minimally adequate balance. To do so, and to make up for the current year reduction in funding, I have recommended an increase in health benefit line items, not including the Board of Education, of $2,373,977. That said, it should be noted that the January, 2014 health claims were exceptionally high, and we will need to monitor the fund balance for the remainder of this fiscal year.

Other notable expenditure increases include approximately $375,000 in additional funding for public safety: police, fire and emergency communications. This includes funding for two new part time positions in the Police Department, a towing officer and records clerk. Because many of the traffic safety lines at city intersections and school safety zones have not been remarked for several years, I have recommended an increase of $107,000 in the Public Works budget for that purpose, comprised of additional funding for materials and the funding of four seasonal positions to undertake the work. Additional funding in the approximate amount of $50,000 is required for attorney fees in the Law Department budget due to matters that must be handled by outside counsel and to the expected payment of insurance deductible amounts for lawsuits brought against the City. The Recreation Division budget has been increased by approximately $45,000, partly in order to maintain the summer playground program which was reinstituted by the City Council last year and partly to fund the July 4th fireworks display. Additional funding of approximately $66,000 is necessary in large part to fund additional part time nursing positions in the Health Department budget to staff the extended day program at two elementary schools. I am recommending that the City discontinue its meals-on-wheels program, which can be better performed privately with less expense to the City, a change that may be put into place prior to the budget being adopted and which would result in a savings of approximately $29,000. I also am recommending that two existing part-time positions be funded for full time. One will add additional staff time in the Assessor's division, offsetting to some degree other staffing cuts. The other, the plumbing/mechanical inspector position in the Building Division, will help with the additional work load caused by the two high school projects.

Lastly, I am recommending that funding for accrued retiree health benefits (OPEB) be maintained at its present funding level. This will again enable the City to demonstrate a continued commitment and maintenance of effort to fund these obligations. The City is one of only thirty or so municipalities in Connecticut that has formed an OPEB trust and one of very few that has actually accumulated assets in that trust. After our last actuarial review our OPEB funding level is closer to the actuarially required amount than previously because of changes that we have made regarding retiree health benefits. This funding level is not ideal and will need to be reexamined in future years, but given other budgetary issues, the proposed level of OPEB funding is reasonable and prudent.

Under the proposed State budget, the Board of Education budget would receive an increase in funding of approximately $1.8 million, which is more than the amount sought by the Board in its budget request. This follows significant increases in State funding in

both of the prior two years. Although these increases come with certain restrictions, the Board and its administration have managed that additional funding well and made progress in controlling the increase in other costs, especially special education. The City has not increased its local appropriation to the Board for several years, but has increased its funding for capital projects, including the high schools, elementary school roofing projects and boiler projects, and funding of the share of retiree health benefits attributable to the Board. The City has issued bonds for these projects in the amount of $13,363,627 since 2010 and will pay $862,000 on that indebtedness in the proposed budget, an amount that will increase in subsequent years. The increase in health benefit funding for present Board employees is $264,185, much lower than that needed in the remainder of the City 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. 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. For all of those reasons, I am not recommending any increase in the appropriation to the Board.

There will be a very slight increase in the inner district mill rate of .03 of a mill from 2.10 mills to 2.13 due to small contractual increases. The change over to large container curbside pickup has worked out well, improving the appearance of the city, improving our recycling rate and helping to contain cost increases.

As planned and discussed last year, an increase of twenty cents in the water rates to offset the anticipated costs of the upgrade to the Broad Brook water treatment plant is included in the water division enterprise budget. There will be no increase in the sewer rate. The overall impact to the average family would be approximately $24 a year.

The Capital Improvement Plan (CIP), including capital funding requests for the next year, is also presented in this budget proposal. The City's self-imposed bonding authorization cap for next year is $4,117,000. 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 $97,914 under the cap. The City has exercised great fiscal restraint with regard to capital projects, which has greatly reduced payments on bonded indebtedness from prior levels. The current, much reduced cap amount, which can only be exceeded by a two-thirds vote of the Council, has reached a level that makes it very difficult to fund needed projects properly.

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 reviewed the required information

accompanying each individual request. The Committee then prioritized those requests to fit within the authorized bonding cap. 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.

The proposed budget provides the funding necessary for those essential services that our residents and local business expect and deserve while maintaining the sound fiscal status the City has achieved. As always, City staff and I stand ready to assist you as you review this proposal.

Respectfully submitted,

Lawrence J. Kendzior
City Manager