

Article I.

March 3, 2008

Dear Mayor Benigni and Members of the City Council:

The budget that I submit to you today, if approved, would freeze the tax rate at its current level. The general mill rate would remain at 27.96 mills and the inner district mill rate would be reduced from 2.31 to 1.93 mills. This is possible despite significant reductions in non-tax revenues because of equally significant reductions in expenditures resulting from sound fiscal decisions made and cost savings measures taken in the past few years which are now favorably impacting the City's operating budget.

However, this budget proposal also poses for your consideration and for public input a well defined policy decision. As indicated, no tax rate increase is required to fund this budget as proposed. If adopted, City expenditures for all purposes other than education compared to the prior year would be reduced by \$1,827,389. Funding for local education from the general fund would be significantly increased by \$1,231,296. That increase equals but is limited to the amount of increase required by State law. It is an amount decidedly less than requested by the Board of Education. Any increase in local funding for education above the amount proposed in this budget will require an increase in the mill rate and higher local property taxes, thus clearly framing an issue for public debate and, ultimately, for your decision.

That this budget proposal requires no increase in the local tax rate is remarkable given the extent of the reductions in non-tax revenues. Several of those decreases involve revenue anticipated from the State of Connecticut. First, the payments made by the State in lieu of taxes for State owned property and for hospital property, which is exempt from local taxation under State law, will decrease in the next budget year by \$434,415. This is a result of revaluation, the corresponding reduction in the mill rate and comparatively lesser increase in the value of this property class. Second, in past years the State has reimbursed the City for school building expenses retroactively. The last of those payments will be received

in the current budget 07-08 budget year in the amount of \$814,622, reducing year over year revenues by that amount. Lastly, the State LOCIP grant, which reimburses municipalities for certain capital expenditures, remains at its current level of \$533,407. However, this year, as recommended by our auditors, that amount will properly be offset by corresponding expenditures in the operating budget. In prior years these grant funds were budgeted as operating revenue when the corresponded expenses were bonded. Although this reflects proper accounting and reduces the amount of bonding, the net effect is the necessity to make up for that amount of revenue.

Educational cost sharing revenue from the State will increase by \$1,813,397. (Another \$453,349 will be paid directly to the Board of Education. This is the 20% of the ECS increase that the State requires to be paid over to the Board and spent in accordance with a plan approved by the State Department of Education because Meriden is a "failing" school system.) However, that amount represents an increase of only \$1,026,862 over the amount budgeted for ECS revenue in the current year budget. That is less than the amount by which State law requires the appropriation to the Board of Education to be increased, posing a budgetary shortfall.

Some locally generated revenues also will significantly decrease. Due to anticipated economic conditions and changes in the housing market, I have reduced the amount budgeted for building permit fees and city clerk fees, primarily the anticipated share of the conveyance tax paid on the sale of real property, by a total of \$475,000. Because of changes in interest rates, we are projecting that interest on investments will decline by \$250,000. The last amounts from the bond payment reserve fund, which was created by transfer of accumulated reimbursements from the bond fund, are included in this budget proposal, but the budgeted amount in that revenue line will decrease by \$1,325,000. We do anticipate certain increases in miscellaneous revenues, although some of that increase represents one time revenues. All told, non-tax revenues in the proposed budget will decrease by \$2,268,949.

The budget does project an increase in tax revenues, without an increase in the mill rate, from two sources. First, growth in the Grand List should result in additional current year tax revenue of \$872,855. This sum takes into

account an increase in the projected tax collection rate of one quarter of one percent to 97.25%, a collection rate that the Finance Director believes can be achieved. It also reflects a change in the manner in which elderly tax credits are budgeted. In prior years, the amount of revenue that would result from those exemptions was included in the calculation of tax revenue, and also included in the revenue resulting from State reimbursements. That has been corrected and will enable the City to track tax collection efforts more accurately. Secondly, the amount of tax from prior years expected to be collected has been increased by \$800,000. Although that may prove to be a goal difficult to reach, our collection experience of the current year indicates that it is reasonably prudent to include that amount as additional revenue, even though both the collection rate and the anticipated delinquent tax collection rate represent significant administrative challenges, particularly in a worsening economic climate.

As indicated above, I am recommending to you a budget that significantly reduces expenditures for purposes other than education and also reduces overall City expenditures year over year, even taking into account the proposed increase in education funding. If approved and successfully implemented, this would be the second consecutive year that the City has reduced non-education expenditures. This is a remarkable achievement, especially given increases in certain areas necessitated by economic conditions and contractual obligations. Very few, if any, other Connecticut municipalities can make a similar claim.

This reduction results in large part from strict control of capital spending over the last three years, which has reduced our bonded indebtedness and thereby reduced the payments from the operating budget for that purpose. As you know, the City has strictly adhered to the City Council's self-imposed policy of limiting new bonding authorizations to one-half the amount of principal indebtedness paid in the year before, a policy that has required many difficult decisions on which of many necessary and worthwhile projects should be funded. General fund payments on bonds and bond anticipation notes will decrease in the next year by \$3,089,444, a decrease of approximately eighteen percent. Please note that for the first time, the budget proposal this year will also contain a recommended level of spending for the City's capital improvement plan in accordance with requirements of the City Charter. The

attached recommendation from the newly constituted Interdepartmental Review Committee should help form the basis of a true multiple year capital plan. That will give us the ability to better forecast the impact of payments on bonded indebtedness on the operating budget. This will be especially important as the City faces the necessity to repair and renovate the high schools.

The overall reduction in spending also results from changes and favorable experience with regard to employee health care benefits. We should be able to maintain the health benefit fund at acceptable levels while reducing the City contribution from the operating budget. A cautionary note needs to be added that the favorable experience of last year and the current year will not necessarily carry forward, requiring increases in the amounts budgeted for these expenses in future, and that this area also will be impacted in the future by the necessity to plan for meeting our obligations for accrued retiree health benefits.

Departmental budget requests, which include the request from the Board of Education, totaled \$185,861,728. The request from the Board of Education alone was \$6,548,916 higher than the current year budgeted amount. Net requested increases from all other City departments totaled \$1,198,207. As indicated, this budget proposal actually reduces overall expenditures, not only well below the requested amount, but to a level less than the current year. Nonetheless, the proposed budget funds all city services and programs so that they can be delivered at least at current levels. All contractual increases in employee wages are funded and no reduction in City personnel levels is recommended. Third party provided services and programs to which the City contributes are funded at current levels. Pension contributions are funded to the amounts recommended by our actuaries. Purchases of capital equipment with a useful life of less than five years are funded in the operating budget, again avoiding the bonding which had been customary in past budgets until recently.

We have been able to maintain, and in some cases improve, services in most of the operations impacted by last year's personnel changes. The savings from those changes will continue to affect the City's finances favorably. However, a few cuts have proved to be too deep. Some additional

positions are recommended for funding to offset cuts made in the budget adopted for the current fiscal year which have proved to impact City services negatively despite the best efforts of our departments and employees. Others are recommended in order to provide needed services more effectively. Funding is included for a part time plumbing inspection position in the Building Division; three positions in the Library which the Director feels will enable the Library to restore hours of service; a position in the Public Works Department and additional civilian positions in the Police Department that, like other changes in the past few years, will enable the Chief to deploy police officers for actual police work rather than clerical or administrative duties.

In addition, overtime in the Fire Department has been significantly increased to reflect actual experience and the apparent need for substantial overtime funding in the Fire Department as currently deployed, a situation which still needs to be addressed. Funding for overtime in the Police Department also has been increased. \$522,742 has been included in the operating budget for street construction to correspond to the anticipated level of LOCIP funding. An increase of \$80,000 has been made to funding for street signs and lines, again moving an expenditure into the operating budget that should not be bonded. Additional funding for public utilities and heating has been included, although these increases are less than otherwise would have been the case because of savings the City has achieved through its energy savings programs. The additional mill rate for trash removal services in the inner district has been reduced, reflecting the fact that a prior year deficit was made up for in the current year budget. If this budget proposal is approved, the taxes paid by real property owners in the inner district would be lowered, albeit by a small amount. As I said to you in last year's budget message: "Holding expenditures below the current year level and providing the opportunity to improve the City's fiscal well-being on a permanent basis will be no easy task." It was not an easy task, but it has been largely accomplished, and this year's proposed budget reflects that.

What was difficult on the City side of the budget last year is even more difficult with regard to funding for the Board of Education this year. Board of Education funding from the City's general fund increased in the current year over the original amount approved for the prior year by

\$3,715,072. The Board received an additional \$978,000 of increased ECS funding directly from the State. The Board has requested approval from the State to defer the expenditure of most of that funding. Since the beginning of the decade, starting with the change from the fiscal year ending 2001, the Board has received additional funding from the City's general fund of nearly \$28 million. This figure does not include increased health benefit costs or the value of other in kind services that benefit the educational system funded from non-education line items, or the significant costs of school construction and renovation. The City's audit statement for the year ending June 30, 2007 states that education related expenditures have nearly doubled in the last ten years, from \$63 million in the year ending 1998 to \$112 million in the year ending 2007. Sixty-three percent of the entire increase in City spending over that time period is attributable to increased education spending. This year the Board of Education has requested that the general fund appropriation be increased from \$96,783,226 to 103,332,142, an increase of \$6,548,916.

That level of increase is clearly not affordable. Moreover, the request follows the pattern of previous requests, and from anecdotal information, requests made by many other Boards of Education in other municipalities. Each year the Board requests a large increase, terming it necessary to maintain current services. Each year, the Council approves funding that is significantly less than what the Board requests, but significantly more than the prior year level. Educational programs funded through the general fund are maintained despite the fact that the Board receives less than it asks for. It appears that would be equally true this year. However, the enormity of the request and the fact that significant new funding, but not the level of increased funding of recent years, can be appropriated to the Board without raising taxes suggest that this is the budget year in which the City Council (and the Board of Education) should consider changing this pattern.

This budget proposal recommends increasing funding for education by \$1,231,296. That is the amount of the increase in ECS funding that the City is required to appropriate to

the Board of Education. The Board will receive an additional 20% of the ECS increase, estimated to be \$453,349, directly from the State. The Board will have available to it the majority of the \$978,000 it received directly this year. It should be noted that those latter two sums can be spent only with the approval of the State Department of Education. The amount of such funding is not guaranteed for future years, even though the Board plan for spending the current year funds involved expenditures for additional new administrative personnel that would require continued future funding. The Board, according to the last audit, maintains substantial fund balances in its Education Grants fund (\$892,697), Public School Lunch fund (\$1,005,238), and Public School Rental fund (\$140,614) that may be available in part to fund certain expenses. The Board request, based on prior year patterns, can be substantially reduced. To match the level of expenditure to the recommended level of funding in this budget proposal, however, will require the Board and its administration to reconsider in a more fundamental manner its budgeting methods and expenditure patterns and how it provides its current level of services, including reexamining personnel staffing levels for administrative and non-certified positions. To not do so inevitably will mean that the City's tax rate will need to be increased. Raising the tax rate the year after the implementation of revaluation at a time when economic conditions are worsening is an action that should be avoided if at all possible.

That examination is one that should be made, clearly and in detail. Transparency in the process by which the City's budget is considered and adopted is essential to public support of that budget. Elected and administrative officials need to make information on the City's fiscal status clear, specific and reliable. Public input and debate founded on an informed understanding and defined issues will be invaluable to you in making the difficult decisions that you will make before adopting a final budget. This budget proposal attempts to foster that debate. City staff and I stand ready to assist you in your deliberations.

Respectfully submitted,

Lawrence J. Kendzior
City Manager