



City of Bristol
BRISTOL, CONNECTICUT 06010

To: All Departments
From: Roger D. Rousseau, Purchasing Agent
Date: December 5, 2016
Subject: Economic Forecast - Fiscal Year 2017-2018

In an effort to assist you in preparations of budgetary projections for the fiscal year July 2017 through June 2018, I have prepared comments addressing cost projections and an assessment of market conditions for items relevant to your budgets. Please note that these comments are projections only; substantial shifts in market conditions will be reported to you as necessary, separately from the budget process.

Pricing for fuels is partially driven by available supplies, and consistent access to supply has been, at least for the recent few years, a stabilizing force. The cost of crude oil, costing from \$95.00 per barrel in October 2013 to \$40.00 per barrel in 2015, has somewhat stabilized in the range of \$52.00 per barrel. Recent cuts in production have been announced by OPEC and by Russia, which could indicate a lead to higher product pricing; these cuts in foreign production would typically be offset by increase in domestic production. Despite continued instability in the Middle East and other oil-producing regions, increases to level of fuels supplied domestically has generally stabilized the costs for energy. Futures markets for energy do not currently reflect this stabilization, but it is expected that by February 2017, there may be some downward corrective trending.

The Federal Reserve System is expected to soon make adjustments to interest rates, which is seen as a sign that the U.S. economy has experienced considerable recovery from several years of poor growth. The increase in interest rates may eventually impact the projections listed within this report.

I look forward to hearing your comments relative to this report, and providing any other assistance you may need in the preparation of your budgets.

Electricity

The City and Board of Education have established a parallel path for procurement of electricity; electric generation has been purchased through participation in a contract governed by the Connecticut Conference of Municipalities ("CCM"), with fixed pricing of **7.773** cents per kWh for the City, and **9.273** cents per kWh for the BOE, inclusive of CCM administrative costs, through June 2021.

The secured pricing incorporates the expected impact in the next few years for increased capacity charges, and provides stability in what would have otherwise been an unpredictable forecast period.

Please note that the cost per kWh is for the cost of electricity generation only; distribution costs are independent of the generation charges and are subject to rates established by DPUC. Generation and distribution costs are expected to represent 60% and 40% of the cost respectively for electricity.

The City's representative from CL&P has indicated that there may be an application for a rate increase for these charges.

Fuel Oil

The City of Bristol, the Water Department, and the Board of Education jointly consume approximately 168,500 gallons of #2 fuel oil annually. For the period July 1, 2016 through June 30, 2017, the City of Bristol has fixed pricing for #2 fuel oil at a cost of \$1.780 per gallon. Please note that due to variability in Bristol's portfolio of buildings supplied by fuel oil and those supplied by natural gas, a fixed per gallon cost will not be set; fuel will be purchased at the OPIS rate less 0.0127, as published on the State of Connecticut website. For budget purposes, the cost of **\$1.95** should be reflected in departmental budgets.

Diesel Fuel

The City, Board of Education, and Water Department jointly are expected to use roughly 308,000 gallons of diesel fuel during next fiscal year. The committed cost per gallon is \$1.8050 for the period July 1, 2016 through June 2017. This amount is exclusive of LUST Fund Contributions, NORA, and the Federal Spill Fee; the addition of these charges translates to a net per gallon cost of \$1.8079.

Please note that for the coming fiscal year, a fixed per gallon cost will not be set; diesel will be purchased at the OPIS rate less 0.0178, as published on the State of Connecticut website. For budget purposes, the cost of **\$1.95** should be reflected in departmental budgets.

Gasoline

The City, Board of Education, and Water Department jointly use approximately 129,000 gallons of gasoline annually. The net cost for this commodity through December 2017, inclusive of LUST Fund contributions, Federal Spill fee, and state Gross Receipts tax is \$1.7645 per gallon (the City has collectively locked in a commodity only price of \$1.5816 for this period).

Please note that the above cost is indicative of pricing through December 2017 only. Future cost models show adjusted costs (commodity only) for January 2018 through June 2018 to be consistently in the range of \$1.74. For budget purposes, a rate of **\$1.79** should be accommodated for the year, assuming that current modeling will be adjusted in Spring 2017.

Natural Gas

The use of natural gas has significantly increased within the past two years, with several school facilities and fire houses migrating their fuel sources to this commodity; other buildings are also preparing for potential fuel source transition.

The City of Bristol participates in a consortium governed by the CT Region Council of Governments (“CRCOG”), to obtain favorable pricing for natural gas by consolidating volumes with other municipalities. Bristol’s annual consumption of this commodity has been approximately 500,000 ccf, with the Board of Education accounting for roughly two thirds of said consumption. Due to market conditions, the municipalities within CRCOG have been purchasing natural gas directly through Eversource (“Yankee Gas”) for the period through June 2017. CRCOG and its member communities have been evaluating market conditions and are expected to solicit bids for natural gas in the coming months. Based on independent sources, the cost per ccf is expected to be in the range of **0.48** per ccf, a notable increase from the average cost per ccf currently experienced in the market of 0.38 for our Rate 30 accounts, but consistent with forecasted costs for recent years.

As a clarification to applicable pricing costs, the costs cited are the commodity costs per one hundred cubic feet (“ccf”). There are several components to the cost of natural gas, generally classified as either (1) commodity costs or (2) distribution costs. The deregulation of the natural gas market affected the ability to purchase the commodity; however, the distribution costs are governed by the DPUC via publications for Rate 30. The portion of cost relative to distribution can vary from as little as 10% in peak months to as much as 30% in off-peak months, with an assumption of an 18% average. In accordance with DPUC guidelines, demand capacity for distribution is based on the highest single day consumption in the months from November through March. These charges are in excess of the commodity costs, and are not a component of the “per ccf” pricing.

Transportation

The Bristol Board of Education has a contract for student transportation services with First Student Transportation through June 2017. The budget for the Board of Education should accommodate an increase for the coming fiscal year of **0.75%** above the rates charged for runs made in the fiscal year July 2016 through June 2017.

This contract is for the transportation service only; a component of the transportation budget is the cost of diesel fuel, purchased by the BOE for use by the contractor. This cost is addressed separately in a previous section.

Bituminous Materials

Pricing for bituminous materials typically follows the price trends of crude oil production; other factors include the supplier base for liquid asphalt, as well as non-petroleum related trucking costs. Increases in costs for bituminous materials for the coming fiscal year are not anticipated to be significant at this time, based on data published by the State Department of Transportation.

Tires

Pricing for tires is based on the cost of crude oil. Economic forecasting data as supplied by the Department of Energy shows no notable adjustment for this commodity for the coming fiscal year.

Communications Services

The City of Bristol has fixed rates for long distance services, covering both interstate and intrastate rates. The City of Bristol does not expect to see dramatic unit cost increases for these services for the approaching fiscal year. The deployment of fiber optic connectivity between municipal buildings, combined with implementation of "Voice Over Internet Protocol" (VoIP) telephone systems, has provided an overall lower cost for such services.

Postage

The US Postal Service has proposed rate adjustments for select mail classes and services which, if approved, would increase the cost per standard first class mail from .47 to .49. This increase is primarily offset in Bristol operations by the reduction in the cost of metered mail from 0.465 to 0.46.

Office Supplies

The current market for paper products is stable due to ample supply of available production material; budgets should reflect a 0.5% upward adjustment for the coming fiscal year.

Clothing and Uniforms

The Bureau of Labor Statistics has reported in its CPI guideline an increase of 0.7% for the twelve month period ended October 2016. This trend is not expected to continue; increases are not expected for the coming fiscal year.

Food Items

According to the CPI-U index as published by the Bureau of Labor Statistics, food costs have decreased 0.4% for the last twelve month term ended October 2016; budget preparations should consider neither a decrease nor a decrease.

Sources:

<http://tacenergy.com/oil-prices-trading-highest-levels-since-july-2015/>
http://www.ct.gov/dot/lib/dot/documents/dconstruction/asphalt_hist.pdf
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