



*City of Bristol*  
**BRISTOL, CONNECTICUT 06010**

**To: All Departments**  
**From: Roger D. Rousseau, Purchasing Agent**  
**Date: November 30, 2009**  
**Subject: Economic Forecast - Fiscal Year 2010-2011**

In an effort to assist you in preparations of budgetary projections for the fiscal year July 2010 through June 2011, I have prepared general 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 refinery operations continue to cause variability within the markets. As of November 24, 2009, the price of crude oil was \$76.09 a barrel. According to the Energy Information Administration, the cost of West Texas Intermediate crude oil is expected to increase from roughly \$77.00 to \$81.00 per barrel by December 2010. This is an indicator that the raw cost of petroleum is expected to rise but not drastically change in the coming twelve month cycle. Continued instability in the Middle East and other oil-producing regions makes forecast of supplies difficult for the foreseeable future.

Costs for building materials and petroleum-based materials, having experienced substantial increases in the fiscal year ended June 2008, were flat in the fiscal year ended June 2009 due to market conditions. Consumption has fallen, and costs for both building materials and petroleum-based materials are not expected to drastically increase in the coming fiscal year, reflecting the less restrictive demand. Investment in infrastructure projects at the federal level will be a critical factor in the availability (and subsequently in the cost) of such materials.

I look forward to hearing your comments relative to this report, and in conjunction with the Office of the Comptroller, will try to provide any other assistance you may need in the preparation of your budgets.

**Electricity**

The City of Bristol, through its participation in a contract governed by the CT Conference of Municipalities ("CCM") finalized in June 2007, has fixed pricing of **10.813** cents per kWh, for the period through June 2014, inclusive of administrative fees incurred by CCM. Pricing was reduced through negotiation with TransCanada from a base rate of 10.75 to 10.28 cents, exclusive of other costs. This pricing has stabilized the cost of electricity to the City (pricing at the time of contract completion was in the range of 12 cents per kWh and is currently set by the Department of Public Utility Control ("DPUC") at 12.71 cents per kWh for Rate 30 and Rate 35 accounts).

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.

The City's representative from CL&P has indicated that there are currently no pending applications for a rate increase for these charges. Generation and distribution costs are expected to represent 60% and 40% of the cost respectively for electricity.

### **Fuel Oil**

The City of Bristol and the Board of Education jointly use approximately 380,000 gallons of #2 fuel oil annually. For the period through June 30, 2010, the City of Bristol has fixed pricing for #2 fuel oil at a cost of \$1.7726 per gallon. This amount is inclusive of federal charges for LUST and NORA fund contributions as well as the Federal Spill fee (Connecticut Gross Receipts and other state taxes are not applicable to this commodity). Budgets were developed for the current year with an assumption of \$2.30 per gallon; market volatility allowed for an unexpected reprieve from high energy costs. Currently, future supplies of fuel oil are listed on futures markets at \$2.27 for January 2011 and \$2.30 for March 2011 for suppliers; annualized pricing is typically set with emphasis on futures for markets within the winter months.

In preparing for budgetary requirements, departments should assume an average cost per gallon of **\$2.34** (inclusive of federal charges for LUST Fund contributions, NORA Fund contributions, and Federal Spill fee). These costs reflect an expected return to this pricing level after an unexpected dip (as indicated by the current per gallon cost).

### **Gasoline**

The City, Board of Education, and Water Department jointly use approximately 170,000 gallons of gasoline annually. The expected net cost for this commodity through December 31, 2010, inclusive of LUST Fund contributions, Federal Spill fee, and state Gross Receipts tax is \$2.3966 per gallon (the City has collectively locked in a commodity only price of \$2.2268 for this period).

Please note that the above cost is relevant for the initial six month term only; it is expected that the petroleum market will not stay at this low level for the long term. Departments should budget a per gallon cost of \$2.58 for the remaining six month term. For budget purposes, a blended rate of **\$2.49** should be accommodated for the year.

### **Diesel Fuel**

The City, Board of Education, and Water Department jointly use roughly 340,000 gallons of diesel fuel on an annual basis. The current committed cost per gallon is \$1.9333 through June 2010. This amount is inclusive of LUST Fund Contributions, NORA, and the Federal Spill Fee.

Budgets should plan to accommodate a per gallon cost of **\$2.45** inclusive of federal charges for LUST Fund contributions and NORA Fund contributions. Supply costs for this commodity will be finalized in early January 2010; pricing will be provided to the Board of Finance and using departments upon finalization.

### **Natural Gas**

Budgets for the coming fiscal year should show corrections from last year's budgeted \$1.30 per ccf to a cost of **\$1.0372** per ccf. The City of Bristol, through its participation in a contract governed by the CT Region Council of Governments ("CRCOG"), has commodity only pricing of 0.7290 per ccf exclusive of Gross Receipts Tax and other associated fees, for the period July 1, 2010 through June 30, 2011. Annual consumption of this commodity has been approximately 500,000 ccf, with the Board of Education accounting for roughly two thirds of said consumption.

As a clarification to the pricing costs applicable to the coming fiscal year, 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. 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 the fiscal year ending June 2014, with no increase in cost per bus run for the five year term. Therefore, no increase is expected in routine student transportation costs (contingent upon similar configuration of bus runs).

This contract is for the transportation only; a component of the transportation budget is the cost of diesel fuel, purchase by the Board 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. Based on cost increases of raw petroleum, budgets should assume a 5 % increase in costs. Please note that if sizeable investment in road infrastructure (i.e. roads and bridges) is pursued on a local level by other municipalities through ARRA projects, restricted availability of supply for such materials may have an impact on costs.

### **Tires**

Pricing for tires is partially based on the cost of crude oil, which is expected to stabilize for the coming year. The cost of rubber, however, has shown increases, despite increased production of raw material in Asian markets. Economic forecasting data as supplied by the Department of Energy shows an expected adjustment of 3 % for the cost of tires.

### **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 cost increases for these services for the approaching fiscal year.

### **Postage**

The U.S. Postal Service has announced rate adjustments for mailing services in January 2010, with rates for standard first class mail and commercial (presorted) unchanged. Departmental postage costs are expected to maintain a consistent level from the current fiscal year.

### **Office Supplies**

The current market for paper products is stable due to ample supply of available production material; budgets should reflect a 2% upward adjustment for the coming fiscal year.

### **Clothing and Uniforms**

The Bureau of Labor Statistics has reported in its CPI guideline an increase of 1.4% for the twelve month period ended October 2009. This trend is expected to continue.

### **Food Items**

According to the CPI-U index as published by the Bureau of Labor Statistics, food costs have decreased 0.6% for the last twelve month term ended October 2009; defying budget predictions for the same period. Indicators published by the U.S. Department of Agriculture, however, point to potential increases of 3 % from current costs.