



City of Bristol
BRISTOL, CONNECTICUT 06010

To: All Departments
From: Roger D. Rousseau, Purchasing Agent 
Date: December 5, 2017
Subject: Economic Forecast - Fiscal Year 2018-2019

In an effort to assist you in preparations of budgetary projections for the fiscal year July 2018 through June 2019, 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.

Hurricanes in the Gulf Coast region impacted both crude oil production and fuel refinement capacities; however, stored supply is slowly returning, providing for stability. The cost of crude oil is predicted by the US Energy Information Administration to be in the range of \$52.00 to \$56.00 per barrel for the coming year. Conditions in the Middle East region and in Venezuela loom as potential destabilizing influences; domestic fuel supply has generally stabilized the costs for energy.

The Federal Reserve System, under governance of a new Federal Reserve Chair, is expected to soon make upward adjustments to interest rates, which is seen as a sign that the U.S. economy is strong. Increases 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

As Bristol's portfolio of buildings refocuses its heating supply away from fuel oil and toward natural gas, its annual volumes have become more challenging to predict. For the coming fiscal year, heating 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 **\$1.91** should be reflected in departmental budgets. This is a minor adjustment downward, from last year's projection of \$1.95 per gallon.

Diesel Fuel

The City, Board of Education, and Water Department jointly use roughly 300,000 gallons of diesel fuel annually. In a manner similar to heating fuel, diesel fuel will be purchased at the OPIS rate less 0.0178, as published on the State of Connecticut website.

For budget purposes, the cost of **\$1.93** should be reflected in departmental budgets, inclusive of LUST Fund Contributions and the Federal Spill Fee (anticipated to be approximately 0.003 per gallon).

Gasoline

The cost per gallon had been anticipated to be in the range of \$1.79 per gallon for the current fiscal year, and current market conditions show pricing at approximately \$1.73 per gallon for the municipal sector. A slight increase is expected from current conditions for next fiscal year based on current forecast models. For budget purposes, a rate of **\$1.79** should again be assumed for the coming fiscal year.

Natural Gas

The City of Bristol has typically participated 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. Due to market conditions, the municipalities within CRCOG have been purchasing natural gas directly through Eversource ("Yankee Gas") for the period through June 2018. 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 (including projections from EnerNoc, RJ Consulting, and CME), the cost per ccf is expected to be in the range of **0.50** per ccf, a minor increase from the average cost per ccf currently experienced in the market of 0.48 (primarily applicable to our Rate 30 accounts).

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, which includes an increase for the coming fiscal year of **1.5%** above the rates charged for runs made in the fiscal year July 2017 through June 2018. Be advised that this contract is for transportation service only; a significant component of its 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.

Please note that costs for special education transportation will be confirmed later during the year.

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. For this coming fiscal year, however, increases in costs for bituminous materials are expected to show an increase of approximately 5% from current costs per ton, 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.

Postage

The US Postal Service has standard first class rate of 0.49 but has had recent discussions relating to potentially significant rate increases. At the time of publication, no specific rate data has been published; updates will be provided as appropriate throughout the coming budget preparation cycle.

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 a decrease of 0.1% for the twelve month period ended October 2017, indicating a flat market for the coming fiscal year. Please note that the Police and Fire departments have firm pricing that extends through June 2019.

Food Items

According to the CPI-U index as published by the Bureau of Labor Statistics, food costs have experienced a flat market for the twelve month term ended October 2017; budget preparations should consider an increase of 1.5% for the coming twelve month cycle.

Sources:

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