



City of Bristol
BRISTOL, CONNECTICUT 06010

To: All Departments
From: Roger D. Rousseau, Purchasing Agent
Date: November 30, 2018
Subject: Economic Forecast - Fiscal Year 2019-2020

A handwritten signature in black ink, appearing to read "Roger D. Rousseau".

In an effort to assist you in preparations of budgetary projections for the fiscal year July 2019 through June 2020, 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.

The Bureau of Labor Statistics reported that the US costs for energy commodities increased an average of 16.3% during the period October 2017 through October 2018. Significant international volatility continues to impact costs associated with petroleum based products. Prior to 2017, oil prices dropped due to new technologies such as fracking and shale production. The past year has seen drastically higher crude oil prices, but markets have recently made substantial corrections, under which the cost of crude oil is returning to below \$50 per barrel. International pressure on producers such as Saudi Arabia, Iran, Russia and Venezuela has come from different directions and in different forms, but the net result has benefited the consumer market for fuels. The cost of crude oil is predicted by the US Energy Information Administration to be in the range of \$72.00 per barrel for the coming year. Conditions in the Middle East region loom as potential destabilizing influences; as a balance to these influences, domestic fuel supply continues to stabilize the costs for such energy products.

The Federal Reserve System, under governance of a new Federal Reserve Chair, has made upward adjustments to interest rates for three consecutive quarters, which is seen as a sign that the U.S. economy is strong. It is expected that a fourth upward adjustment will be announced in December 2018. 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 Eversource has indicated that there may be an application for a rate increase for these charges.

Diesel Fuel

The City, Board of Education, and Water Department jointly use roughly 300,000 gallons of diesel fuel annually. Diesel fuel is currently purchased at a per gallon product cost of \$1.9448 for the period through June 30, 2019. Effective July 1, 2019, pricing is committed at a per gallon product cost of \$2.0234 for the period through June 30, 2020.

For budget purposes, the cost of **\$2.03** per gallon should be reflected in departmental budgets, inclusive of LUST Fund Contributions and the Federal Spill Fee (anticipated to be approximately 0.003 per gallon).

Fuel Oil

As Bristol's portfolio of buildings continues to refocus its heating supply away from fuel oil and toward natural gas, its annual volumes are more challenging to predict. Fuel prices for the period January 1, 2019 through June 30, 2019 are set at \$1.9541 per gallon. For the coming fiscal year, pricing for heating fuel will be revisited in February 2019, once potential fuel source transitions are finalized for all buildings. If proposed conversions from heating fuel to natural gas are not finalized, heating fuel will be purchased at the OPIS rate less 0.0127 via a State of Connecticut contract, with per gallon product costs as published on the State of Connecticut website.

For budget purposes, the cost of **\$2.05** should be reflected in departmental budgets.

Gasoline

The cost per gallon is set at \$1.6420 per gallon for the period January 1, 2019 through December 31, 2019; this pricing is based on short-term market conditions and the potential always exists for adjustment in subsequent periods, with predictions for market conditions in early 2020 showing approximately 1.72 per gallon. For budget purposes, a rate of **\$1.72** should 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"). 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 product cost is expected to stay in the range of **0.50** per ccf.

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 addition to the commodity costs, and are not a component of the "per ccf" pricing.

Basis differential, defined as "the difference between the spot price of a commodity to be hedged and the futures price of the contract used", is a significant component of the distribution cost. Currently, the local distribution companies (LDCs) have secured the most favorable basis costs, and basis is expected to keep costs via the LDCs more competitive than buying on the open market until at least 2020.

Due to the nature of the current market and to the individual circumstances of departmental "heavy usage" days, the impact of costs other than product are of more significant impact, and cannot be readily calculated for impact to individual departments. In general, budgets should assume an increase of **4%** from the current fiscal year.

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 **2.5%** above the rates charged for runs made in the fiscal year July 2018 through June 2019. 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.

Costs for special education transportation are established on a per trip basis and overall budget impact cannot be addressed separately from the context of total costs of special education.

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 currently has a standard first class rate of 0.50 but has proposed an increase of said rate to 0.55. The proposed rate increase includes an increase in metered mail from 0.47 to 0.50. The proposed rate increase as proposed includes an implementation date for changes as January 27, 2019. At the time of publication, the Postal Regulatory Commission ("PRC") has not made any statements regarding the proposed rate increases; 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 1 % upward adjustment for the coming fiscal year.

Clothing and Uniforms

The Bureau of Labor Statistics has reported in its CPI guideline a decrease of 0.4% for the twelve month period ended October 2018, 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; specific impact on said contracts is not expected to be known until May 2019.

Food Items

According to the CPI-U index as published by the Bureau of Labor Statistics, food costs have experienced an increase of 1.2% for the twelve month term ended October 2018; budget preparations should consider an increase of 1.5% for the coming twelve month cycle.

Sources:

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