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To: All Departments  
From: Roger D. Rousseau, Purchasing Agent  
Date: November 30, 2021  
Subject: Economic Forecast - Fiscal Year 2022-2023

In an effort to assist you in preparations of budgetary projections for the fiscal year July 2022 through June 2023, 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.

West Texas Intermediate crude oil, with a cost per barrel of \$56.99 in 2019 and a drastic drop in 2020 to a cost per barrel of \$39.17, is currently experiencing prices of \$78.44; pricing is not projected to experience any significant drop and is currently forecasted by the Energy Information Administration ("EIA") to cost in the range of \$70.00 during 2022. The impact of product release from the Strategic Petroleum Reserve is not known at the time of this writing.

The Federal Reserve System typically seeks to keep the federal funds rate between 2 and 5%; it reduced the federal funds rate to 1.75% in October, 2019. It is unknown if the impact of the current rate of inflation will result in significant changes in the coming year.

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, Board of Education and Water/Sewer Department are now participating jointly in 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 **7.071** cents per kWh, inclusive of CCM administrative costs, through June 2024. Current pricing incorporates costs related to capacity charges.

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 the Public Utilities regulatory Authority ("PURA"). 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

Typically, the City, Board of Education, and Water Department jointly use roughly 300,000 gallons of diesel fuel annually, and the gallons are purchased at a fixed per gallon price for the duration of a fiscal year. For the fiscal years 2019-20 and 2020-21, the amount of fuel was significantly disrupted due to changes in school transportation during the pandemic. For the current fiscal year, diesel fuel is purchased via the State of Connecticut contract at a per gallon product cost (plus an adjustment factor) as it enters New Haven Harbor; it is expected that by July 2022, a fixed rate per gallon will again be an option for the required volumes.

Please note that the current market rate for diesel fuel is volatile due to international market conditions. The economic forecast for FY2022 advised budgets to carry a cost per gallon of \$1.72; for the coming year budget purposes, the cost of **\$2.41** per gallon should be reflected in departmental budgets, inclusive of LUST Fund Contributions and the Federal Spill Fee.

## Fuel Oil

Bristol's portfolio of buildings continues to refocus its heating supply away from fuel oil and toward natural gas. Fuel prices for the period through June 30, 2022 are set at \$1.869 per gallon. For the coming year budget purposes, the cost of **\$2.48** should again be reflected in departmental budgets.

## Gasoline

The cost per gallon is set at \$1.46 per gallon for the period through December 31, 2021; this pricing was based on short-term market conditions and current market conditions have pushed current prices considerably higher. The economic forecast for FY2021 advised budgets to carry a cost per gallon of \$1.72; for the coming year budget purposes, a rate of **\$2.50** should be assumed for the coming fiscal year.

## Natural Gas

The City of Bristol has in the past 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 in 2015 switched to purchasing natural gas directly through Eversource ("Yankee Gas"). CRCOG and its member communities continue to evaluate market conditions, but market conditions are not expected to be more conducive to engaging in the third party market. Last year's analysis indicated product cost to be in the range of **0.55** per ccf; it is expected that product cost will be **0.71** per ccf for the coming fiscal year.

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) delivery 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 be assumed to be **0.30** per ccf.

There is a charge separate from standard delivery; 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.

In general, budgets should assume 0.71/ccf for product and 0.30/ccf for distribution, for a net cost of **1.01 per ccf** for the current fiscal year. 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.

### **Transportation**

The Bristol Board of Education has a contract through June 2022 for student transportation services with First Student Transportation; proposals are being accepted toward development of a new contract, which will be finalized in the coming months. Be advised that this contract is for transportation service only; a significant component of the BOE 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, increases in costs for bituminous materials are expected to show an increase of approximately **3 %** from current costs per ton, based on data published by the State Department of Transportation.

### **Tires**

Pricing for tires is significantly based on the cost of crude oil. Economic forecasting data as supplied by the Department of Energy shows a **3 %** 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 0.53 for metered pieces and a standard first class rate of 0.58 for stamped pieces. There are no known increases to postal rates at this time.

### **Office Supplies**

The current market for paper products is unstable due to insufficient supply of available production material; copy paper has risen approximately 40% in recent months, mostly due to shortage of wood, also impacting construction markets. The price for copy paper is likely to stay at its currently high market price for the foreseeable future.

For other routine office products, budgets should reflect a 2 % upward adjustment for the coming fiscal year.

## **Apparel**

The Bureau of Labor Statistics has reported in its CPI guideline an increase of 4.3% for the twelve month period ended October 2021; budget preparations should consider an increase of 2 % for the coming twelve month cycle.

## **Food Items**

According to the CPI-U index as published by the Bureau of Labor Statistics, food costs have experienced an increase of 5.3 % for the twelve month term ended October 2021; budget preparations should consider an increase of 4 % for the coming twelve month cycle.

## **Sources:**

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