



May 29, 2012

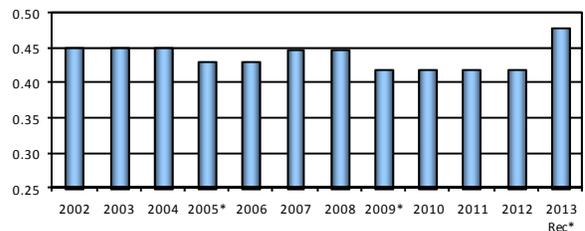
The Honorable J. Scott Padgett, Mayor
 Members of the City Council
 Concord, North Carolina

Dear Mayor Padgett and Members of the City Council:

Pursuant to Section 159-11 of the North Carolina General Statutes, attached is the recommended FY 2012-13 Budget for your review and consideration. I want to thank the Mayor and Council for providing staff with specific direction to maintain basic City services as indicated in the FY 2012-13 Goals Statement. I used this document as a guide in making recommendations. I also want to thank Deputy Manager Jim Greene, Assistant City Manager Merl Hamilton, all department directors and their respective staffs, Finance Director Pam Hinson and, in particular, Budget and Performance Manager Robin Barham and Budget Analyst Lesley Reder for their assistance in preparing this proposal.

The recommended General Fund budget for FY 2012-13 totals \$67,463,286 for City personnel, operations, capital improvements and debt service. This reflects a \$1.23 million decline (or 1.8%) over the amended budget for FY 2011-12. Due to the unprecedented 13% decline in assessed property values as determined by the 2012 Cabarrus County Revaluation, and consistent with the City Council goal of using a revenue neutral tax rate for FY 2012-13, I am recommending a tax rate of 48¢ per \$100 of valuation, as calculated using the formula provided in G.S. 159-11(e). As in past years, the proposed tax rate includes restricting the 2¢ budgeted for use in the Transportation Improvement Fund as mandated by City Council, though the 2¢ will generate fewer dollars than in previous years due to the drop in Concord property values.

City Property Tax Rate
 (cents per \$100 of valuation; * indicates revaluation year)



Although the revenue-neutral tax rate would generate the same amount of property tax revenues in total, it does not necessarily mean that an individual property owner's tax contribution will remain same. The value of the tax base is the sum of all the property values within the jurisdiction. Properties may have remained the same, increased, or decreased in value, but by adding them together, the overall change can be calculated. The individual's tax bill depends on a combination of the new tax rate and the new value of the property.

The City-wide budget totals \$209,999,436 for all funds, including utilities and special revenue funds. The City-wide budget reflects a 1.8% (or \$3.9 million) decrease from the amended budget figure of \$213,884,336 for FY 2011-12, despite an expected \$5.1 million increase in the wholesale purchase of electricity, along with increases in fuel costs and healthcare premiums. The FY 2011-12 amended budget does include a \$4.7 million appropriation towards the Albemarle Waterline Connection project.

We started the budget process with all departments being asked to prepare a budget with no operational increases and continuing the operational expenditure cuts implemented in between FY 2008-09 and FY 2011-12, including a 17% decline in operational expenses in FY 2009-10 alone (excluding the Wholesale Purchase Power costs in Electric). The budget was balanced using very conservative revenue projections, but not the worst case scenarios used during the fiscal years impacted by the recent recession. Though gradual, we are seeing increases in sales tax revenues and in the interest in commercial and industrial development. Although the unemployment rate is inching lower, residential development continues to be very stagnant with exception of multi-family rental.

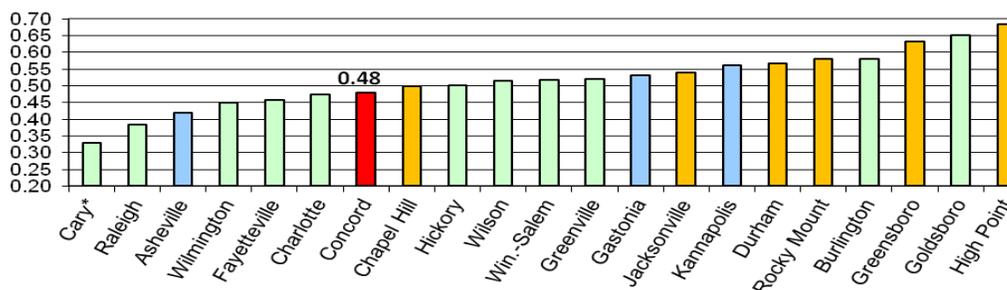
These conservative practices have certainly proved to be very important in planning for FY 2012-13. While sales tax receipts have finally started to rebound slowly, property tax revenues are constrained by the revenue neutral goal. Utility usage (water, wastewater, electric) continue to be relatively flat and development related fees, though up, are a small portion of what they were four years ago. Of course, the reduction in property tax valuation attributed to Philip Morris has also impacted sales tax revenues due to the distribution formula used in Cabarrus County. This sales tax distribution formula makes the tax rate even more important as Concord could easily lose more revenue to the County and the other Cabarrus municipalities.

Per Council's direction, the focus has been on maintaining essential services provided to our residents and businesses. To do this and to continue to make basic capital purchases, we are recommending the use of \$1,494,123 from the City's Capital Reserve Funds. RESERVES ARE NOT BEING USED TO FUND OPERATIONAL LINE ITEMS. However, operational line items have been reduced over the last four budget years to the point that any declines in future fiscal years would require reductions in services.

The City Council is to be commended for continuing its past conservative practices, not only in projecting revenues but also holding down expenditures and having reserves to help meet essential needs. Operations continue to remain lean but these practices have enabled the City to avoid entering into a crisis mode. This budget recommends the elimination of some vacant positions, many that have been frozen previously, the continuation of the freeze on others, a small merit-based lump sum payment to co-workers, and no layoffs.

For FY 2012-13, the recommended Concord property tax rate continues to be among the lowest third of full-service North Carolina municipalities with populations greater than 35,000 and the lowest of those that do not charge solid waste and/or recycling fees. Most of the cities whose property tax rates are lower than Concord's make extensive use of State authorized impact fees, and/or charge additional user fees for solid waste collection and/or disposal. The Property Tax Comparison chart illustrated below summarizes the proposed property tax rates for comparable cities.

**FY 2012-13 Proposed Property Tax Rates for
NC Full-Service Cities Over 35,000 Pop.
(Cents per \$100 Valuation)**



*Cary - extensive use of impact fees.
Cities in green apply a fee for solid waste (for some or all services) in addition to property tax.
Note that cities in blue (Asheville, Kannapolis and Gastonia) charge a nominal recycling fee, but not for garbage or yard waste.
Charlotte and Jacksonville residents are assessed a solid waste fee for disposal through property tax or utility bills.

The country has also seen an increase in the inflation rate, primarily due to rising petroleum prices. This impacts expenditures in all departments and revenues at Concord Regional Airport. While all this is going on, wholesale prices for purchased electricity continue to rise; forcing the City to offset these increases using rate stabilization funds and adding purchased power adjustments to customer bills.

The City has not been able to sustain these cuts without impacting jobs. This budget recommends 3 full-time and 4 part-time positions be eliminated (none currently filled) and 15 more remain "frozen" with no appropriated salary. The total projected savings from these positions in FY 2012-13 is \$664,172. No sworn police positions or firefighter positions have been frozen. Including the above figures, we will have eliminated 21 full-time and 4 part-time positions since July 2010. When any position becomes vacant, we evaluate the duties to determine if is essential to providing basic services. Also, in those areas where the workload has been impacted by the economy, coworkers remain assigned to other departments where the workload has remained constant or even increased.

The Council's goal is to maintain a General Fund balance target between 30% and 35% of expenditures. The General Fund balance will continue to meet the Council goal. This budget does recommend appropriating money out of reserves for some capital expenditures.

This stability in fund balance is possible only because our elected officials have been good stewards of the City's revenues in the past. Regardless of its size, over reliance on fund balance in any one fiscal year is a dangerous practice in times of slow growth, particularly if used for ongoing operations. With this diligence, we will continue to avoid the practice of over reliance on fund balance or retained earnings, which would require us to eventually generate ongoing replacement revenue or new sources of funding. With this in mind, we have limited the use of capital reserves in the General Fund to an amount approaching a 2 cent property tax increase.

The overall budgetary principles on which this document is based are:

- Basic City services are continued with funding at adequate levels.
- Revenue projections are estimated at realistic and conservative levels.
- Any service and facility expansion has been addressed using the Mayor/City Council Goals Statement as a guide.

The Mayor and Council have adopted goals that are geared to balancing service delivery city-wide to meet these basic needs. Listed below are examples of some of the major expenditure trends that are greatly impacting this year's budget and projections for future budgets.

EXAMPLES OF MAJOR TRENDS IMPACTING THE FY 2012-13 BUDGET AND FUTURE FISCAL YEARS

- The impact of the aftermath of the worst recession since the Great Depression including reduced sales tax, property tax and development fee revenues.
- Unemployment levels that are slowly declining but still significantly higher than pre-2007, impacting our customers' ability to pay utility bills and property tax bills and fueling the increase in local foreclosures.
- The decline in property values due to the County-wide revaluation.
- The loss of property tax revenues from the Philip Morris property.
- The continued freeze of targeted vacant positions, except for sworn law enforcement personnel and firefighters, plus the elimination of 7 previously frozen and vacant positions (3 full-time and 4 part-time).

- Increased health insurance plan costs that will be covered by changes in plan design and increases in premium costs for both co-workers and the City.
- Use of funds from reserves previously set aside for Parks and Recreation for current needs and to match funds from other sources for planning and property needed for future projects.
- Use of General Fund Capital Reserves to partially fund the construction of Fire Station 11.
- Soaring fuel prices nationwide: during the past 2 years, the City has been able to keep fuel costs fairly constant by controlling (and reducing in some departments) mileage driven and overall usage of fuel. However, with the significant increases we have seen in the last few months, it will be impossible to offset the rise in price with less usage and still deliver the same level of services.
- Continued increases (expected \$5.1 million) in the purchase price of wholesale electricity based on the contract with Duke Power.
- No rate increases in Water, Wastewater, Stormwater, or Electric. The purchased power adjustment, which is the mechanism used to recover changes in purchased power costs passed on under the contract with Duke Energy, will be evaluated again in September after reviewing the impact of increases from Duke.

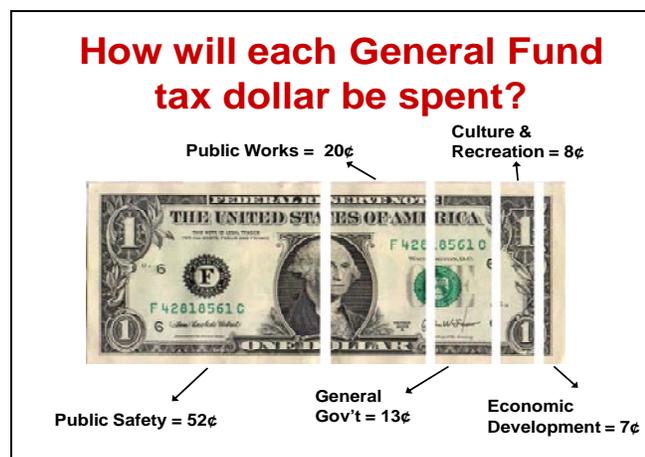
EXPENDITURE HIGHLIGHTS BY FUND

While highlights of each operating fund are contained within the individual program summary pages located throughout this document, the major expenditure highlights of the FY 2012-13 Recommended Budget are listed below:

GENERAL FUND

- *City Manager's Office* – Transfer of *Partnerships for Stronger Neighborhoods* program from Planning and Neighborhood Development to Public Affairs/Communications function within the City Manager's Office.
- *Public Services Administration* – Parking and equipment storage enhancements (\$195,000) and sealing/patching of the parking lot (\$177,000) at the Brown Operations Center.
- *Human Resources* – Fine-tuning of Halogen Performance Management system implemented in FY11-12 and full implementation of Applicant Tracking software for recruitment/hiring.
- *Human Resources* – Wellness Center enhancements designed to emphasize occupational health and co-worker health/wellness.
- *Code Enforcement* – Maintain efforts to enforce overgrown vacant lots and messy yards in neighborhoods. Continuation of Council Goal to provide additional \$30,000 towards cleanups, demolitions, etc.
- *Fire and Life Safety* – Transfer of funds (\$629,877) towards Fire Station 11 Construction and Fire Station 5 Renovation projects (remainder of funds coming from General Capital Reserve). Fire Station 11 will provide enhanced ladder service to the Speedway/Concord Mills Blvd. area of the City.
- *Fire and Life Safety* – Burn simulator for training - \$50,000.
- *Transportation* – Continues additional \$525,000 in funds for street resurfacing (to offset the high cost of materials and declining Powell Bill funds).
- *Solid Waste and Recycling* – Second year of contract with Waste Pro, saving the City \$1.7 million annually while improving the recycling program and making garbage and bulky waste collection more efficient.
- *Solid Waste and Recycling* – In partnership with Waste Pro, implementation of Mobile 311 tablet-based computing within solid waste trucks for more efficient completion of customer work orders under yard waste collection.

- *Solid Waste and Recycling* – Construction of a Shelter/Operations Center at the Brown Operations Center for cart and equipment assembly/storage - \$240,000.
- *Fleet Services* – budget of \$1.7 million for fuel City-wide, an increase of \$200,000 over the current year.
- *Fleet Services* – Convert former car wash into truck bay for fire apparatus, purchase truck lift needed to assume maintenance of Fire apparatus beginning late summer 2012.
- *Parks and Recreation* – Gymnasium bleacher replacement at all 3 Recreation Centers (partially funded with Parks and Recreation Capital Reserve) - \$175,000
- *Parks and Recreation* - Replace lights at Webb Field and Les Myers Park - \$601,000
- *Parks and Recreation* - Use of \$272,000 from Parks and Recreation Capital Reserve Fund to construct a Dog Park (City Council goal)
- *Parks and Recreation* - Installation of large commercial fans in the gymnasiums at Academy and Hartsell Recreation Centers - \$100,000



STORMWATER FUND:

- Replace culverts on Melrose Drive - \$156,000
- Set aside funding for future projects that will be identified by the Second Basin Master Plan process - \$681,670.

ELECTRIC FUND:

- Rising costs of wholesale purchased power from Duke Energy (estimated \$5.1 million over FY 2011-12).
- Continue tree replacement program, which encourages re-planting of low growing trees in order to minimize future maintenance of power line rights-of-way and improve reliability of electric service to customers.
- Upgrade additional aging vaults/equipment in Downtown underground system - \$150,000.
- Completion of Underground Duct Bank at International Drive - \$1,000,000.
- Various efficiency and reliability upgrades to the system - \$480,000.
- Transfer of \$527,000 to General Fund for payment in Lieu of Taxes on behalf of the Electric System.

WATER FUND:

- Sludge Removal (done every 18 months) at Coddle Creek WTP - \$400,000
- Replacement of pump motor starters and PLC cabinets at Coddle Creek WTP - \$520,000

- Funding for replacement/relining of aging waterlines in the downtown area to improve fire flow - \$500,000

WASTEWATER FUND:

- Provide funding (as budget allows) for replacing, upsizing and relining our aging infrastructure to ensure we have an adequate system for future development.
- Continue to invest in pipe lining for wastewater lines - \$594,000.
- Replace defective sewer mains/outfalls: Palaside Drive, Odell Drive, and Hatley Circle.
- Continue our flow monitoring program to identify system defects so they can be repaired, thus reducing Inflow & Infiltration.

PUBLIC TRANSIT FUND:

- Contract with new service provider First Transit begins July 1, 2012.
- Increase of \$182,000 in fuel expenses for transit buses over adopted FY11-12 budget
- Continue funding Concord's share of "Concord Express" and Rider System.

GOLF COURSE FUND:

- Complete greens restoration project in the first quarter of the fiscal year.

AVIATION FUND:

- Preparation for 2012 DNC.
- Complete Fire Suppression System repairs and upgrades by installing new pump (\$345,000) and surge tank (\$258,750).

INTERNAL SERVICES FUND: The Internal Service amounts are charged back to user departments and are reflected in each department or fund's recommended budget amount. Highlights include:

- *Utilities Billing* – Replace hand held meter readers as existing ones are no longer supported/maintained - \$38,000
- *Data Services* – Begin upgrade of City's network infrastructure and capacity.
- *Data Services* – Needed server replacements for major systems/applications.
- *Data Services* – Begin conversion process to Microsoft Outlook for email, utilizing Cloud-based storage.
- *Data Services* - Continue efforts to implement smart phones and tablets as a low cost field laptop replacement alternative and Mobile 311 as a smart phone application for Cityworks.

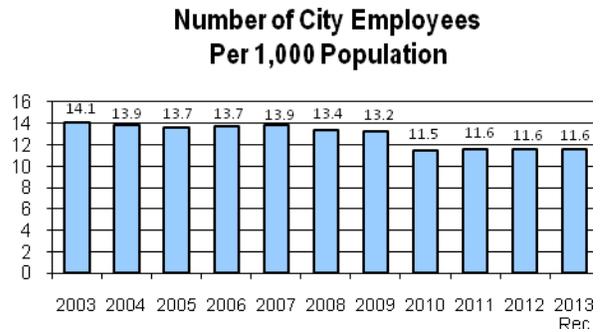
The budget is presented in a format that groups expenditures into major areas: personnel services, operations, capital outlay, debt service, and non-departmental allocations. This format is consistent with Council's goal of developing a results-oriented budget with performance measures rather than just numbers not tied to specific goals and projects. This is an extension of the Mayor and Council's annual process of formally setting goals to track results. There has been a refinement of many departmental performance measures. Staff is working to meet the objective of only using measures that are meaningful to the elected officials and citizens and which truly reflect value added services. Staff also proposes that Concord continue participation in the North Carolina Local Government Performance Measurement Project as it has proven to assist in benchmarking and performance improvement.

The City Council adopted Fiscal Policies addressing Revenues, Capital Improvements, Accounting, Debt and Reserves. These policies have been updated annually as part of the Mayor/Council Goals and have been addressed in preparation of this budget.

The five-year Capital Improvement Program is also updated and also presented herein for your review.

PERSONNEL HIGHLIGHTS

Personnel expenditures include salaries, FICA, group insurance, retirement, 401K, longevity pay, merit pay, and other miscellaneous benefits for co-workers. Contract, legal, medical, and other outside professional services are not included under personnel. They are included under the Operations category. For FY 2012-13, personnel expenditures account for \$57,321,799 or 27% of the total budget.



It is recommended that the City award a very modest merit based lump-sum payment for those co-workers receiving a performance evaluation rating of "meets expectations" or better on the date of their annual evaluation. Any co-worker receiving "meets expectations" will receive \$400, co-workers receiving "exceeds expectations" will receive \$500, and any co-worker with an "outstanding" rating on their evaluation will receive \$600. The awards will be paid pre-tax and part-time co-workers will be eligible for ½ of these amounts. Individual salaries and the ranges in the pay structure are not recommended for adjustment. Management would have preferred to recommend a percentage based performance based increase; however, financial limitations would not allow this across funds. Also, the City's annual salary survey did identify the need to adjust salaries for a very few classifications that were found to be behind the labor market. Monies are budgeted to implement the study findings. Certainly the City will have to pay particular attention to the action of other local governments in the region to make sure salaries remain competitive. Funding is also included to continue the longevity plan for those hired before July 1, 1996 and to continue existing career development plans.

Staff continues to tweak the new performance evaluation system that it is focused on rewarding coworkers who provide the best in customer service and incorporates measures to make sure that departmental performance measures are reflected in individual evaluations. This is important to continue our emphasis on customer service and relating organizational goals to individual performance.

One temporary contract apprentice job is recommended in Transit with 90% of the funding coming from NCDOT. No new positions are recommended for funding in this budget, while 3 full-time and 4 part-time vacant positions are recommended for elimination. The eliminated positions are as follows:

General Fund (2 full-time positions)

Police:

- 1 – Customer Service Specialist (already frozen)

Parks and Recreation:

- 1 – Parks and Recreation Supervisor (already frozen)

Other Funds (1 full-time position and 3 part-time positions)

Housing Vouchers Program:

- 1 – Housing Specialist

Aviation:

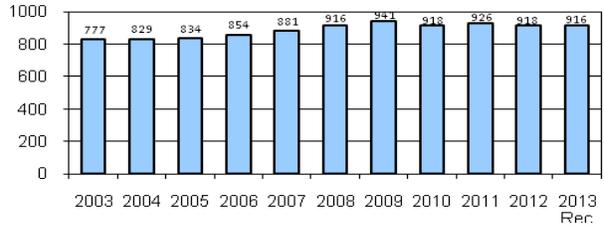
- 3 – PT Aviation Assistants (already frozen)

Internal Service Fund (1 part-time position)

Building and Grounds:

- 1 – PT Custodian (already frozen)

Number of Budgeted Full-Time-Equivalent (FTE) City Employees



A total of 915.8 full-time equivalent positions are recommended for funding, excluding the frozen positions listed below. At the present time, 14 full-time and 1 part-time positions are frozen with more subject to be frozen if they become vacant. The frozen positions are as follows:

General Fund (7 positions):

Emergency Communications:

- 1 – Telecommunicator

Parks and Recreation:

- 1 – Parks & Recreation Specialist

Electric Fund (3 positions):

- 1 – Project Engineer
- 1 – Electric Systems Technician I
- 1 – Utility Locator

Aviation Fund (1 position):

- 1 – Custodian/Courier

Internal Service Fund (2 full-time and 1 part-time positions):

Building and Grounds:

- 1 – Utility Service Supervisor
- 1 – PT Custodian (20 hours/week)

Solid Waste and Recycling:

- 1 – Utility Service Supervisor
- 2 – Equipment Operators

Fleet Services:

- 1 – Automotive Technician (newly frozen)

Water Resources Fund (2 positions):

- 1 – Staff Engineer
- 1 -- Utility Service Worker

Engineering:

- 1 – Staff Engineer

Unfortunately, health care costs continue to increase, resulting in plan changes and increases in the amounts contributed by the City and by coworkers. The City’s unique HRA health care plan continues to be used by most coworkers. Employees have the option of selecting this plan at a lower cost with the City paying most of the full cost for the individual. The alternate PPO based plan, which is similar to the plans used by most employers in the region, provides a “richer” level of benefits at a higher cost for coverage and the coworker must pay most of the additional cost over that of the HRA for employee only and family plans. Both plans are self-funded and administered by Blue Cross/Blue Shield.

Wellness efforts have been a priority, both for the benefit of our coworkers and to reduce costs. The City of Concord Wellness Center offers free health care services to all full-time City of Concord employees, along with retirees, spouses, and dependents who are enrolled in the City's self-funded insurance plan. The Wellness Center provides a basic level of routine medical care and health screenings. It is not intended to replace an individual's primary care physician, but rather to provide a convenient, no-cost access point for basic medical care. The Center is staffed by a licensed nurse practitioner and a medical office assistant with direct oversight by a licensed physician.

A new provider will be staffing the Wellness Center with an additional focus on enhanced services from prevention and intervention to management of acute and chronic illnesses. In order to offer an incentive to coworkers for managing their health, employees who complete a Health Risk Assessment and certify they do not use tobacco, or that they will attend a tobacco cessation program if they do, will receive a reduction in monthly health care premium costs. The Health Risk Assessment will entail the completion of a questionnaire, biometric measures and a fasting blood draw.

While we have seen significant increases in City contributions over the past 2 years, the North Carolina Local Government Employees Retirement System decreased the City's contribution per general employee slightly from 6.88% to 6.74% of payroll for FY 2012-13. Contributions for law enforcement officers decreased from 7.35% to 7.21%. The decrease represents approximately \$23,000 in savings City-wide from FY11-12 contributions. However, due to actuarial projections, staff does anticipate the City's contribution rates to increase in future fiscal years, but perhaps not to the level originally projected during the depths of the recession.

The budget also maintains the City's 401(k) contribution for coworkers at 3.5%. By State mandate, the city contributes 5% to accounts for sworn law enforcement officers. If increases to the regular retirement system continue to rise, this will impact the City's future ability to contribute to 401(k) accounts.

We also continue to monitor the impact of retiree health care benefits. As with other retiree benefits, these health care plans have gone through drastic changes over the years. Retiree healthcare subsidies started with large private employers, with governmental employers jumping in later as the struggle to compete with the salaries and benefits in the private sector became more pronounced. State governments, including North Carolina, jumped in next to cover teachers and other employees. At one time, over two-thirds of large private sector companies provided some type of retiree health care. Now about one third of large private sector organizations provide retiree health care. However, the majority of state and local governments still provide retiree health care at some level.

Staff is recommending that Concord continue to allocate \$100,000 to go into the State trust fund established for this purpose in order for the city to participate in the future if it decides to do so. In the meantime, staff will continue to monitor what other local governments are doing in response and evaluate the use of this trust.

KEY RECOMMENDATIONS, ACCOMPLISHMENTS AND CHALLENGES FOR THE FUTURE

The revenues projected in this budget recommendation are based on a number of conservative assumptions. As noted earlier, we have not used worst case numbers as the economic trends are finally showing improvement in many areas. Still we are still nowhere near pre-recession levels

While this budget is designed to focus on the delivery of basic services, it also sets the framework for addressing priorities that prepare for the future.

REVENUES AND PHILIP MORRIS

The good news is a slow, but noticeable, rebound in our local economy. Cabarrus County is experiencing a gradual decline in the unemployment rate with March at 9 percent, down from 9.6 percent in February and it remains the second lowest rate among counties in the Charlotte region. Of the 89,816 residents in the labor force, 81,710 were employed and 8,106 were unemployed. While we can agree the number of unemployed is still too high, it is a significant improvement since peaking at 13.5 percent in February 2010.

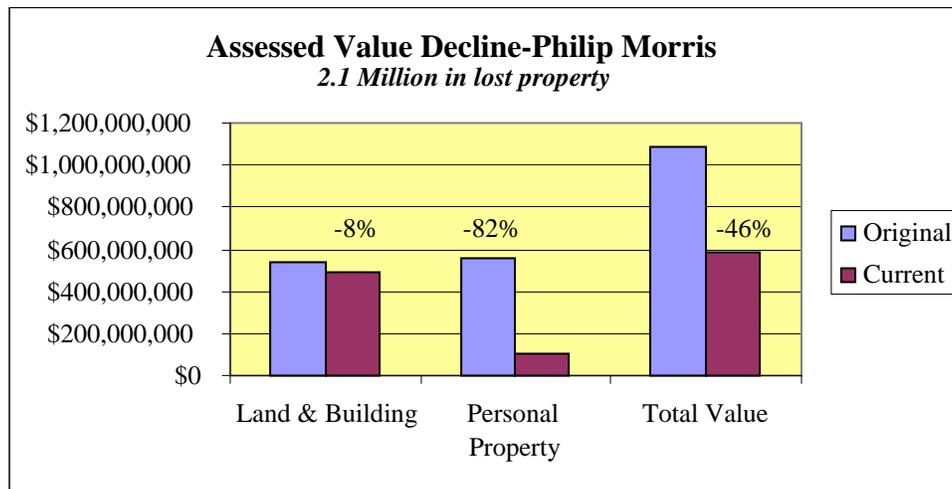
An important step to continuing job growth is recruiting new business and industry to Cabarrus County. Cabarrus Economic Development reports 59 active projects looking at our County in April of this year

compared to 46 in April 2011. Even more important, companies appear to be serious about investing here as demonstrated through an increase in actual site visits.

Since the beginning of the 2012, the City's Planning and Neighborhood Development Department has experienced a permit issuance increase of one-third compared with the same time period in 2011. In fact, new business development and vehicle registrations are also up in Cabarrus County. Concord, after losing more than \$2 million annually in taxable sales revenue, has finally seen revenue level off and slowly move in a positive direction. Housing construction permits, the area of our economy perhaps most impacted by the downturn, are up too, but nowhere near pre-recession levels.

In FY 2012-13, the General Fund will finally realize the full impact of the loss of Philip Morris. The appeal of the Philip Morris tax valuation has been settled so values will not change until new development starts to take place on the property. Concord's annual property tax revenues from Philip Morris have declined from \$4,577,798 to an anticipated \$819,000 in FY 2012-13

The impact of Philip Morris as a water and wastewater utility customer was fully realized three years ago. A combined \$1.8 million in annual revenue has been lost, so as with the General Fund now, any activity on the property will be a plus.



THE CABARRUS COUNTY REVALUATION OF PROPERTY

While the Philip Morris appeal had some impact on the **13%** loss in property valuation in Concord, much of the decline in Philip Morris personal property tax base and resulting revenue impact took place prior to revaluation. Raw, developable land and higher end housing led the way in the drop of property values during the revaluation. With the City being the only Cabarrus County local government lowering its tax rate at the time of the previous revaluation, and combined with the revenue losses due to Philip Morris, Council adopted a goal for staff to develop the budget recommendation using a revenue neutral tax rate calculation as provided for under Subsection (e) of NC General Statute 159-11 as a cap. The following instructions were used to calculate a revenue-neutral rate of \$0.48 consistent with the above statute:

1. Determine a rate that would produce revenues equal to those produced for the current fiscal year.
2. Increase the rate by a growth factor equal to the average annual percentage increase in the tax base due to improvements since the last general reappraisal.
3. Adjust the rate to account for any annexation, deannexation, merger, or similar events.

Again, although the revenue-neutral tax rate recommended generates the same amount of revenue from property taxes in total, it does not necessarily mean that an individual property owner's tax contribution will remain same. The value of the tax base is the sum of all the property values within the jurisdiction. These properties may have remained the same, increased, or decreased in value, but by adding them together, the overall change can be calculated. An individual tax contribution depends on a combination of the new tax rate and the new value of the property.

ECONOMIC DEVELOPMENT

Investment interest is up, but actual new projects are slow to materialize. The Philip Morris property continues to be the largest unknown, though there are a number of interested parties. Philip Morris has not been an aggressive marketer or seller.

Last year the City reorganized to meet this challenge, including an Economic Development & Sustainability Director position within the City Manager's office to focus on economic development. This position provides a direct resource for the Cabarrus County Economic Development Commission staff and a liaison for any business seeking to locate or expand in Concord. Job creation and expansion of the tax base has to be a priority.

Small business development has received a lot of attention lately with Cabarrus County pursuing studies and a special task force to evaluate government's role. The Cabarrus Economic Development Commission has proposed two special efforts to target this need and asked Concord, Kannapolis and Cabarrus County for funds to start implementation. This includes the revision of an existing Small Business Entrepreneurial Development Plan to include Concord and the rest of the County. The initial plan focused on the Kannapolis side of Cabarrus County. Another EDC request is for the licensing agreement and start-up for a young Entrepreneurs Academy. This is an afterschool program that involves middle and high school students in activities such as generating ideas for businesses, writing business plans, pitching them to a panel of investors and launching their own companies. This budget includes \$15,000 additional dollars for the EDC for the above programs and provide for a mobile conversion of the EDC website so it can be viewed on mobile devices.

STATE GOVERNMENT

While the General Assembly has largely led an assault on local governments in areas such as land use, annexation and other areas of local control, they have thus far kept to their promise not to use State collected municipal revenues to balance the budget. However, there are actions pending that will impact local revenues. For example, the capping of the gas tax could lead to further declines in Powell Bill funding in addition to impacting NCDOT projects in our area.

A discussion of tax reform is on the horizon. While this is greatly needed, it will remain to be seen if this results in true reform, such as the broadening and simplification of the base, or if it amounts to reductions and the shifting of responsibilities. For example, there has been discussion of turning over State maintained roads to local governments without providing for an adequate revenue source. The division of service responsibility and revenue sources within the State is likely to continue to be a hot debate for some time. If responsibilities for services are restructured, there must be an accompanying comprehensive review of revenue options available to local government. This will put even more pressure on legislators to consider a massive modernization of State and local tax systems.

GROWTH MANAGEMENT

It is ironic that many in the General Assembly want to focus on the elimination of some of the tools local governments have used during the last decade to reduce the impact of rapid growth on the quality of life of residents. Of course, the legislation impacting annexation has undermined a tool that has led to strong municipalities for over 50 years. Growth management has been one of the biggest challenges facing Concord over the last ten years and has often been a highly charged issue County-wide. Cabarrus local governments and Concord in particular, have come a long way in trying to control housing densities and requiring higher development standards in rural areas.

Everyone realizes that with the proper tools in place, no growth is as bad, or worse, than too much. Our utility departments have delayed infrastructure projects required to meet future needs as they would result in little new revenue because a lack of customers due to the economy. Rate increases would be needed to pay for these capital projects because there would be little to no new income. At the same time, there is the risk of needing to move forward on these projects quickly should growth mandate that they take place. We must be prepared to use reserves to respond to new growth should opportunities arise.

County policies must also take municipal infrastructure costs into consideration when impacting land uses. While growth needs to be planned, it should not be viewed as evil. The dramatic decline in the construction industry in this County has had significant long term effects on our economy.

We continue to look for ways to be user friendly in this area. Currently staff is in discussions with the County over closer working relationships and using technology to make the development process easier for our customers.

ORGANIZATIONAL SUSTAINABILITY

While sustainability has taken on a negative connotation for some people, Concord's efforts have focused on practical ways to save both money and the environment. Regardless if it is our "no idling" policy, ozone program, use of biofuels and hybrid vehicles, use of very low flow toilets and waterless urinals or reducing power consumption through conservation and technology, efforts have been underway in several City departments. Of course, sustainable solid waste handling receives ongoing attention.

Another example of this pragmatic approach is the plan for the Housing Department to solicit proposals from energy services companies to conduct an energy audit of facilities. The company will then recommend an energy performance contract where the savings from the changes will be used to pay for the investment required to lower the costs. This could serve as a model to use for other City facilities.

The Economic Development & Sustainability Director is a single point of contact for sustainability, among other responsibilities. This position works with the City Sustainability Committee, comprised of coworkers from several departments. Sustainability efforts internal to the City organization have been the focus this year, including trips to learn from other local governments. The director has reviewed the many sustainability efforts already underway. The sustainable purchasing policy approved by City Council is in use and serving the organization well.

NEW WATER SOURCE AND EXISTING WASTEWATER NEEDS

While water usage may not be growing significantly in the current economic environment, Concord is proactive in recognizing the need to expand its future supply of potable water. Concord, Kannapolis and

Albemarle are jointly funding the engineering work and construction of a line to bring treated Yadkin River water from the Albemarle system. Right-of-way acquisition is well underway and construction will follow after bidding this summer. Concord will fund its portion from reserves.

Though no increase is recommended this year, water rate increases will have to be evaluated annually against the amounts needed to fund major capital projects and to meet increasing environmental standards. It is likely that upfront capacity purchases, such as the "take or pay" amount in the Albemarle agreement, will result in the need to adjust rates in future years.

Faced with the reality that Cabarrus County has no additional water sources within its boundaries, we must go outside to obtain water. As a result, water continues to be more expensive in Cabarrus County than for its neighbors who are adjacent to free water sources fed by larger rivers.

As mentioned earlier, the wastewater budget is very tight with limited dollars available to meet future capital needs. The recommendation does include funds for maintenance of the system, particularly in areas of Concord where aging lines are more likely to lead to rainfall infiltration. There is no wastewater rate increase recommended, however, it must be noted as growth returns in future fiscal years, there will be a need for additional revenue to address critical needs.

ELECTRIC SYSTEM

The City's contract to purchase power from Duke Energy is based on Duke Energy's system average cost. Costs are tied to Duke's expenditures and go up (or down) depending upon market conditions and infrastructure investment.

The City's policies to establish rates are based on purchased power costs and factors that include operation and maintenance expenses, debt service requirements, maintaining reserves and a payment in lieu of taxes. These policies have put the system back on solid financial ground. While we are relying on rate stabilization funds to partially offset expenses for FY 2012-13, a purchased power adjustment will likely be needed in September and possibly again in the spring. It will be crucial for the City to use this mechanism to continue to pass on wholesale increases imposed by Duke Energy to maintain an operating margin that will allow for proper system maintenance and to meet the capital needs of an expanding customer base.

Duke Energy continues to be very inconsistent in its retail rate making practices as it reacts to feedback from regulatory agencies over its proposed merger with Progress Energy. Duke continues to insist it needs a substantial retail rate increase that would be consistent with what it has passed on to its wholesale customers like Concord. Duke has received considerable negative feedback in the political arena on its proposed retail rate increases and the merger and has responded with different tactics, such as the promise of a one year decrease in commercial and industrial rates. Concord will be impacted regardless if the merger is consummated or not. If the merger does take place, past negotiations to make sure the change will not impact Concord's costs should serve the City well.

AIR AND SURFACE TRANSPORTATION

Concord Regional Airport (CRA) continues to be a vital resource in supporting the business and general aviation communities. One major project continues to be upgrading the system providing water for fire suppression. Another is a multi-million dollar upgrade to strengthen the asphalt on the taxiways and parking areas to handle heavier aircraft. Finally, Federal and local monies are being accumulated to start the design of a new air traffic control tower.

Another factor will be preparation for 2012 Democratic National Convention in Charlotte. The event will be held in September of 2012. The Democratic National Committee estimated that the convention brought 50,000 people to Denver, the last site of this event. The Convention and associated activities could bring many general aviation flights into CRA and create the need for heightened security. Staff has been meeting with those planning this event to prepare to provide these resources and to position CRA to benefit from the additional business.

Surface transportation

Concord continues to invest heavily in NCDOT facilities. In fact, the City of Concord has averaged spending \$2,000,000 per year on maintenance and improvements associated with NCDOT roads. Much of this money has been generated from the Transportation Improvement Fund created by the City Council almost 15 years ago to fund transportation projects. These funds come from 2 cents of the property tax rate and are supplemented by dollars generated from local vehicle license fees. Smaller intersection improvements on NCDOT facilities like Poplar Tent Road, US 29, and NC 73 have been covered by this fund and the City has also constructed projects such as the major extension of the NCDOT maintained section of Weddington Road. FY 2012-13 will see a number of such projects underway or in preparation for construction.

This year, assuming NCDOT will not require the up-front loan for the George Liles Parkway Extension, there will also be more of a focus on using this fund on local projects. This includes such projects as a traffic signal at the intersection of George Liles Parkway and Village Drive, the rehabilitation of Burrage Road and \$150,000 for sidewalk projects. Of course, it also includes dollars that have been set aside previously for participation with NCDOT on other projects.

Projects impacting NCDOT facilities that are programmed with Concord participation

I 85 Widening Project (I-3803-B) - Concord is participating with NCDOT to provide sidewalks and bicycle accommodations along both Poplar Tent Road and NC 73 for the sections impacted by the project. This entire project is underway and is projected to be complete by the end of 2013.

Derita Road (U-4910) - Traffic congestion is choking this corridor; as a result, the City of Concord sought Federal monies to assist NCDOT in solving the problem. Unfortunately, most of the Federal money allocated ended up being subject to the equity formula, so Concord had to "trade off" and delay the larger Poplar Tent Road widening project through a requested TIP priority change in order to add Derita Road. Even with this change, Concord was required to pick up the total cost to match the Federal funds for this NCDOT Road. The match is estimated to be \$3,036,763. Concord and NCDOT have entered into a Municipal Agreement, AECOM has been contracted to perform the design and permitting with right-of-way acquisition scheduled for 2012 with construction possibly to begin in 2013.

George Liles Parkway Extension (R-2246B) - With the closing of Philip Morris, it is imperative to North Carolina, Cabarrus County and Concord to replace these jobs and the tax base. Concord and NCDOT entered into a municipal agreement projecting Concord would up-front \$10,767,000 in funds to accelerate this project. The City would have been reimbursed at the end of the project once those funds were available as programmed in the TIP. Delays did not allow for the project to be accelerated so City funds are unlikely to be needed. Right of way acquisition is underway, however, and it is hoped NCDOT will start the project by the end of 2013.

CMAQ - Concord is working with NCDOT on three CMAQ projects to improve NCDOT facilities. These require local matches that have been budgeted using the 2 cent fund. The first is the intersection of Poplar Tent and US 29 (C-4918-A). The City will manage the project during construction, which has an anticipated bid let date of summer 2012. Another CMAQ project is to provide extra capacity by expanding lanes on South Union Street and Warren C. Coleman (C-4918-B); this project is scheduled for funding in the amount of \$1,294,915 with Concord providing a 20% match. The anticipated bid let date is before the end of 2012. The final active CMAQ project is on McCacheran Boulevard. This project has been bid once and construction should start before the end of 2012.

Cabarrus Avenue Bridge over Norfolk Southern Railroad (B-3421) – The replacement of this bridge is scheduled to begin in 2012 and will take 12 months to complete. Concord is participating to add Texas Classic Railing, decorative lighting and sidewalks on Cabarrus Avenue. The project will also facilitate the closing of the at-grade railroad crossing on Corbin Avenue with modifications to Powder Street to accommodate the change in the traffic pattern.

Public Transit

The Rider System will see a change in the contract operator with First Transit taking over July 1, 2012. The system has seen record ridership in FY 2011-12. The system has also taken the initial steps towards acquiring grant funding, to be matched locally, for purchase of new hybrid buses in an upcoming fiscal year.

Concord continues its successful partnership with CATS on the Concord Express running between the two cities. The budget also contains funds to continue the 79x route, providing limited service to the Speedway/Concord Mills area.

PUBLIC SAFETY

In FY 2011-12, 27 of the nearly 200 police vehicles were replaced with a new police interceptor model manufactured by Ford, the only front-wheel drive V6 police cars available.

A tremendous amount of time is focused on preparing for the Democratic National Convention (DNC). Several state delegations will be staying in Concord that week, creating a need for a high level of customer service and security considerations. Also, the DNC will kick off on Labor Day with scheduled activities at the Speedway. This is requiring a great deal of coordination between Police, Fire and other City departments with Charlotte departments and Federal law enforcement agencies. From a budget perspective, the Labor Day event should be covered by Federal dollars allocated through Charlotte. Part of the additional expenses for security considerations for delegations the rest of the week may fall on the City of Concord.

During FY 2009-10, Council voted to accept a Federal SAFER grant to add 12 new firefighter positions. These positions were used to establish a new ladder company to serve the western side of the County. They began service using an existing ladder truck. The funding breakdown for the positions is as follows:

	FEMA	CITY
First year	90%	10%
Second year	80%	20%
Third year	50%	50%
Fourth year	30%	70%
Fifth year	0%	100%

In FY 2012-13 the City will be at the end of the third year of the grant and the beginning of the fourth year, so the FEMA supplement will go from 50% to 30% during the fiscal year.

The personnel and the related equipment are currently housed at an existing station. A new station will be constructed closer to the Rocky River on Weddington Road or further west to permanently house the personnel and equipment. This station will provide better protection and it could support an enhanced Insurance Service Office (ISO) rating. Land acquisition and construction dollars are programmed for this station in this budget with much of the funding coming from capital reserves.

The new relationship with Charlotte taking over the backbone of the Cabarrus communications system is being implemented with full transition to be completed by the end of 2012. This has already paid dividends as Charlotte Fire Department has been able to acquire grant funding, with local matches, to go toward about half of a new P-25 compliant system. This is crucial as the current system will be obsolete and will have no maintenance support in future years. Concord, Kannapolis and Cabarrus County hope this regional partnership with Charlotte will continue to be beneficial and the Cabarrus entities will be better positioned to obtain the additional grant funding needed to complete the purchase of the P-25 compliant system.

This agreement impacts the system backbone including software, and eventually hardware and its maintenance and upkeep by Charlotte. It does not impact Concord's continued operation of a separate communications/911 center to support its public safety and infrastructure departments.

RECREATION AND OPEN SPACE

While the recession has impacted the City's ability to be aggressive in constructing new projects, staff recommends continuing to use funds set aside in reserve for recreation projects to take advantage of opportunities, particularly in the acquisition of property that can be used for the eventual development of new facilities. The City matched State funding controlled through the Carolina Thread Trail to acquire property off Weddington Road that can be used for a trail head and parking for that section of the Rocky River Greenway. PARTF, Carolina Thread Trail and other grant funds money are being used to construct another section of this greenway adjacent to Moss Creek, with the private donation of the land serving as an additional part of the match. The Rocky River Greenway remains a priority.

City Council adopted a goal of developing a dog park for FY 2012-13. Staff will be looking at existing and new park locations to develop alternatives for locating this facility. In addition, land acquisition continues for Phase 3 of the McEachern Greenway and also for property that may serve as access if existing public lands can be used for the development of a northwest park.

The Rocky River Golf Club continues to be one of the highest quality municipal golf courses in North Carolina, but has suffered due to the impact of hot summers affecting the quality of the greens. It is also a key attraction for those attending conventions in Concord, particularly at the Concord Convention Center. It is important that the course be maintained at this level. The budget recommendation contains money to renovate the greens to return them to their original size and to plant a strain of grass more tolerant during the hottest months of the summer. Since the grass selected was a bermuda variety, this will impact course operations during much of the summer of 2012, resulting in a loss of revenue. This is a necessary maintenance item, due to the age of the facility, to support the long term viability of the course.

TECHNOLOGY

Today's customers demand that we keep up with technology as it impacts the way they interact with the City. With more and more people being technologically "savvy" and possessing smart devices, this creates a challenge during tight economic times.

City departments are responding in a variety of ways. For example, we plan to build upon the successful changes in solid waste and recycling collection methods implemented in 2011 and equip personnel with smart devices that will enable them to use Mobile 311 software. That will help to quickly identify service needs in the field and document the desired action for tracking purposes. This may also alter citizen reporting requirements.

These same types of devices and software will be used by line workers on the field at the airport to record service needs when working with individual aircraft once they land. This should prove to be more effective and provide for quicker and more efficient service.

City government needs to migrate to a new email system. Serious consideration is given to moving to the "cloud" for this solution rather than the current in-house system. While this would necessitate an annual cost, it would eliminate the upfront costs of having to host the software and hardware and provide for constant updates to keep abreast with new technology.

Planning and Neighborhood Development is looking at two new applications to address existing needs. The first is Geographic Information System (GIS) software that will enable coworkers to manipulate the existing system and files in a much more user friendly format that should translate to better customer service. The second is exploring a relationship with Cabarrus County on partnering with their development review software so that the end user has one source to go to when going through the development process. While this will be costly, it has the great potential to be very useful to engineers, and architects, as well as small business people who may not have the money to spend a great deal of money on such support people for their project.

CUSTOMER SERVICE AND CITIZEN COMMUNICATIONS

The organization continues its focus on customer service. Coworkers on the Customer Service Design team include employees from each department who are leaders and who practice good customer service skills on a day-to-day basis. They are developing refresher courses to reemphasize this effort on service excellence. In addition, the Special Thanks And Recognition program (STAR) will continue to recognize coworkers who go above and beyond their regular duties. The "Journey through Concord" program continues. This program is designed to educate coworkers on the specific functions of the departments so they can help customers who have questions about other departments or services. "Journey through Concord" also provides coworkers an opportunity to understand how the City works together as a team to meet community needs.

In support of this effort, City Council adopted a goal for staff to review operations and customer requirements for user-friendliness. What better way to start doing that than to ask the customer. This will be done using a variety of tools such specific surveys, focus groups and other techniques such as "secret shoppers." This effort will start at the beginning of the new fiscal year with efforts to gain feedback from internal customers working for the City concerning the support departments that function to help them get the job done. From there it will spread to soliciting feedback from our external customers.

The City will also conduct its biannual citizen's survey in 2012 with results scheduled for presentation to City Council at the 2013 Planning Session.

Staff completed its comprehensive update of the City's performance evaluation system that includes a focus incorporating measures to make sure that departmental performance measures are reflected in individual evaluations. This is the next step in our emphasis on customer service and relating organizational goals to individual performance. This includes new forms that are 'on-line' to reduce use of paper and that detail performance expectations and training of all supervisors and coworkers.

Citizen communications will continue to be varied. Direct mailings such as the "City Circular" newsletter, newspaper placements, the electronic newsletter, the City's website, news releases, television, radio and other outlets will continue. However, we have also moved into new media such as blogs, Facebook, and RSS feeds, as citizens get their news from vastly different media outlets than a few years ago. The Connect CTY calling system continues to be a very valuable tool to notify groups during emergency situations and notify citizens of work that might impact their neighborhood, changes in City services and changes in schedules during holidays. The City continues its partnership with the school system by offering various opportunities to learn about City services. The City's Civic Education program involving 3rd grade students attending participating elementary schools continues to expand. One of the best ways to teach the parents about local government is through their children. Also, the highly successful Youth Council will continue this year. Concord 101 and the Public Safety Academy are very well received by participants. These programs give residents an opportunity to learn more about their municipal government and to provide feedback on important local needs and issues. Funds are budgeted to continue these programs in the new fiscal year.

The Customer Care Center continues to be essential in providing a human contact for citizens who phone in service needs. The Customer Care Center handled 152,825 calls in 2011 for an average of 12,735 per month.

EMPLOYEE COMPENSATION

Due to the economic conditions during the recession and the property revaluation in this fiscal year, the City has been very modest in providing performance based salary adjustments, if at all. This budget includes the opportunity for coworkers to receive a very modest lump sum payment based on performance and awarded at the time of the annual evaluation.

In past years these very limited adjustments have not been as concerning as others in the labor market have been doing the same thing. However, this year we are seeing proposals in the public and private sectors that are indicating that other employers are returning closer to normal in their compensation practices. The City has tried to benefit its coworkers by managing positions so to provide stability to employees during the recession. Many positions have been frozen or eliminated, but no one has been laid off.

It is human nature to forget this stability once opportunities start to open up. Also, younger generations of workers are clearly much more mobile in their careers. We are only as good as the people working for us so it is crucial that we keep our eye on this. We must attract and maintain good people who can work as a team and communicate well with internal and external customers. We must also continue to replace the baby boomer generation as these retirements accelerate. We feel that next fiscal year, unless the country goes back into a recession, we will likely be in a "catch-up" mode and will need to invest more significantly in this area.

EXTERNAL AGENCY FUNDING

For FY 2012-13, external agencies requested \$386,348 from the City of Concord. This compares to the \$117,000 appropriated for such purposes in FY 2010-11. These agencies play an important role in ensuring a high quality of life in our community and, in some cases, providing a safety net for those in need. However, Concord must focus on its core mission of providing municipal services. While many of the services these agencies provide are vital, they are not considered municipal in nature in North Carolina. Community Development Block Grant funds can be used for human services and housing, but they are limited to a certain percentage of the grant amount. Cutbacks in Federal spending are leading to a reduction in the CDBG allocation for Concord and fewer dollars are available for external agencies.

The recommendations call for small cuts in many of the agencies that received City support last year. \$65,500 of the \$230,624 requested is recommended from the General Fund. This is a 4.4% decrease from FY 12. \$35,750 of the \$155,724 requested is recommended in Community Development Block Grant monies. This is a 9.5% decrease from FY 12. The individual agency funding recommendations are included within the budget of their associated functional areas as directed by Council.

CONCLUSION

The FY 2012-13 budget proposal operationalizes the goals for the City of Concord established by the Mayor and City Council. The services, program and facility needs prioritized in the City Council Goals Statement were addressed. In addition, basic services have been maintained.

While this budget is proposed by the City Manager, it is neither final nor is it necessarily a reflection of what will be approved by the City Council. The Mayor and City Council will review these recommendations to arrive at what it considers the proper expenditure of the available revenues for the upcoming year.

Respectfully submitted,



W. Brian Hiatt
City Manager