



May 26, 2009

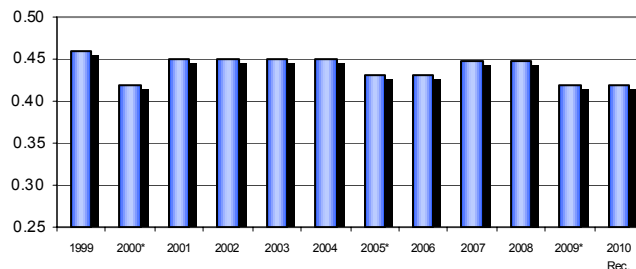
The Honorable J. Scott Padgett, Mayor
 Members of the City Council
 Concord, North Carolina

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 2009-10 Budget for your review and consideration. I want to thank the Mayor and Council for providing staff with strong direction through the FY 2009-10 Goals Statement. This year, more than ever, staff used this document to provide a guide for my recommendations as we worked with departments to cut expenditures. I also want to thank Deputy Manager Jim Greene, Assistant City Manager Jim Hipp, all department directors and their respective staffs, Finance Director Pam Hinson and, in particular, Budget and Performance Manager Robin Barham and Analyst Lesley Hall-Reder for their assistance in preparing this proposal.

The recommended budget for FY 2009-10 totals \$191,546,936 for all City personnel, operations, capital improvements and debt service, representing a 3.2% (or \$6.42 million) decrease from the FY08-09 adopted budget. Even though we are still facing the impact of a deep recession at the local, state and national level, and the loss of Philip Morris in July of 2009, I am recommending the tax rate remain at 0.4200 per \$100 of valuation, reflecting no change from the tax rate adopted by City Council for FY 2008-09. As in past years, the proposed tax rate includes restricting the \$.02 budgeted for use in the Transportation Improvement Fund as mandated by City Council.

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



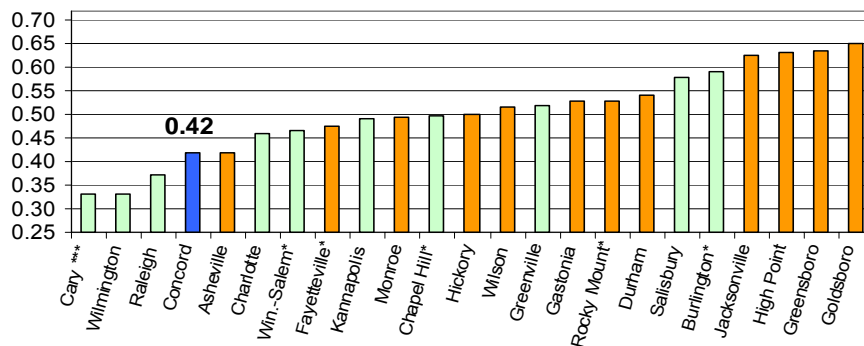
Concord is to be commended for continuing past conservative practices in projecting revenues and holding down expenditures in the General Fund. The FY 2008-09 budget anticipated reduced property and sales tax collections. As a result, cuts in the General Fund had to be made but the city did not have to enter into a crisis mode as many cuts were already made when the budget was adopted by Council last June.

For FY 2009-10, the recommended Concord property tax rate continues to be among the lowest of full-service North Carolina municipalities with populations greater than 30,000. Most of those few 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 on the next page summarizes the proposed property tax rates for comparable cities.

A budget recommendation always reflects choices. Staff makes these choices using the Council's Goals as our guide. However, the revenues available in this budget narrowed the number of choices we could recommend considerably. As a result, we focused on providing basic services for FY 2009-10, and

investments that will support these same basic services for future fiscal years. We know that Philip Morris will have a dramatic impact on tax revenues in FY 2010-11. That is why we have avoided debt and other expenditures that would generate recurring costs. Some will wonder why we are recommending some expenditures with a higher, one time cost. This is the reason. It will be up to Council to decide if the choices we have recommended are the appropriate ones.

**FY 2009-10 Proposed Property Tax Rates for
NC Full-Service Cities Over 30,000 Pop.
(Cents per \$100 Valuation)**



* Represents Revaluation Year **Cary - extensive use of impact fees.
 ** Cities in green apply a fee for solid waste collection (for some or all services) in addition to property tax
 Charlotte residents are assessed an annual solid waste fee for disposal of \$45 or \$27 (for multi-family) through Mecklenburg Co. tax bills.
 Note that Gastonia and Asheville charge a nominal recycling fee, but not for residential garbage or yard waste.

It is obvious the ability to maintain such a low tax rate in future fiscal years will depend upon the economy and future revenue growth. The announced closure of Philip Morris in July of 2009 has had an immediate impact on the water and wastewater revenue projections for this budget. It has also reduced projected property tax revenues, though the full impact on property valuation will not be felt until FY 2010-2011. If revenues do not grow from other sources during the up-coming fiscal year, we are headed for greater challenges in FY 2010-2011. It is fortunate that the City Council has been wise in previous fiscal years by building reserves to help continue to fund capital projects during this downturn.

In addition to the Philip Morris closure, the economy in Cabarrus County has taken a major hit with the entire region experiencing the troubles faced by the Charlotte based financial institutions. Concord residents who work in the financial industry continue to feel the impact of these changes. Other major employers, such as motorsports businesses, have cut back on expenditures, affecting not only the local economy but also revenues at Concord Regional Airport. While all this is going on, wholesale prices for purchased electricity continue to rise, forcing the City to start passing on a larger proportion of these increases to customers to maintain service levels. All these factors have influenced this budget recommendation as we position the City to weather the economic downturn.

We started this budget process with departments being asked to prepare one budget reflecting a 5% cut in operational expenditures from the FY 09 budget, and another one reflecting a 10% cut. We used this information to evaluate the effect of reductions on City services and make recommendations to Council on those that will have the least impact on basic service levels. The City provides many essential services, such as police, fire, clean water, street and traffic signal maintenance, among others, so we had to be strategic in the areas impacted. In reading through the budget, you will notice that almost all departments reduced operational expenditures by at least 5%, with many experiencing cuts of 10% or more.

The City cannot make cuts of this nature without impacting jobs. We have already frozen 18 full-time and 4 part-time positions across departments as they have become vacant: No sworn police positions or firefighter positions have been frozen. We also are closely watching the impact on the most essential functions so that we do not freeze so many positions that we cannot continue to provide basic services.

Also, in those areas where the workload has been impacted by the economy, we have transferred coworkers to departments where the workload has remained constant or even increased.

The skies are not all gray. We appear to be coming out of a region-wide drought. The economy in Concord and the rest of the Charlotte region is still stronger than in many other regions nationwide, despite the troublesome unemployment rate. While this budget focuses on the basics and there have been sharp cutbacks in all departments, the recommendation does address critical equipment and capital needs to avoid delaying expenditures that will make future budgets even more difficult. Also, while not yet incorporated in the budget, we do anticipate receiving at least over \$1,000,000 in Federal stimulus dollars that will result in budget amendments to add the revenues and expenditures. Despite this, we already know FY 2010-2011 will be a challenge with the economy and the full impact of the Philip Morris closure. Fortunately, the City entered into this period in a sound financial position.

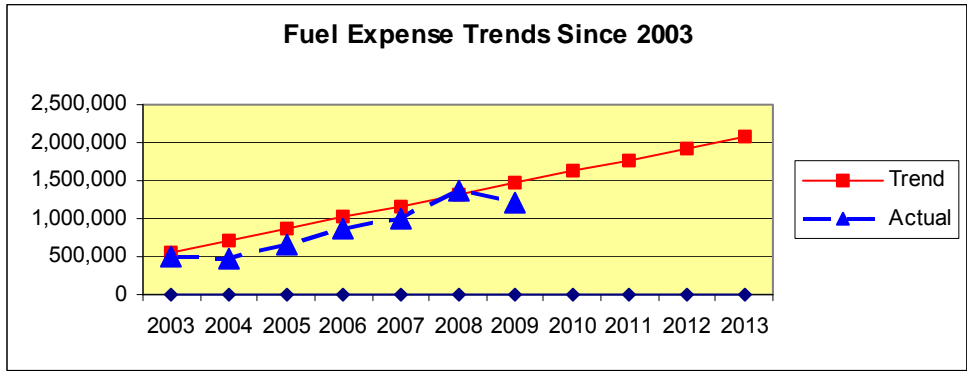
As in past years we have been conservative in projecting revenues across funds. This certainly proved to be very important in this fiscal year as growth virtually flattened, even in the utility funds, and development related fees dropped considerably. While the FY 2008-09 budget was conservative in projecting moderate growth, we did not anticipate a period of no growth, and over \$9 million in expenditures were delayed or eliminated during the fiscal year across all funds.. Caution in projecting revenues is important, particularly with sales tax as there are outside forces that clearly impact receipts. The economy has taken its toll on the growth in sales tax and could impact this revenue even more. Of course, the reduction in property tax valuation attributed to Philip Morris will eventually impact sales tax revenues due to the distribution formula used in Cabarrus County.

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 EXPENDITURE TRENDS IMPACTING THE FY 2009-10 BUDGET AND FUTURE FISCAL YEARS

- Continuation of recession, which has impacted revenues for all budgets and has led to some of the highest regional unemployment levels in 75 years.
- The loss of Philip Morris has led to a drop in property tax projections from this source for FY 2009-10, will result in a higher area unemployment rate, and will lead to a significant loss in property tax revenues for FY 2010-2011. The closure will also impact water and wastewater fund revenue with a total loss of \$1,800,000.
- Current freeze in vacant positions except for sworn law enforcement personnel and firefighters.
- Delay of the renovation of Fire Station #5, which will accommodate future placement of a ladder truck to serve the southwestern part of the City (unless stimulus money is received for this purpose).
- Expenditure of federal stimulus money announced through formula allocations and grants applied for through various processes.
- Streetscape improvements along McCachern Boulevard to encourage private investment and make the streets safer for pedestrians (waiting on approval of CMAQ funds from NCDOT).
- Delay of the construction of a skateboard park at a location to be determined within the City.
- Address planning and funding needs for Parks and Recreation facilities in Northwest Concord, including setting aside matching resources for potential funds from the Carolina Thread Trail.
- Continued increases in the purchase price of wholesale electricity.
- Preparation to purchase treated water from neighboring communities to supplement Concord's future water supply.

Nationwide fuel prices are down considerably from where they were at a year ago, but are creeping back up. They are still much higher than just two years ago. We will need to track prices carefully, however we have budgeted enough to cover moderate increases during the fiscal year.



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. The Council adopted a goal for FY 2007-08 to annually appropriate those dollars in excess of its target General Fund balance to a Capital Reserve Fund. This budget does recommend appropriating money out of reserves for one time capital projects. Again, we are fortunate during these difficult economic times to have such reserves.

This stability 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.

This year we are recommending residential, commercial and industrial water rates increases as indicated on the charts to the right. The primary reason for this increase is the immediate loss of revenues from the Philip Morris shutdown. Due to the sudden nature of this announcement and the current economic conditions, there has not been time for adequate new growth to offset the loss of this customer. In addition, capital funds are needed for vital future waterline projects, including the Yadkin River water connection. While the City will continue to aggressively promote conservation, budget projections assume the drought is over and that the amount of purchased water can be reduced during the fiscal year. In the event of future drought, the City is enacting a Drought Surcharge Policy that will add a 10% surcharge to Blocks 2 and 3 of the current residential service rate during periods of extended and extreme drought when mandatory water use restrictions are necessary.

| Water Base Charges (per meter size) | | | | |
|--|--------------------|---------------|---------------------|---------------|
| | <i>Inside City</i> | | <i>Outside City</i> | |
| | Proposed FY10 | Approved FY09 | Proposed FY10 | Approved FY09 |
| ¾" | \$4.04 | \$3.51 | \$4.54 | \$3.94 |
| 1" | 5.76 | 5.01 | 6.61 | 6.61 |
| 1 ½" | 9.71 | 8.45 | 11.35 | 9.87 |
| 2" | 14.66 | 12.75 | 17.29 | 15.03 |
| 3" | 26.28 | 26.28 | 31.23 | 27.15 |
| 4" | 42.85 | 37.26 | 51.11 | 44.45 |
| 6" | 83.89 | 72.95 | 100.36 | 87.27 |
| 8" | 133.34 | 115.95 | 159.70 | 138.87 |
| 10" | 191.20 | 166.26 | 229.13 | 199.25 |
| 12" | 355.86 | 309.45 | 426.73 | 371.07 |

| Water Volume Charges (all rates per 1,000 gallons) | | | |
|--|--|----------------------|----------------------|
| Residential Volume Charges: | | Proposed FY10 | Approved FY09 |
| <i>Inside City</i> | | | |
| Block 1 (0-6,000 gallons) | | \$5.08 | \$4.90 |
| Block 2 (6,001-8,999 gallons) | | 6.61 | 7.11 |
| Block 3 & Irrigation (>9,000 gallons) | | 8.14 | 7.11 |
| <i>Outside City</i> | | | |
| Block 1 (0-6,000 gallons) | | \$6.10 | \$5.89 |
| Block 2 (6,001-8,999 gallons) | | 7.93 | 8.53 |
| Block 3 & Irrigation (>9,000 gallons) | | 9.77 | 8.53 |
| Commercial Volume Charges: | | | |
| Commercial (Inside City) | | \$5.06 | \$4.69 |
| Commercial Irrigation (Inside City) | | 8.14 | 7.11 |
| Industrial Volume Charges: | | | |
| | | \$4.20 | 3.90 |
| Harrisburg Volume Charge: (capacity per contract) | | | |
| | | \$2.99 | 2.74 |
| Drought Surcharge: 10% surcharge added to Blocks 2 & 3 of residential rates | | | |

If adopted, the increase in the residential volume rate shown above will result in a \$0.86 cent monthly increase in a residential water bill with a monthly household consumption of 4,800 gallons. The total water bill for a monthly household consumption of 4,800 gallons will increase \$1.39 if the proposed volume rates and base charges are adopted.

In addition to the impact of Philip Morris, the Wastewater budget must cover the full cost of the issuance of Revenue Bonds (and the associated debt service) for the construction of a major pump station south of NC 49. This pump station and related lines eventually will be paid for by the growth in the area served, however, with the severe slowdown in the housing market this pay back will be extended beyond what was originally anticipated. This is a challenge as the newer subdivisions generating this infrastructure need were approved by Cabarrus County. Of course this was before the development of the Central Area Plan with the County.

| Wastewater Base Charges (per meter size) | | | | |
|---|----------------------|----------------------|----------------------|----------------------|
| | <u>Inside City</u> | | <u>Outside City</u> | |
| | Proposed FY10 | Approved FY09 | Proposed FY10 | Approved FY09 |
| 3/4" | \$3.39 | \$2.80 | \$3.80 | \$3.36 |
| 1" | 4.80 | 4.03 | 5.49 | 4.84 |
| 1 1/2" | 8.02 | 6.83 | 9.35 | 8.20 |
| 2" | 12.05 | 10.40 | 14.18 | 12.48 |
| 3" | 21.51 | 18.86 | 25.53 | 22.63 |
| 4" | 34.99 | 30.92 | 41.71 | 37.10 |
| 6" | 68.40 | 60.81 | 81.80 | 72.96 |
| 8" | 108.65 | 96.80 | 130.10 | 116.16 |
| 10" | 155.74 | 138.92 | 186.61 | 166.70 |

| Wastewater Volume Charges | | |
|--------------------------------------|----------------------|---------------------|
| Uniform Volume Charges: | Proposed FY10 | Adopted FY09 |
| <u>Uniform Rate</u> | | |
| Inside City Rate (per 1000 gallons) | \$5.09 | \$4.86 |
| Outside City Rate (per 1000 gallons) | 6.11 | 5.83 |
| Flat Sewer Charge Inside: | \$33.96 | \$32.08 |
| Flat Sewer Charge Outside: | \$40.75 | \$38.50 |

The impact of these challenges on the Wastewater Fund is the elimination of some key capital projects. The highest on the priority list, Irish Buffalo Creek and Zion Church Road, are rehabilitation projects that have been on the radar screen for several years. Two other projects that were cut are for sewer main relocations for the Westside Bypass (George Liles Parkway) project between Weddington Road, and Roberta Road. These involve installing new gravity mains under the proposed road alignment. This would eliminate the need for return after the road is constructed and have to bore the road, resulting in increased costs. The key to this delay is when the State will actually start construction on this project.

If staff has been overly conservative in projecting wastewater revenues and we generate more than anticipated, the recommendation will be to revisit these capital projects during the fiscal year. These are crucial to the future of the system and should be constructed if funds allow.

If adopted, the increase in the residential volume rate shown above will result in a \$1.10 monthly increase in a residential wastewater bill with a monthly household consumption of 4,800 gallons, which is higher than Concord's drought average use of 4,100 gallons per month. If the proposed base charges and volume rates are adopted, a wastewater bill for a residential customer with a consumption of 4,800 gallons will see a monthly increase in their bill of \$1.69.

The electric fund budget recommended is structured to maintain current levels of services. Otherwise it is pretty much a "bare bones" amount when it comes to operations and capital.

Concord, along with several other North and South Carolina communities, purchases power wholesale from Duke Energy. These rates are regulated by the Federal Energy Regulatory Commission (FERC). Since 1996, this contract has been largely "fixed" with the major variable being fuel adjustment costs. Between 2002 and January, 2009 wholesale unit costs from Duke increased by 26.4 percent due to fuel adjustments. During the same time period, Concord increased its retail unit costs by only 6.9% through operational efficiencies and the growth in the system. The previous contract with Duke Energy expired and, effective January 1, 2009, Concord and the other communities are now operating under a new contract which resulted in an additional increase in wholesale costs in excess of 6 percent.

As a result, the City experienced an increase in wholesale costs of approximately 18.5 percent during calendar year 2008. Under the new contract, Duke will continue to adjust wholesale costs, as approved by FERC, effective in January of every year. Despite past efforts to hold down retail costs and cuts in the FY 2008-09 budget of over \$2,000,000, it became necessary to begin raising retail rates to better reflect the rising wholesale costs in order to maintain current customer service and system maintenance levels. Council approved an overall 9% increase effective in effective May 2009.

Future adjustments will be considered based on a cost of service analysis taking into account the Duke changes in January of every year. Due to Duke's schedule for wholesale increases, this budget reflects another 7% retail rate increase to be effective January 1, 2010. Recommended expenditures reflect maintenance of current service levels, with very little capital expenditures and cuts exceeding those made in FY 2008-09.

The good news regarding the electric fund is the City has invested in the system to prepare for future growth and future revenues, so when the economy turns around these investments will start paying off.. In addition to the major 100 KV project that has been underway for several years to ensure system reliability for existing customers, several major projects have been completed. For example, Substation O on Ivey Cline Road, a project exceeding over \$6 million in cost, is operational and provides additional capacity in one of the fastest growing areas of the City, including the adjacent wind tunnel. The replacement of Substation L is also complete. Finally, the City is completing the last of three phases on a switchgear conversation. Three of the City's electric substations had critical 15 KV switchgears that were approximately 35 years old and in need of replacement. The project included retrofitting these substations with an open air switching grid design. Because of the City is making these investments now the physical integrity of the system is well positioned for the future.

There is no increase recommended in the stormwater fee that was implemented in FY 2005-06 to meet the mandated Phase II stormwater requirements. It is recommended that the fee remain at \$4.30 per Equivalent Residential Unit. Revenues in FY 2009-010 will be used for required system mapping, for maintenance projects, to match federal dollars for stream restoration projects and to expand maintenance of the existing system.

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 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 updated and presented herein for your review.

BALANCED BUDGET FOR FY 09-10

| Fund | Revenues | Expenditures |
|---------------------------------|----------------------|----------------------|
| General Fund | \$ 65,402,191 | \$ 65,402,191 |
| Municipal Service District | 74,650 | 74,650 |
| Home Consortium | 383,190 | 383,190 |
| CDBG | 544,800 | 544,800 |
| Transportation Improvement Fund | 2,398,761 | 2,398,761 |
| \$5 Vehicle Tax Fund (Transit) | 250,000 | 250,000 |
| Stormwater Fund | 3,476,180 | 3,476,180 |
| Electric Fund | 67,960,984 | 67,960,984 |
| Water Fund | 18,609,500 | 18,609,500 |
| Wastewater Fund | 13,910,725 | 13,910,725 |
| Golf Course Fund | 2,550,399 | 2,550,399 |
| Transit Fund | 2,505,798 | 2,505,798 |
| Aviation Fund | 8,909,766 | 8,909,766 |
| Public Housing | 1,067,500 | 1,067,500 |
| Section 8/Vouchers Program | 3,502,492 | 3,502,492 |
| Total Budget | \$191,546,936 | \$191,546,936 |

EXPENDITURE HIGHLIGHTS BY FUND

GENERAL FUND

General Government: This function accounts for \$8,947,708 or 14% of the General Fund budget.

Highlights include:

- *Governing Body* – Continue to lobby for federal funding of priority projects.
- *City Manager's Office* – Continue emphasis on providing excellent external and internal customer service while controlling expenditures to match reduced revenues.
- *Public Services Administration* – Reorganize office space to eliminate contract temporary labor and improve efficiency of administrative assistants and customer service co-workers.
- *Human Resources* – Continuation of programming/initiatives designed to facilitate employee wellness, reducing health care costs to the co-worker and the City.
- *Human Resources* - Offer smoking cessation initiative to co-workers.

Public Safety: This function accounts for \$32,047,157 or 49% of the General Fund budget.

Highlights include:

- *Police* – Maintenance of the one car per officer plan in the Police Department through the purchase of 15 replacement vehicles.
- *Police* – Addition of School Resource Officer position for Cox Mill High School; salary and benefits are funded by Cabarrus County Schools. City expenses are for uniform, equipment and vehicle only.
- *Police* – Replacement of one-half of the ballistic vests for patrol and other officers. There is potential for the other half to be replaced with grant funding. Also funds replacement of ballistic vests for the SWAT team.
- *Police* – Purchase of 15 Mobile Computer Terminals (or MCT's) and software licenses to allow officers to work more effectively from the field.
- *Police* – Continue Project Safe Cabarrus utilizing funds from Cabarrus County, Kannapolis, and Concord, as federal funds have expired.
- *Emergency Communications* – Replacement of 911 PSAP Switch equipment by joint-installment purchase with the City of Kannapolis.
- *Fire and Life Safety* – Funds to reclassify three existing Firefighter positions to Captain as the department combines several two-man rescue squads into one fully staffed rescue company.

- *Fire and Life Safety* – Purchase of a Triple-Combination Pumper to replace an existing front-line unit that is beyond its useful life - \$503,560.

Public Works: This function accounts for \$15,048,944 or 23% of the General Fund budget. Highlights include:

- *Transportation* – Additional \$500,000 in funds for street resurfacing (due to high cost of materials and declining Powell Bill funds).
- *Transportation* – Update Lake Concord Road signals to include fiber for Hwy 29 to NC3 systems - \$205,000.
- *Transportation* - Continue guardrail installation/maintenance program and program for rehabilitation of sidewalks.
- *Transportation* – Provide partial funding (with Powell Bill funds) for three replacement dump trucks and one pickup truck in the Streets and Traffic Division.
- *Transportation* – Equipment to distribute salt-brine and remove snow along city streets more effectively during inclement weather.
- *Transportation* – Continue funding for prismatic high-intensity retro-reflective sign sheeting for new and replacement signs (in compliance with new federal regulations).
- *Solid Waste and Recycling* – Complete efficiency study that will identify opportunities to reduce costs and improve productivity.
- *Solid Waste and Recycling* – Reduce contract labor by \$101,000 by reorganizing crews.
- *Cemeteries* – Complete final phase of cemetery street resurfacing, using a combination of perpetual care and operating funds.
-

Economic and Community Development: This function accounts for \$3,023,545 or 4% of the total General Fund budget. Highlights include:

- *Business and Neighborhood Services* - Provide \$80,000 in funds to supplement Energy stimulus funding for the Logan Day Care Center exterior improvements.
- *Business and Neighborhood Services* – Continue to explore the feasibility of extending light rail transit into Concord.
- *Business and Neighborhood Services* – Continue to build on the Neighborhood Program through liaison support, matching grants, facilitation of information sharing among recognized neighborhoods and code enforcement.
- *Economic Development* - Market Concord as a desirable place to do business through the City's Business Website and through print, as well as electronic media to stimulate new investment and job creation.
- *Economic Development* – Continue facilitation and funding for development incentives to new and expanding industries approved by City Council.
- *Economic Development* – In partnership with infrastructure departments, begin work on the McCachern Street Streetscape and road improvements including islands, landscaping and a traffic circle.
- *Economic Development* – Continue purchase and/or demolition of property on Cabarrus Avenue to promote beautification and redevelopment opportunities.
- *Development Services* – Evaluation of development review permit fees and determination of various cost-recovery plans for Council's consideration. Funds provided in FY09 budget.
- *Development Services* – Provides \$16,000 in funding for the Historic Designation of Downtown Concord.

Cultural and Recreation: This function accounts for \$6,339,837 or 10% of the total General Fund budget. Highlights include:

- Set aside Capital Project funds for future greenway acquisition/construction and purchase of park property as identified in the Livable Community Blue Print.
- Provide \$40,000 in funds to supplement Energy Stimulus funding for the Logan Recreation Center exterior improvements.
- Improvements to the following facilities: interior improvements to the west side of the Logan Recreation Center, stream restoration for Afton Run at Dorton Park, and the enclosure of the rear stairwell at Hartsell Recreation Center. Improvements total \$697,000.

Other General Fund Financing Uses and Debt Service

Other Financing Uses: This function accounts for \$6,835,974 of the total General Fund budget. Highlights include:

- Transfer funds from the General Fund to the Transportation Improvement Fund for transportation projects - \$2,098,760.
- Transfer funds from the General Fund for the Rider Transit System - \$317,820.
- Transfer funds from the General Fund to the Aviation Fund to assist with operations/debt service - \$699,091.
- Transfer funds from the General Fund to assist with the debt payment for Rocky River Golf Club - \$875,303.
- Transfer funds from the General Fund to the H.O.M.E. Consortium Fund to help support eligible affordable housing activities in Concord - \$45,000.
- Transfer funds from the General Fund to the Parks & Recreation Capital Projects Fund for future land acquisition and projects - \$850,000. This amount is included under the Parks and Recreation budget for FY 2009-10.
- Transfer of \$1,230,000 in City Landfill Host Fee revenue (appropriated through Fund Balance) to the appropriate project fund for the realignment of Morehead Road.

Debt Service and Transfers to First Concord for Debt Service: This function accounts for \$4,428,797 of the total General Fund budget. Highlights include:

- Lease-purchase payments for fire station construction, vehicles, heavy equipment, and fire station furnishings in the General Fund - \$272,942.
- General Obligation bonds for Parks and Recreation projects - \$163,395
- 1998A and 2002B Revenue Bonds for the Alfred M. Brown Operations Center - \$287,635.
- 1998 Variable Rate COPS for Transportation improvements - \$655,491.
- 160A-20 COPS for Fire Department projects - \$828,974.
- 160A-20 COPS for Parks & Recreation - \$376,353.
- 160A-20 COPS for Downtown Parking Facility - \$539,808.
- 160A-20 COPS for Police Headquarters and Communications Radio Shop Improvements - \$1,238,677

MUNICIPAL SERVICE DISTRICT FUND: The Municipal Service District fund for FY 2009-10 totals \$74,650 compared with \$75,400 for the current, amended FY 2008-09 budget. This fund serves as a pass through agent for the Concord Downtown Development Corporation. The Municipal Service District tax rate is recommended at \$.018 for FY 2009-10, the same rate as FY 2008-09.

CDBG FUND / HOME FUND: The CDBG and HOME Funds for FY 2009-10 total \$927,990 compared with \$852,934 for the current, amended FY 2008-09 budget. Additional funds were received to the CDBG Fund as part of the Federal Stimulus package. Highlights include:

- Continue to assist senior citizens and low to moderate-income families with emergency repairs to their homes.
- Build one new single-family home for rental through the Housing Department.
- Encourage homeownership for low to moderate-income buyers through down payment assistance using HOME and ADDI funds from the US Department of Housing and Urban Development.
- Provide funds for the acquisition and/or demolition of properties along Cabarrus Avenue.
- Continue redevelopment efforts in the Logan Community.

TRANSPORTATION IMPROVEMENT FUND: The Transportation Improvement Fund for FY 2009-10 totals \$2,398,761 compared with \$2,375,773 for the current, amended FY 2008-09 budget. Highlights include:

- Continuation of the Pedestrian Improvement Plan including extension of sidewalk infrastructure in high pedestrian travel areas around the City.
- Accumulation of monies from the Transportation Improvement Fund to fund the local match for Derita Road improvements due within the next 3-4 years (up to \$2.1 million).

- Participation in the NCDOT Congestion Mitigation Air Quality projects at Poplar Tent Road/ Highway 29 and Highway 601/Highway 3.
- Funding for Concord's share of the Burrage Road bridge replacement.

SECTION 8 VOUCHER FUND: The Section 8 Voucher Fund for FY 2009-10 totals \$3,502,492 compared with \$3,612,850 for the current, amended FY 2008-09 budget. Highlights include:

- Continue to promote self-sufficiency and achieve HUD's High Performer Status.
- Maintain successful Voucher program with over 550 units participating in the program.

\$5 VEHICLE TAX FUND (TRANSIT): The \$5 Vehicle Tax Fund (Transit) for FY 2009-10 totals \$250,000 compared with \$2520,000 for the current, amended FY 2008-09 budget. Highlights include:

- Funds are transferred as a pass through agent to the Public Transit Fund.

STORMWATER FUND: The Stormwater Fund budget totals \$3,476,180 for the FY 2009-10 budget year. This represents a decrease of 1.9% from the current, amended FY 2008-09 budget of \$3,546,010. Highlights include:

- Identify projects for application and participation in Clean Water Management Trust Fund opportunities
- Design and construction of two culvert replacement projects on Georgia and Young Streets - \$156,000 each.
- Continue to fund local match requirement of Army Corp of Engineers Concord Stream Restoration project.
- Continue to support public education and awareness of Concord's Stormwater program.
- Enclose a portion of the covered operations area to provide necessary climate controlled storage for equipment - \$40,000.
- Continue street sweeping and ditch maintenance operations to support continued improvement in community appearance.
- Replace two dump trucks - \$85,000 each.

ELECTRIC FUND: The Electric Fund budget totals \$67,960,984 for the FY 2009-10 budget year compared with the current, amended FY 2008-09 budget of \$65,391,595 (a 3.9% increase). Highlights include:

- Rising costs of wholesale purchased power from Duke Energy (estimated to be 17% increase over FY 2008-09).
- Funds for a Cost of Services and Valuation Study of the entire Electric System to be completed in the Fall of 2009 - \$325,000.
- Funds for a System Coordination Study (technical analysis) of the entire Electric System – first half to be completed in FY09-10 and the second half requested for FY10-11.
- Continue tree replacement program, which encourages tree canopy at a lower height, to minimize interference of trees with the reliability of the electric system.
- Continued (although reduced) funding to improve lighting along major streets and thoroughfares within the City.
- Provide an upgrade to the underground electric system for Concord's downtown area.

WATER FUND: The Water Fund budget for FY 2009-10 totals \$18,609,500 compared with the current, amended budget of \$20,150,830 for FY 2008-09. Highlights include:

- Protect and comply with Inter-basin Transfer Certificate.
- Begin construction of a new 2 MG elevated storage tank - \$5.2 million budgeted with 2008 Revenue Bonds.
- Provide funds for future waterline projects and rehabilitation of existing lines – \$405,000.
- Continue security enhancements of water treatments plants and distribution system. - \$55,000.
- Begin engineering of Yadkin River Waterline project upon approval of agreement.

WASTEWATER FUND: The Wastewater Fund budget for FY 2009-10 totals \$13,910,725 compared with the current, amended budget of \$15,981,371 for FY 2008-09. Highlights include:

- Continue to invest in slip lining for wastewater lines - \$504,662.

- Complete Right-of-way Protection Program, which will identify all properties within our service area that have sewer lines crossing the property.
- Expand flow-monitoring program to identify inflow and infiltration sources.
- Continue to improve system by replacing lines in various locations throughout the system - \$290,000.

PUBLIC TRANSIT FUND: The Public Transit budget for FY 2009-10 totals \$2,505,798 compared with \$2,278,930 for the current, amended FY 2008-09 budget. Highlights include:

- Continue funding Concord's share of "Concord Express" and Rider System.
- 9% increase in contract costs for Rider service due to expiration of CMAQ funding for Saturday and race week service, as well as 3.5% increase in the operational cost of the provider.
- Use of bio-diesel as a fuel source.
- With FTA funding assistance, complete design of and begin construction on a central transit center.

GOLF COURSE FUND: The Golf Course Fund budget totals \$2,550,399 for FY 2009-10 compared with \$2,792,470 for the current, amended FY 2008-09 budget. Highlights include:

- Maintain superior health rating through replacement of kitchen equipment.
- Control operating expense while experiencing 17% reduction in rounds played due to economic conditions.
- Market to new golfers through the use of internet and web site specials and by offering instructional clinics.
- Maintain ranking as one of the top 100 courses in North Carolina.

AVIATION FUND: The Aviation Fund budget for FY 2008-09 totals \$8,909,766 compared with \$15,496,875 for the current, amended FY 2008-09 budget. Highlights include:

- Maintain high quality service level while adjusting operational expenses to off-set reduction in business and fuel sales.
- Recruit new business through active marketing and making hangar space available.
- Complete point-of-sale software enhancements and interface for improved business transactions.
- Primary focus on safety, security and service.

PUBLIC HOUSING FUND: The Public Housing Fund for FY 2009-10 totals \$1,067,500 compared with \$1,186,509 for the current, amended FY 2008-09 budget. Highlights include:

- Implementation of the Logan Community Revitalization Plan with support from the neighborhood and guidance from HUD.
- Complete construction of a Technology Center within Public Housing (through HUD grant).
- Operate as a HUD high performer with a total of 174 Public Housing units and a waiting list of 565 applicants.

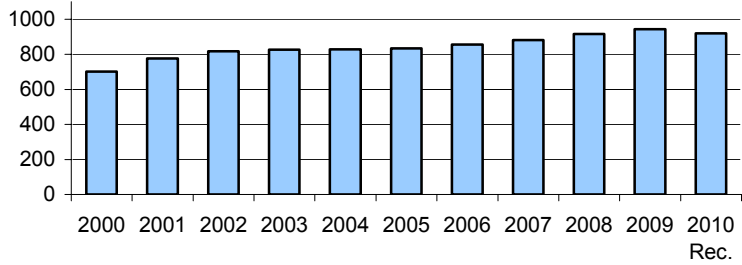
INTERNAL SERVICES FUND: The Internal Service Fund for FY 2009-10 totals \$11,212,601 compared with \$11,922,561 for the current, adopted FY 2008-09 budget (a 6% decrease). These amounts are charged back to user departments and are reflected in each department or fund's recommended budget amount. Highlights include:

- *Utilities Collections, Call Center & Customer Service* – Continued promotion of the Harris eCare software, which allows customers access to their account information and provide the customer with the ability to initiate various service requests.
- *Data Services* – Realized significant savings through renegotiation of maintenance contracts.
- *Data Services* - Replacement of a server for Engineering funded at \$20,000.
- *Fleet* – Retain same level of funding for fuel city-wide (projected budget of \$1.4 million).
- *Fleet* – Replace tractor-trailer with used tractor for departmental use - \$50,000.

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 no longer included under personnel. They now fall under the Operations category. For FY 2009-10, personnel expenditures account for \$54,211,084 or 28% of the total budget.

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

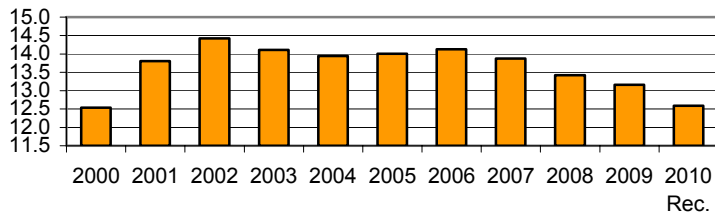


Due to the economy, it is recommended that the City not fund performance-based increases or make an overall adjustment to the pay structure in FY 2009-10. The City's annual salary survey did identify the need to adjust salaries for a few classifications that were found to be behind the labor market. Monies are budgeted to implement the study findings. Money is also included to continue the longevity plan for those hired before July 1, 1996.

It is recommended that those currently eligible for full LGERS retirement be offered twice their regular longevity payment if they decide to retire before September 1, 2009. The vacant position(s) will then be evaluated to determine if it can be frozen. Funds are also included for workers reaching predefined levels of achievement under approved career development plans. However, the salary adjustments available under some of these plans have been reduced.

The budget adds one School Resource Officer position (Police) to the budget, however salary and benefits associated with the position are funded fully by the Cabarrus County School System. No other new positions are recommended for funding in this budget.

Number of City Employees Per 1000 Population



A total of 919.35 full-time equivalent positions are recommended for funding, excluding the frozen positions listed below. At the present time, eighteen full-time and four part-time positions are frozen, with more subject to be frozen if they become vacant. The frozen positions are as follows:

General Fund (6 positions):

Finance:

- 1 – Accountant

Streets and Traffic:

- 1 – Utility Service Worker

Parks and Recreation:

- 1 – Parks and Recreation Specialist

Electric Fund (3 positions):

- 1 – Deputy Electric Director
- 1 – Electric Systems Technician I
- 1 – Project Engineer

Police:

- 1 – Customer Service Specialist

Solid Waste and Recycling:

- 1 – Utility Service Supervisor

Development Services:

- 1 – Development Services Manager (employee currently reassigned)

Water Resources Fund (2 positions):

- 1 – Staff Engineer
- 1 – Utility Service Worker

Aviation Fund (1 full-time, 3 part-time positions):

- 1 – Customer Service Specialist
- 1 – Aviation Assistant (3 positions – 20 hours/week each)

Wastewater Fund (1 position):

- 1 – Utility Service Worker

Internal Service Fund (5 full-time and 1 part-time positions):

Building and Grounds:

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

Engineering:

- 1 – Construction Inspector
- 1 – Staff Engineer
- 1 – CAD Analyst

Fleet:

- 1 – Fleet Services Supervisor (will fund 0.25 of position to fill in Spring of 2010)

We have restructured our premiums for the employee health care plan this year. Coworkers selecting dependent coverage under our main HRA health care plan will not see an increase in premium costs over last year. Employees continue to have the option of selecting this main plan at the lower cost and the City paying the full cost for the individual, or selecting an alternate PPO based plan at a much higher cost for family coverage and the coworker also paying most of the additional cost for the employee only plan. All plans are self funded and administered by Blue Cross/Blue Shield.

The Wellness Center for City co-workers and dependents on the medical plan is open in its new location near the Brown Operations Center. The service is provided by contracting with CMC-NorthEast for a nurse practitioner (or similar level professional) to perform such services as physical examinations, diagnose health problems and treat minor ones, order and interpret diagnostic tests, prescribe medications and provide health information and wellness training. While the clinic is not intended to replace the coworker's primary care physician, we do feel it will help control insurance costs, sustain the health of coworker's, reduce absenteeism and improve productivity. It is estimated the 2,339 visits in calendar year 2008 resulted in \$21,875 co-worker savings, \$119,837 HRA Fund savings, \$56,747.22 in productivity gained. There were also 18 referrals to the emergency room for critical situations.

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.

There is one extremely important requirement related to retiree benefits that must continue to be monitored. The Governmental Accounting Standards Board (GASB) has issued statements governing reporting for state and local government benefits for retirees. The Standards require these benefits to be accounted for over the service of the employee to whom the benefits will become payable. The biggest area of concern is the impact of retiree health benefits. The City must report the projected funding necessary to set aside to provide the benefit as it accrues over the working career of coworkers. Consistent with the practice of most municipalities, Concord is funding the direct cost of these benefits annually as they are incurred as opposed to attempting to fund them on an actuarial cost basis.

As with other retiree benefits, these health care plans have gone through drastic changes over the years. They 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, nearly 80% of State governments do so and 60% of local governments provide it at some level.

There is no requirement to set aside money to fully fund these benefits on actuarial basis; however, the estimated costs must be noted in financial statements as an unfunded liability. As a result, some point out the possibility of impacting future credit ratings.

It appears right now that most of those warning of the potential deterioration of credit ratings are companies that manage trusts that can be established by local governments to set aside funds dedicated for retiree health purposes. For this reason, we need to be cautious before deciding to fund this on an

on-going basis. 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 be able to participate in the future if it decides to do so. In the meantime, staff will monitor what other local governments are doing in response and evaluate the use of this trust.

MAJOR REVENUE SOURCES

General Fund: The General Fund budget for the 2009-10 fiscal year totals \$65,402,191 compared to the amended budget of \$68,165,910 for FY 2008-09. This is a decrease of \$2,763,719 or 4% less than current amended budget. The decrease in the City's General Fund budget is a result of significant budget cuts in departments that are necessary due to a projected decline in revenues. Current economic conditions have decreased development revenue and sales tax distributions. The City is also preparing for the Philip Morris plant closure in July which will impact property tax receipts. The City has estimated revenues conservatively using information provided by the North Carolina League of Municipalities, historical and statistical trends, and other local factors. Again, this budget was prepared under the assumption that the City of Concord will receive all of its State shared revenues for the 2009-10 fiscal year.

Property Taxes: The budget is balanced with a property tax rate of \$.42 per \$100 valuation. This will yield \$42,436,224 in ad valorem tax revenue based on a collection rate of 97.70%. The tax base used in this budget preparation represents a 2% increase in property values for a total valuation of \$10,493,796,139 (including motor vehicles). One cent on the City's tax rate produces \$1,019,207 in revenue, after the City's estimated collection rate is applied. This rate compares favorably to past City tax rates and is one of the lowest in the state among medium to large size cities.

Sales Taxes: Local sales taxes levied by the City and County comprise 2.25% of the total 6.75% sales tax paid on retail sales in North Carolina. The local sales tax portion consists of a 1-cent tax that was first levied in 1971, a ½-cent tax levied in 1983, a ½-cent tax levied in 1986 and an additional ½-cent that was levied July 1, 2003. Effective October 1, 2008, the State will take over one quarter cent of the Article 44 local option sales tax and effective October 1, 2009 the state will take over the remaining one-quarter cent of this local tax. The City will be completely reimbursed for the loss of this revenue with hold harmless payments. The State of North Carolina collects the sales taxes and distributes them to the local units. Sales taxes are estimated to be \$11,976,880 for fiscal year 2009-10. Sales tax allocations for Cabarrus County are based on proportional property tax levies. The City has projected very little growth in sales tax allocations for FY 2009-10 when compared to FY 2008-09 anticipated collections. No major tax increases were adopted in other jurisdictions located in Cabarrus County in the past fiscal year, but the current economy indicates a that spending will remain low in the county. The City continues to apply a conservative approach when estimating this revenue source, as it is difficult to project when the current economy will rebound. The county as a whole experienced sales tax declines of around 6% as of May 2009 distributions.

Legislation passed during the 2001 session repealed the utility franchise tax on telephone companies and replaced it with a sales tax on telecommunications of 6% of gross receipts (now 7%). The estimated telecommunications sales tax included for FY 2009-10 is \$468,000.

Utility Franchise Tax: As of July 1, 1999, each city's share of the utility franchise fee is based on actual receipts from companies that furnish electricity. The State levies a 3.22% franchise tax on the total gross receipts of all businesses within the State that furnish electricity. An amount equal to 3.09% of the total gross receipts of electricity service derived from the sale within any municipality is distributed to the municipality in which these gross sales are made. These funds are collected by the State and are distributed to the City of Concord based on the actual receipts from the providers for services provided within the city limits. This revenue source is expected to be \$1,500,000 for FY 2009-10.

Powell Bill Street Allocation: These funds represent redistribution by the State of a portion of the motor fuels taxes collected. The use of these funds is restricted to maintaining, repairing, constructing, reconstructing or widening any public street or thoroughfare within the City limits. Bridges, drainage, curb and gutter and other necessary appurtenances are also approved uses of these funds. One-quarter of distribution is based on the number of miles of local streets in the City and the remainder is distributed on a population basis. These funds are expected to provide \$1,828,265 for FY 2009-10.

Privilege License Taxes: Each business activity operating within the City limits is required to purchase a privilege license to conduct such business. These taxes are a revenue measure provided to cities by the North Carolina General Statutes. Staff recommends continuing a gross receipts basis for our privilege license ordinance. A total of \$900,000 in revenues has been estimated in this budget.

Fund Balance: The City's undesignated General Fund balance was \$30,965,709 as of June 30, 2008. It is anticipated that the City will meet our target goal of a 30-35% minimum General Fund undesignated fund balance at June 30, 2009. Our ability to maintain a healthy fund balance in previous fiscal years was attributable to the economic vibrancy present in the City of Concord and increases in available cash for investments, collection percentage of property taxes, and conservative estimates on revenues. As the City is now experiencing a slowing economy, our conservative policies and procedures are even more important. The recommended budget does appropriate \$1,500,000 from General Fund balance for one time capital project expenditures. In FY2007-08 the City created a General Fund Reserve to begin preparing for future projects. Although these reserves (approximately \$3,600,000) now reside in a fund other than the General Fund, and are no longer included in the City's General Fund Balance, the amounts are still available for projects designated by the City Council.

Special Revenue Funds: Municipal Service District tax will remain at the current level of \$.18 per \$100 assessed valuation to \$.18. Also, included in the Special Revenue Fund is the budget request for Community Development Block Grant Funds, the H.O.M.E. Program, the Transportation Improvement Fund, the \$5 Vehicle Tax fund (Transit), and the Section 8 Housing Vouchers program. The special revenue funds total \$7,153,893.

Enterprise Funds: Stormwater, Electric, Water and Wastewater rates and charges will generate \$100,767,650 in revenues.

Stormwater: The Stormwater Fund is comprised of \$3,460,280 in operating revenue and \$15,900 in non-operating revenue. No rate or fee increases are proposed for the Stormwater program.

Electric Fund: The Electric Fund is comprised of \$67,385,984 in operating revenues and \$575,000 in non-operating revenues, with no appropriation from retained earnings. Electric revenues are estimated using the current rates for similar customer classes as currently charged by Duke Power. The proposed budgeted revenue includes an anticipated rate increase of 7%, which will be effective with the January billing.

Water Fund: The Water Fund is comprised of \$17,910,600 in operating revenue, non-operating revenue of \$698,900, and no appropriation from retained earnings. Water revenues are estimated using a 4% growth in consumption. An increase in water rates is recommended as reflected in the Schedule of Fees and Charges effective July 1, 2009. A rate increase is recommended to fund increased maintenance and capital needs. Economic conditions and conservative usage practices continue to affect the City's revenue in the water fund.

Wastewater Funds: The Wastewater Fund is comprised of operating revenue of \$13,709,225, non-operating revenues of \$201,500, and no appropriation from retained earnings. Wastewater revenues are estimated using a 4% growth in consumption. An increase in wastewater rates is recommended as reflected in the Schedule of Fees and Charges effective July 1, 2009. A rate increase is recommended due to an increase in maintenance and capital needs.

Public Transit: The Public Transit budget is comprised of \$200,000 in operating revenue, \$1,737,978 in restricted intergovernmental revenue, and transfers of \$567,820. In FY 2009-10, Concord's General Fund contribution to the Transit system is \$317,820. No fare increases are proposed for the Transit System.

Golf Course: The Golf Course Fund anticipates continued decreases in earned revenue budgeted in FY 2009-10 of around 13% when compared to the proposed budget of the prior year. The down turn in the economy has affected rounds played and the business at the golf course. Revenue projections are conservative and as the economy rebounds, so will activity at the Golf Course. Total revenues are estimated at \$1,640,045 from operations and an additional transfer from the General Fund of \$875,303 designated toward debt service.

Aviation: The Aviation budget is comprised of \$8,202,475 in operating revenue, and a transfer of \$699,091 from the General Fund. No fee increases are proposed for Aviation. Fuel Sales have been budgeted conservatively as the slow down in the economy has also affected activity at the airport.

Internal Services Fund: The Internal Services Fund – comprised of Data Services, Customer Service, Utilities Collections, Billing, Engineering, Fleet Services, Call Center, Buildings and Grounds and Purchasing – totals \$11,212,601 or a decrease of 6% over the current year adopted budget. These budgets have been reduced as the City continues to operate as efficiently as possible during the economic down turn. All costs within this fund are allocated among the Electric, Water, Wastewater, Stormwater, Aviation and General Funds based on percentages derived from a cost allocation method.

All rates, fees, and charges are listed in the Schedule of Fees and Charges.

KEY CHALLENGES FOR FY 2009-10 and BEYOND

This budget recommendation is based on a number of assumptions. The recession and the resulting uncertainties of the economy, the impact of the same on State government services and revenues, funds from the Federal stimulus package, the closure of Philip Morris, the timing of essential transportation projects, the need for new water sources, etc. are just a few of the challenges that will impact future revenues, and future budgets. In FY 2008-09, staff went through many of the same processes needed to put together a budget several times to respond to changing economic conditions and uncertain revenues. With the economy still in flux, this could very well happen again this fiscal year.

THE ECONOMY, REVENUES AND PHILIP MORRIS

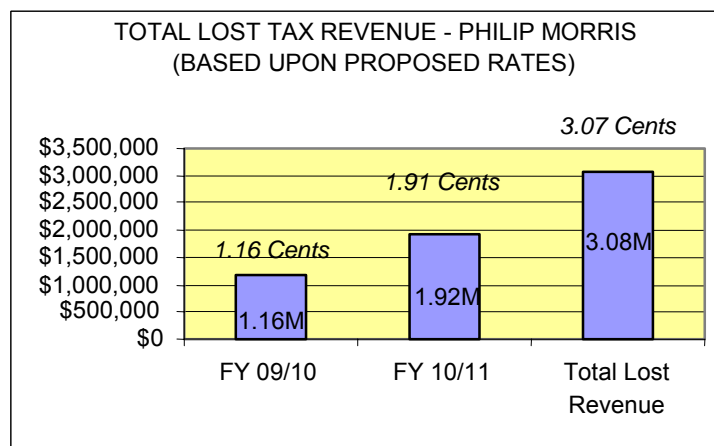
It goes without saying that the economy will be the biggest factor impacting future Concord budget recommendations. The economic conditions have hurt sales and property tax collections. Visitors and residents either losing their jobs or being reduced to part-time status leads to less disposable income. It has also leveled off any growth in utility revenues as businesses and residents require less use. While some feel the economy is stabilizing at this point, it is not clear if we are starting to come out of the recession or not.

Some of the most unpredictable revenues at the time of the presentation of this budget are those distributed through the State of North Carolina. The State's FY 2009-10 budget shortfall continues to grow. We know that some local revenues, such as Powell Bill receipts, are going to be down once again due to economic conditions and changes in driving habits. The great fear is that the General Assembly will decide to keep local revenues that are collected by the State and/or will decide to force local governments to take over services provided by the State in order to balance their budget. A prime example is the 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 with 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.

In late June of 2007, Philip Morris announced it would cease operating its manufacturing facility in Concord by the end of 2010. In April of this year Philip Morris announced this closure would occur this July. This “double hit” of the recession and the loss of Concord’s largest taxpayer and one of the largest water and sewer ratepayers is substantial.

Philip Morris currently represents \$4,577,798 in tax revenues for Concord. This is broken down with \$2,242,608 attributed to real property and \$2,335,190 to personal property. The challenge in front of us is preparing for the loss of this revenue. It is safe to project that most of the \$2,335,190 in personal property taxes will be gone for FY 2010-11. It is HIGHLY likely the company will argue about the taxable value of their real property once the factory is closed, so the impact may very well be much larger. All this will be a hot topic for discussion next fiscal year but this budget anticipates those issues by limiting the number of new reoccurring expenditures in this recommendation. However, just a few years ago the overall property value at Philip Morris represented as much as 28% of Concord’s tax base, which shows the positive value of the City’s diversification efforts.

While proportionally the impact on overall water and wastewater revenues is not as great as the eventual reduction in tax base, the loss is immediate. A combined \$1.8 million will be lost due to the closing of the plant in FY 2009-10. This led to the recommendation to cut costs significantly in both FY 2008-09 and 2009-10 and the necessity of increasing rates.



FEDERAL STIMULUS MONEY

Concord has been aggressive in pursuing Federal stimulus money intended to spark economic activity across the country. The City has already received word on over \$1million in formula allocations. Most of these funds are not reflected in this recommendation because the expenditures have not been finalized and approved by the appropriate Federal agencies. The formula allocations are from the Byrne Justice Assistance program, Energy Efficiency and Conservation Block Grants, Community Development Block Grants and the Public Housing Capital Fund, which can only be used on public housing property.

The only non-formula grant received as of mid-May, 2009 is a \$200,000 Brownfields Assessment Grant for private sector entities to conduct Phase 1 and, if needed, Phase 2 environmental assessments on privately owned property. The City has submitted a grant for three (3) police officer positions under the COPS program, a grant for transit technology and furnishings under the FTA – Section 5307 and has applied through the State of North Carolina for water and wastewater infrastructure funds. The City will likely submit applications for FAA monies for the Airport, FEMA for fire station construction or renovation, and to HUD for additional dollars for public housing. Unfortunately the City is waiting on round two for the water and wastewater grants and for the HUD Neighborhood Stabilization Program as funds were allocated to others in round one.

THE DEVELOPMENT OF NEW WATER SOURCES

Concord remains a leader in water conservation. This includes using aggressive water pricing techniques to encourage conservation. Concord constantly reviews the tiered rate system and may recommend some amendments to make it even more effective. Hopefully, more of the other regional local governments will also adopt conservation pricing structures rather than continuing to rely on the “Wal-Mart” style of selling volumes at very low prices. Our residents practice a high level of conservation, resulting in low average monthly household usage.

Concord continues to negotiate with potential partners to arrange to purchase treated water in compliance with the Concord/Kannapolis Interbasin Transfer Certificate. This budget anticipates beginning the engineering work to connect to the Yadkin River. Connections already exist on the Catawba though they were not used during FY 2008-09 except for maintenance purposes. Obviously, obtaining water capacity from other systems will not be cheap. Water rate increases have to be evaluated annually against the amounts needed for any debt payments that may be later associated with the projects and to meet increasing environmental standards. It is likely upfront capacity purchases and related financing will have to take place with Concord’s wholesale customers participating based on their desired capacities. It is a reality that Cabarrus County has no additional water sources within its boundaries and we must go outside to obtain water. As a result, water continues to be more expensive in Cabarrus County than it is for its neighbors that are adjacent to free water sources fed by larger rivers.

GROWTH MANAGEMENT

Growth management has been one of the biggest challenges facing Concord over the last ten years and has been a highly charged issue Countywide. Past budget messages have documented the impact of decisions made several years ago that extended infrastructure and built schools in the northwest section of the County, opening up a large area to residential growth. Concord was forced to adopt a reactionary mode and countered with measures to ensure higher quality infrastructure and amenities within its growth area. Since then, Cabarrus local governments have come a long way in trying to control housing densities and requiring higher development standards in rural areas. While the recession has demonstrated the need for continued growth to sustain services and to diversify the economy, it is important to step back and take this opportunity to plan.

The challenge in growth management is directing development to areas where there has been investment in infrastructure and areas where the density can support municipal services, such as in the northwest, while discouraging growth in areas that do not. In the fall of 2007, Concord and Cabarrus County agreed to amend its legal settlement agreement to prevent the approval of major subdivisions for eight months in an area to the east and south of Concord. The resulting “Central Area Plan” discourages development at suburban densities in this area to promote in-fill development in other locations where infrastructure already exists.

This effort also points out the complexities of growth management vs. the realities of financing infrastructure. In one part of the study area, Cabarrus County already approved residential developments causing Concord to have to construct a sewer system to serve the area. Concord designed the system to minimize the use of pump stations for environmental reasons. The slowdown in the housing market has impacted the payback, so wastewater revenues are lower than projected. This was one factor leading to a rate increase. If these other subdivisions were not approved, the City would not have had to react to the infrastructure needs, thus delaying the construction of the line. County policies must take municipal infrastructure costs into consideration when impacting land uses.

ANALYSIS OF ELECTRIC SYSTEM

As noted earlier, Concord has entered into a new day in regard to the financial structure of the electric system. The City has continued to invest in this system to be positioned for future growth and new customers, and to continue provide extremely reliable power to our existing customers. At the same time, alternative fuels and energy conservation has also become a focus.

The City has a new purchased power contract with Duke Energy. This new contract is based on Duke Energy's system average cost. Costs will be tied to Duke's expenditures and will go up as they seek to develop new sources of generation. This has increased the cost to Concord and added to the significant fuel adjustment increases Duke imposed over the past several years. It will also somewhat diminish the City's ability to save money by shaving peak usage, while allowing Duke to use the City's peak shaving resources on a defined basis. The result is Concord will need to evaluate the need for rate increases on an annual basis based on the cost of providing service. This budget reflects revenues from a 7% rate increase effective January 1, 2010.

City Council has approved a comprehensive study of anticipated trends in the overall electric wholesale and retail markets to compare to the financial experience of the Concord system to help evaluate future directions related to this service. The City will be releasing a Request for Qualifications (RFQ) for a firm to assist in taking a comprehensive look at the financing of our electric services that would include, but not be limited to, a cost-of-service and revenue study, comparison of service levels and efficiencies with other benchmark electric providers, the direction of the US electric market both on the wholesale and retail side, the financial interrelationships between the Concord electric system and other City utility and non-utility functions, legal issues, the value of the current system, and the pros and cons of operating a municipal system in today's market. The RFQ will identify the study phases and ask companies to respond to the viability of a proposed target completion date of December 31, 2009.

SOLID WASTE

Last year staff recommended the City enter into a shorter contract period for residential garbage collection. Council adopted a goal to comprehensively examine the different solid waste services and how they are delivered. With changes in technology and additional mandates on separation of waste, it is time to look at all services provided from a global view and irrespective of the current provider. Staff is recommending that HDR Engineering assist with this effort. Because residential garbage collection and recycling is contracted and the rest of the residential services are in-house, Concord has one of the most unusual combinations used for service delivery in the State. Also, environmental regulations continue to change and collection methods must adapt. For example, electronics will be banned from landfills starting in 2012, which will require a different collection method.

The City needs to take a close look at the methods used to provide these services. The incremental difference per cart between what we are doing now and going with an automated truck and scheduled collection of bulky waste is \$.39 per cart per month, plus the increase in fuel cost associated with the current method. This starts to multiply rapidly during higher growth periods. Using automated equipment and scheduling more services rather than running fixed routes can save money and the City must seriously consider these changes if it is to continue a high level and great variety of residential solid waste services. Also, the City needs to seriously consider going to a single stream recycling collection system both to encourage a higher level of recycling and, one day, reducing the need for weekly collection of recyclables. This process uses roll out containers similar to that used for solid waste, eliminating the need for the smaller bins as used now.

TRANSPORTATION

The North Carolina Department of Transportation has not been able to adequately fund road maintenance and improvements in many urban areas. The challenge is finding an equitable way to raise more dollars and distribute the funds according to need. However, the congestion problems exist today and there is a need to address them now. Some legislators feel the way to solve the funding issue is to reverse the State's historical role and to turn more of the responsibility over to municipalities and counties. One challenge is all counties, and many municipalities, have no staff and no capacity to take on this challenge. Since they not been in the business, or in the case of small municipalities, contract out the few projects they have, jurisdictions have no one to develop and monitor maintenance and improvement projects.

Where this local funding comes from is the bigger issue. If the State does not provide funding, or new funding options, then the burden will fall on the only revenue that local governments can control – the property tax. The NC Legislature controls how local governments raise revenues and some legislators continue to point out that most local government property tax rates are well below the State maximum limit. However, many local governments, like Concord, are already maintaining and improving roads using local property taxes. When you get to major roads the relationship between local property taxes and the use of these facilities is far less.

Concord has already invested 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 over 10 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 City projects such as the major extension of the NCDOT maintained section of Weddington Road.

For years, one of the most important projects in NC has been to widen the remaining four lane sections of I-85, largely through Cabarrus County, to match the rest of the highway from Durham through Charlotte. The Cabarrus Rowan MPO and the City of Concord established this as a high priority many years ago and have assisted NCDOT by directly lobbying for Federal funds. The first section from Exit 49 to Highway 73 is now funded and on the TIP to begin construction in 2011 (I-3803B). The reworking of the interchanges at Poplar Tent, Highway 73 and, we hope, related improvements to the area around Exit 49 are important components to all of Cabarrus County. City Council has already adopted a resolution in March of this year to participate with the construction of sidewalk and bicycle lanes on the NC 73 and Poplar Tent Road sections as part of the improvements to these interchanges.

Recently the City has worked to develop additional partnerships with NCDOT by providing local funds for major projects impacting other NCDOT roads. These projects will impact Concord budgets for several years. With the exception of Morehead Road, local dollars will come from the Transportation Fund. These are summarized below.

Projects on NCDOT Facilities that are Programmed with Concord Participation

Morehead Road – NCDOT is providing \$3.5 million dollars to relocate and improve the portion of Morehead Road running parallel to the Lowe’s Motor Speedway property. This improvement will enhance pedestrian safety and vehicular movements, particularly during Speedway events. It will also include changes that will improve traffic movements at all times, particularly at the intersection with US 29. The City of Concord has agreed to pay for additional engineering and to contribute another \$1.5 million to the construction project. A Memorandum of Understanding is being developed that will lead to a Municipal Agreement. It is anticipated the project will be bid by October, 2009 and will start immediately after the May races in 2010 with completion scheduled prior to the October 2010 race.

Derita Road (U-4910) – This is a project to widen a facility that is used as a connector between I-85 and I-77 and even I-485, is a main entryway to the Concord Mills area from northern Mecklenburg, southern Iredell and western Cabarrus counties, is a rapidly growing industrial area with many NASCAR related businesses including Sprint Cup teams and the NASCAR Research and Development Center located along the road, and provides the only access to Concord Regional Airport. Traffic congestion is choking this corridor and 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 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. This match is estimated to be \$2,136,763. Concord and NCDOT have entered into a Municipal Agreement. Concord staff is working with NCDOT PDEA on the Request for Proposals (RFP) to be received in later May or early June 2009, with right-of-way scheduled for 2011 and construction 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 tax base. This project, scheduled to begin construction in FY 2013, will connect this 2000 + acre property and others directly to I-85. With the promise of donation of land from the major property owners, Concord and NCDOT have worked out an arrangement where Concord will up-front the money to get this project accelerated (probably in excess of \$10 million), to be reimbursed at the end of the project once those funds are available as programmed in the TIP. NCDOT is working on the Municipal Agreement to formalize the agreement. We anticipate this partnership will eventually pay huge dividends for the State and the region.

CMAQ – Concord has worked with NCDOT on CMAQ projects to improve NCDOT facilities. These include the intersection of Poplar Tent and US 29 as well as the intersection of NC 3 and US 601, which are among the most congested in Cabarrus County. The City is also providing the local match for these, which equates to almost \$400,000.

Requested NCDOT Funded Projects to Supplement the Widening of I-85

There are two additional projects associated with the widening of I-85 that are crucial to meeting the transportation and economic development needs of North Carolina and Cabarrus County. Concord has requested that NCDOT fund these as a part of the I-85 project.

I-85, Exit 49 Interchange – Concord is asking for related improvements at this interchange to be included in the widening of I- 85 (I-3803 B) project. The improvements would take place between the first traffic signal to the north of the southbound Off Ramp on I-85 to Gateway Lane, NW south of the interchange. Concord Mills is the Number 1 tourist attraction in North Carolina. In addition, with the traffic generated by the Lowes Motor Speedway, the Zmax Dragstrip, the newly opened Great Wolf Resort, Concord Regional Airport and all the associated commercial and hotel business in the immediate area, Exit 49 is currently experiencing tremendous congestion problems. Current reports indicate that approximately 20 million visitors come to this area each year. To improve I-85 with a lane widening project and not provide critical, related enhancements to such an important receiving facility would be a wasted opportunity, especially in light of lower construction costs being seen at this time

I-85, Exit 52, Poplar Tent Road – the Poplar Tent Bridge over I-85 and the entire interchange is very antiquated and is targeted to be replaced as part of the I-85 project (I-3803 B). Just as important are improvements to Poplar Tent on both sides of I-85 to include the realignment of the Pitts School Road intersection on the east and improvements all the way to Derita Road on the west.

Concord Regional Airport is the busiest general aviation airport in North Carolina. It is a designated reliever airport to Charlotte Douglas and is vital to the servicing the motorsports cluster in the region and the North Carolina Research Campus. To maximize the previous Federal and City investment in extending the runway 1,900 feet at Concord Regional Airport, the section of Poplar Tent to be improved between I-85 and Derita Road also needs to be lowered at the end of the runway. This has been part of the plan for several years. The City has already lowered the water lines serving the area and the Duke Energy and City electric lines have been moved (at a cost of \$395,000) in preparation for the TIP project. The City is also working with the NC Division of Aviation to purchase air easements from Vulcan.

The final piece of the puzzle is to lower Poplar Tent. This will allow the full runway pavement to be usable. Currently there is a 650 foot displaced threshold due to the obstacles noted above. However, after all these years of coordinated planning, we have just learned from the NCDOT Project Development and Environmental Management Branch that it is their position the funds to lower the road must be raised from other sources even though other improvements to this segment of Poplar Tent are included in the I-85 project. It is crucial this be completed with I-85 to avoid a terrible waste of Federal and City resources used to prepare for the project.

Public Transit Including the Potential for Light Rail

Both the RIDER system and the Concord Express exploded in ridership during the first part of FY 2008-09 due to the rapid increase in fuel prices. The decline in fuel prices and the economy has reduced ridership from the peak levels, but the interest continues to be strong. The RIDER system will see the

start of the construction of the new Concord-Kannapolis Transit Center on Ridge Avenue. This facility, which will qualify for LEED certification, should provide more conveniences to riders and make the system more efficient.

Charlotte Area Transit System (CATS) has contracted to have the second phase of light rail development engineered. The Blue Line is to be extended from uptown Charlotte northeastward to I-485 at US 29 in the University area. Local governments in Cabarrus County and the Chamber of Commerce are collaborating to investigate extending the Blue Line even farther to cross I-485 into Cabarrus County. Meetings have been held with CATS officials, the consultant for the current Blue Line extension project and NCDOT Public Transit Division officials. CATS officials expressed interest in crossing I-485 to serve the Concord Mills / Lowe's Motor Speedway area. They indicated that light rail is feasible over a distance of 15 to 20 miles from the main transit center. That distance would encompass Concord Mills and Lowe's Motor Speedway, possibly even the Philip Morris property.

The first step for this possible additional extension will be to study the physical feasibility of constructing light rail over I-485. Topography and the width of I-485 present significant challenges. Timing for the feasibility study is hard to pin down at this time. NCDOT recommends not beginning the feasibility study until CATS gets confirmation expected in 2010 from the Federal Transit Administration that construction of the current extension project will be funded. In the meantime, the Concord-Kannapolis Transit Commission and the City of Concord have communicated to FTA their desire for this additional light rail extension. Efforts are underway to determine how the feasibility study might be funded.

CUSTOMER SERVICE AND CITIZEN COMMUNICATIONS

The City of Concord is a service organization and is accountable to its customers to provide quality service at an affordable price. This is no different from a private sector company except that many of our services can only be obtained through the City. Our coworkers are constantly reminded of this through our Mission Statement and Core values, our "Eyes and Ears" program, our Productivity Improvement Team (PIT Crew) and through training.

The organization continues its renewed 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 have developed training and recognition programs that are proving to be invaluable to maintaining a focus on service excellence. Customized training is being delivered in all departments by coworkers. In addition, the Special Thanks And Recognition program (STAR) is used to recognize coworkers who go above and beyond their regular duties.

A website redesign has been completed. Our population is increasingly dependent upon the website for information, paying bills and registration for services. We must have a user- friendly site that is easy to access.

Citizen communications will be even more 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 be used as citizens get their news from different media and most do not have the time to conduct lengthy searches for information. The City has just launched a blog to try to disseminate information to those using this medium and will be experimenting with limited use of social networking resources.

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 with service needs. The Center handled 151,338 calls from 01/01/08 - 12/31/08 for an average of 12,612 Automated Call Distributor (ACD) calls per month.

We are using the information from the Call Center to measure how well and how fast we are responding to calls for service against set response goals. This is another excellent measure departments are using to improve efficiency.

EXTERNAL AGENCY FUNDING

For FY 2009-10, external agencies requested \$220,070 from the City of Concord. This compares to the \$139,300 appropriated for such purposes in FY 2008-09. 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 municipal in nature in North Carolina. Community Development Block Grant funds can be used for human services, but they are limited to a certain percentage of the grant. CDBG funds have dwindled over the past years, but now stabilized, and the funds that are available are largely targeted to housing programs.

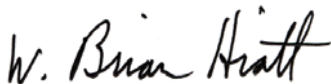
The recommendations reflect some reductions for many of the agencies contributing to the quality of life. Due to the economy, lesser cuts were made to those helping to provide a safety net. Also, since Community Development Block Grant funds are not being reduced by the Federal government, there were lesser cuts for those agencies qualifying for funding than those in the General Fund. \$88,600 out of the \$160,081 requested from the General Fund is recommended and \$41,000 out of the \$59,989 requested in Community Development Block Grant monies. This total is a reduction of \$9,700 from FY 2009-10. The individual agency funding recommendations are included within the budget of their associated functional areas as directed by Council.

CONCLUSION

The FY 2009-10 budget proposal operationalizes the goals for the City of Concord established by the Mayor and City Council. Most of 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