



May 26, 2015

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

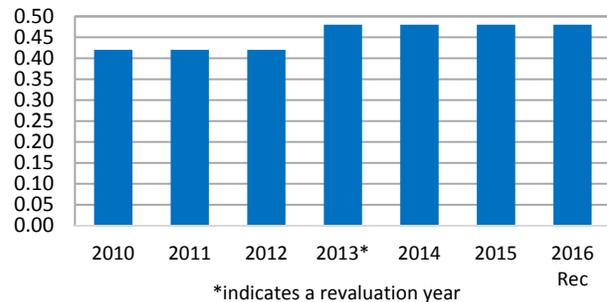
Dear Mayor Padgett and Members of the City Council:

Pursuant to Section 159-11 of the North Carolina General Statutes, attached is the recommended FY 2015-16 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 2015-16 Goals Statement. I used this document as a guide in making recommendations. I also want to thank Deputy 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 City-wide budget totals \$227,644,710 for all funds, including utilities and special revenue funds.

The recommended General Fund budget for FY 2015-16 totals \$72,765,445 for City personnel, operations, capital improvements and debt service. I am recommending that the tax rate remain at 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

City Property Tax Rate
 (cents per \$100 of valuation)



Improvement Fund as mandated by City Council; however, this recommendation changes the philosophy for the use of these funds for FY 2015-16 due to the current revenue challenges.

I am recommending moderate rate increases for the Water and Wastewater funds and no increase for the Stormwater fund. The water increase represents the second of the two phase increase to cover the take-or-pay from the Albemarle water line. The wastewater increase will cover the rate increase from WSACC. We are also recommending tweaks to electric rates this year as part of an up-date across rate classifications. As is the practice, if this impacts the Purchased Power Adjustment, changes would be implemented in the September time frame.

We started the budget process with all departments being asked to prepare a budget with no operational increases. However, departments were able to identify additional needs during the process; management considered the impact of these operational needs in an environment of a strengthening economy leading to increased activity and recommended those new requests that will meet Council goals and/or have the

greatest impact on direct service delivery to our citizens. The budget was balanced using conservative revenue projections.

In looking at the General Fund it is very tempting to shout "The sky is falling". The sky very well may be falling, but then again it may not. It is too early to comfortably rely on some of the revenue trends we are following and the General Assembly has yet to take action on many items that could dramatically impact local government revenues and services. We do know we are starting FY 2015-16 with the loss of over \$1,000,000 in Privilege License revenues. All of this is ironic as the City is experiencing strong growth in many of economic sectors and revenues from this growth are needed for expanded infrastructure and service needs.

Local governments do not have the luxury to wait and see. City Managers must have a budget recommendation before their City Council by June 1. The City Council must adopt a budget by the end of June. The General Assembly does not appear to be concerned about these deadlines, that ironically are established by statute, as there are many decisions yet to be made that could severely impact local government budgets.

This recommendation anticipates neither a worst case nor a best case revenue scenario. We realize that our General Fund revenue projections could be inaccurate due to the many unknowns as the General Assembly makes decisions on its budget and/or other legislation. Here are some of the assumptions made in developing the FY15-16 recommended budget:

- Revenues intended to expand the base from last year's "tax reform" will cover the loss of the privilege license tax, or the General Assembly will approve a new revenue source that will provide that coverage.
- There will be no major redistribution of sales tax and, if there is, it will involve a major expansion of the sales tax base to other businesses.
- Sales tax refunds that have yet to be returned will not be so large that they negate the current growth we see in sales tax revenues (even without any redistribution)
- Council will be willing to use the Transportation Fund in a much different way this fiscal year.
- There will continue to be funding of the elementary school resource officers from other sources.
- Council will be willing to alter the implementation timetables for some of your priorities established at the Planning Session.
- Council will be willing to hold off on some major capital and operational expenditures until after the General Assembly adjourns to see how the budget will need to be adjusted at that time.
- Council will be willing to fund a very few new positions needed due to growth but starting later in the Fiscal Year to delay the full cost until next fiscal year.
- Council will be willing to live with the current tax rate until FY 16-17. The only revenue that is set in stone when you adopt a budget is the tax rate, as it cannot be changed.
- Council will support use of reserves to fund capital projects/equipment.

If any of the first three assumptions above turn out to be inaccurate, the City Council will be faced with some tough decisions later in the year as expenditures will need to be cut further and/or revenues will have to be increased. Since the tax rate will have already been established, additional revenues would have to be generated from other sources, such as a solid waste fee. If cuts are made to services and programs, City Council will have additional challenges for the FY 2016-17 budget year to fund services and improvements as we try and keep up with the growth of our community.

Note the City Council also has no control over the first three assumptions. That is very disturbing as it reflects the anti-urban stance taken by some in the General Assembly.

If the General Assembly's actions replace the loss of the privilege license and they do not tinker with sales tax distribution to create winners and losers, then it is possible some of the Council goals that have been delayed can be revisited later in the year.

In order to keep the Council's options open until we know which direction the General Assembly selects in adopting legislation. We are recommending that City Council hold off on many of the major new expenditures recommended in the budget until after the legislative session is over. The few new positions recommended are delayed in hiring. This not only provides the time to determine the direction of the General Assembly, it also saves dollars for Fiscal Year 2015-16. Obviously once we have coworkers in these positions, they will have to be fully funded in future fiscal years.

Below is the list totaling just under \$3 million dollars of those major expenditures that are budgeted, but are recommended to be delayed to provide Council flexibility should a worst case scenario take place:

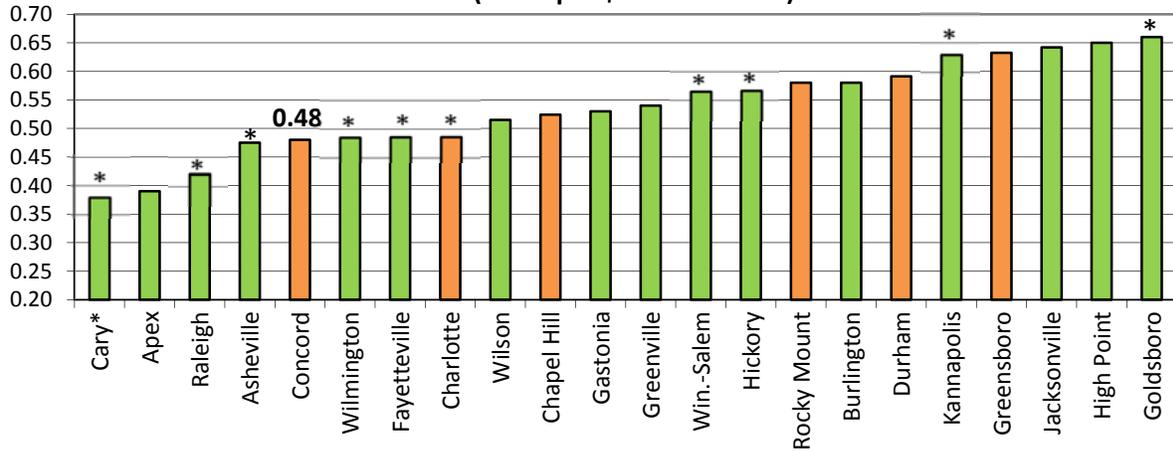
- Purchase of replacement ladder truck (Fire)- \$1.1 million (Capital Reserve)
- 2 Safety/Training officers (Fire) - \$139,080
- Renovations/upgrades to Fire Stations - \$132,000
- Phase 2 of Fire Station 7's bay floor replacement - \$75,000
- Police Officer position for new City Hall – \$83,468
- AP Paperless Workflow Software (Finance) - \$50,000
- Replacement of lights on Union St with LEDs - \$52,000
- Senior Equipment Operator/equip (medians/mowing) - \$118,404 (Council goal)
- Infrastructure portion of Traffic Mgmt. Center - \$366,683 (Capital Reserve and Council goal)
- Parks and Rec Asst. Supervisor (recreation center) - \$49,554
- Updated Land Use Plan - \$100,000 (Council goal)
- Updated Parks and Rec Master Plan - \$75,000
- Upgraded Control Link for parks court/field lighting - \$75,000
- Replacement of basketball goals in all 3 recreation centers - \$50,000
- Design work on Hector H Henry II Greenway, Airport Phase - \$25,000 (Capital Reserve)
- Engineering work on Hartsell Rec Center renovations - \$84,000 (Capital Reserve)

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 \$1,942,683 from the City's Capital Reserve Funds. RESERVES ARE NOT BEING USED TO FUND OPERATIONAL LINE ITEMS.

The City Council is to be commended for continuing its past conservative practices, not only in projecting revenues, but also holding down expenditures and maintaining reserves to help meet essential needs. Operations continue to remain lean but these practices have enabled us to remain in a solid financial position. This could be undermined by past and future actions of the General Assembly.

For FY 2015-16, 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. Most of these municipalities are in the same position as Concord, so tax rates and solid waste fees are subject to major changes during this and the next budget cycle.

**FY 2015-16 Proposed Property Tax Rates for
NC Full-Service Cities Over 40,000 Pop.
(Cents per \$100 Valuation)**



Note:

*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.

Cities with asterisks above the bar are proposing a tax rate increase for FY2015-2016.

Due to increasing customer needs, several departments requested new positions during the FY 2015-16 budget process. Despite the growth we are experiencing, we are only able to recommend 7 new full-time positions and 1 part-time position. Of those, 5 full-time positions are within the General Fund. In addition, Electric has requested to unfreeze and fund a previously frozen position. Going into FY15-16, 12 positions remain "frozen" with no appropriated salary. The total projected savings from these positions is \$548,771. No sworn police positions or firefighter positions have been frozen.

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 have tried 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. If we see more of the worst case revenue scenario coming from the General Assembly later this year, the Council will have difficult decisions to make regarding using reserves, raising revenues and/or cutting services.

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

- Basic City services are continued with potential challenges coming due to growth, possibly without proportional revenue growth.
- Revenue projections are estimated with the assumptions outline earlier in this message.
- We have used the Mayor/City Council Goals Statement as our guide even though we were unable to address all of the Council's goals in full due to the unknowns.

EXPENDITURE HIGHLIGHTS BY FUND

While highlights of each operating fund are contained within the individual program summary pages located throughout this document, the expenditure highlights of major funds for the FY 2015-16 Recommended Budget are listed below:

GENERAL FUND

- Department-wide – First full year of debt service payment by General Fund departments who will occupy space in the new City Hall - \$1,533,718.
- *Governing Body* – Continue funds for the restoration of old “ghost” signs (painted brick murals) downtown - \$5,000.
- *Public Services Administration* – Continued safety and security improvements at the Brown Operations Center, including key system and additional gate access - \$30,000.
- *Finance* – AP Paperless Workflow Software to handle payment process electronically - \$50,000.
- *Police* – Addition of 1 Police Officer position and equipment/supplies to staff the new City Hall (beginning January 2016) - \$83,468.
- *Police* – Body Armor replacement for Patrol - \$20,460
- *Police* – Second of 4 Year Plan to ensure that each patrol vehicle has an in-car camera (25 cameras per year, including those in need of replacement) - \$162,500; provide storage capability for in-car camera video - \$48,360.
- *Police* – Provide 10 tablets as a means of technology for School Resource Officers - \$76,350.
- *Police* – Purchase of a tactical robot for use in SWAT situations - \$24,000.
- *Fire* – Use of Capital Reserve Funds to replace a ladder truck and associated equipment - \$1,170,000.
- *Fire* – Addition of 2 Safety/Training Officer positions in the Training Division (beginning October 2015) - \$139,080.
- *Fire* – Increased maintenance needs at Fire Stations - \$207,000.
- *Transportation* – Addition of 1 Senior Equipment Operator position (beginning January 2016) for median and shoulder mowing - \$23,404; purchase of double flail tractor mower - \$95,000.
- *Transportation* – Continuation of \$725,000 in resurfacing funds under the Streets budget.
- *Transportation* – Additional \$30,000 for contracted sidewalk repair.
- *Transportation* – Use of Capital Reserve funds to build a salt storage shed for winter weather supply storage - \$297,000.
- *Solid Waste and Recycling* – Scheduled replacement of 2 large yard waste trucks; 1 Knuckleboom at \$135,000 and 1 Rear Loader at \$150,000.
- *Fleet Services* – Budget of \$1.7 million for fuel City-wide; the same as the current year budget.
- *Cemeteries* – Additional maintenance funds for landscaping, fencing, and sidewalks at Oakwood and West Concord Cemeteries - \$27,250.
- *Planning and Neighborhood Development* – Funding for an updated City Land Use Plan - \$100,000.
- *Planning and Neighborhood Development* – Replace lights on Union Street with LEDs - \$52,000.
- *Parks and Recreation* – Update Parks Master Plan - \$75,000.
- *Parks and Recreation* – Replace basketball goals at all 3 recreation centers - \$50,000.
- *Parks and Recreation* – Upgrade Control Link system to automatically control lighting at 5 ball fields - \$70,000.
- *Parks and Recreation* – Use of Capital Reserve funds to prepare construction documents and design for the Hartsell Recreation Center renovations (\$84,000) and Hector H Henry II Greenway Airport Phase (\$25,000).

- *Parks and Recreation* – Addition of 1 Assistant Recreation Center Supervisor (beginning January 2016) - \$49,544; addition of 10 part-time seasonal instructors and bus drivers for Parks and Rec programming (previously were contracted) - \$14,337; addition of a part-time Boat Attendant slot at Lake Fisher (no cost or increase to FTE count); and addition of weekend hours at Lake Fisher boat house - \$2,730.

MUNICIPAL SERVICE DISTRICT FUND:

- A total of \$89,240 is appropriated to the Concord Downtown Development Corporation for use in the promotion and improvement of the City's downtown district.

STORMWATER FUND:

- Provide funds for the replacement of culverts at Chadbourne, Chelwood, Treasure, Reubens, Wyoming, Princess/Crowell, and Shamrock - combined budget of \$1,342,000.

ELECTRIC FUND:

- Continue upgrade of aging vaults/equipment in Downtown underground system - \$100,000.
- Relocation or addition of infrastructure for various DOT projects - \$645,000.
- Smart grid meter project to convert all meters across the City to newer technology, improving operational efficiency reliability/service to customers - \$7,000,000.
- Video camera equipment/storage for 3 substations - \$55,000.
- Cost for purchase of wholesale electricity projected to increase 1.2% due to success of peak shaving and the Peak Partners program.

WATER FUND:

- Completion of Disinfection Byproduct Reduction project - \$550,000.
- Construction of waterline related to US 29 Bridge Replacement - \$300,000.
- Smart meter project (Phase 1 of 4) - \$1,000,000.
- Continue to upsize of lines and extend water mains - \$285,500.
- Continued maintenance of waterlines, mains, and valves; replacement/upgrade of problem areas - \$240,000.

WASTEWATER FUND:

- Elimination of pump stations at both Province Green and Laurel Park - \$1,490,000.
- Continue to invest in pipe lining for wastewater lines - \$686,700.
- Reflects 5% increase in utilities paid to WSACC for the treatment of sewer - \$303,164.

PUBLIC TRANSIT FUND:

- Continued savings in fuel expenses through use of hybrid buses.
- Addition of an ADA Coordinator to certify passengers' eligibility and coordinate ADA service.
- Conduct a study looking at better coordination between Rider Transit and CCTS.

GOLF COURSE FUND:

- Budget reflects increased revenue/rounds associated with recent course and clubhouse improvements.

AVIATION FUND:

- Materials and equipment for improved de-icing capabilities in winter weather - \$125,000.
- Continues commercial service with potential for added flights.

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:

- *Purchasing* – Updated space needs study for warehouse and yard space - \$19,500.
- *Data Services* – Continue upgrade of City’s network infrastructure and capacity - \$62,000.
- *Data Services* –Seamless document solution to allow data captured on internet forms to be automatically transferred into utility systems - \$10,000.

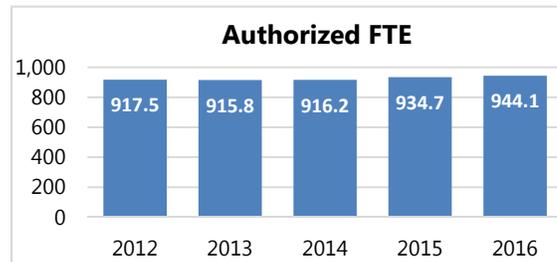
The budget is presented in a format that groups expenditures into major areas: personnel services, operations, capital outlay, debt service, and non-departmental allocations. This format is consistent with Council’s goal of developing a results-oriented budget with performance measures rather than just 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 2015-16, personnel expenditures account for \$62,706,466 or 29% of the total budget.



An outside consultant completed a comprehensive position classification and pay study that was implemented in January of 2015.

This year we are proposing modest merit increases due to the uncertainty in our revenues. An overall average increase of 2.5% is recommended with merit increases to range from 2% to 3%, depending upon performance.

A total of 9.4 FTE in additional staffing is recommended for FY 2015-16. Seven new full-time positions and 1 part-time position are recommended for funding in this budget, while 1 current “frozen” position is recommended to be funded and filled. The recommended positions are as follows:

General Fund (5 full-time positions recommended)

- Police:
 - 1 – Police Officer/City Hall (hire date of January 2016)
- Fire:
 - 2 – Safety/Training Officer positions (hire date of October 2015)

- Transportation/Streets:
1 – Senior Equipment Operator (hire date of January 2016)
- Parks and Recreation:
1 – Assistant Recreation Supervisor (hire date of January 2016)

Electric Fund (2 full-time positions recommended)

- Electric Engineering
1 – GIS Analyst (previously contracted)
1 – Project Engineer (request to be unfrozen and funded)

Transit Fund (1 full-time position)

- Transit
1 – ADA Specialist

Public Housing Fund/Section 8 Vouchers Program Fund (1 part-time position)

- Public Housing Operations and Section 8 Vouchers Program
1 – Part-time Accounts Payable Tech (split between 2 units)

A total of 944.1 full-time equivalent positions are recommended for funding, excluding the frozen positions listed below. At the present time, 11 full-time and 1 part-time positions are frozen. The frozen positions are as follows:

General Fund (5 positions):

Solid Waste and Recycling:

- 1 – Solid Waste Crew Supervisor
- 2 – Equipment Operators

Parks and Recreation:

- 1 – Parks & Recreation Specialist

Fleet Services:

- 1 – Fleet Mechanic

Electric Fund (1 position):

- 1 – Electric Tree Trimmer I

Water Resources Fund (1 position):

- 1 – Utility Service Worker

Aviation Fund (3 full-time positions):

- 1 – Custodian/Courier
- 1 – Sr. Customer Service Specialist
- 1 – Accounting Supervisor

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

Building and Grounds:

- 1 – PT Custodian (20 hours/week)

Engineering:

- 1 – Engineering Manager

Our health care premiums and benefits were adjusted on slightly this year. The City's 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 Wellness committee, comprised of coworkers, meets monthly to help create and promote wellness activities city-wide.

An incentive has been offered to coworkers again this year for managing their health. Employees who completed a Health Risk Assessment and certified they do not use tobacco, or attended a tobacco cessation program if they do, receive a reduction in monthly health care premium costs. The Health Risk Assessment includes the completion of a questionnaire, biometric measures and a fasting blood draw.

While we have seen significant increases in City contributions in prior years, the North Carolina Local Government Employees Retirement System is projected to be stable in FY 14-15 with the City's contribution per general employee dropping slightly at 6.77% of payroll. Contributions for law enforcement officers remain at 7.00%. 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.

We also continue to monitor the impact of retiree health care benefits. The City provides health care benefits to eligible retirees up to the time they are Medicare eligible. 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 some type of retiree health care. However, the majority of state and local governments still provide retiree health care at some level. These benefits are costing the City more as baby boomers continue to retire. This is particularly true for public safety coworkers who tend to retire earlier than the general employee population, thus staying on the City's plans for a longer period of time. This past year, the number of retirees receiving health care benefits from the City grew from 107 to 116 and will continue to grow in the next few years. Coupled with potential premium increases to our plan, this is an area of concern for future budgets.

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 NORTH CAROLINA GENERAL ASSEMBLY AND REVENUES

Until 2014, the General Assembly has thus far kept to the promise not to impact local revenues. That changed dramatically last year.

First the Privilege License Tax was eliminated. That change resulted in the loss of over \$1,000,000 to the City of Concord, equivalent to over a penny on the property tax rate. Some legislative leaders indicated they would pass additional legislation to cover this loss by further broadening the sales tax base. As explained to Council, the loss of these revenues alone could result in the need to increase the property tax rate, implement a solid waste fee and/or cut services. This budget anticipates the broadening of the sales tax base will cover this.

In addition, there were two bills introduced in 2015 that changes the distribution of sales tax to 100% based on population without recognition to where the taxes are generated. They also change the local sales tax from local revenues to State revenues, making it easier for the General Assembly to keep these revenues for their own purposes in the future. All local sales taxes in North Carolina are collected by the State. 4.75% is kept for use for State programs and services. The rest is returned to North Carolina counties and its municipalities based on complicated formulas. .5% is distributed on a per capita basis, in other words, according to the population of local governments across the State. This means regardless of where the sales tax is paid, all North Carolina jurisdictions benefit from it. So part of the sales tax you are paying in Concord already goes to other local governments, even outside Cabarrus County.

Another 1.5% is returned to counties on a point of sale basis. This means if this portion of the tax is paid in Concord, it will come back to Cabarrus County and will not be distributed among all 100 counties. It is then distributed among Cabarrus local governments using the ad valorem basis. This is the distribution method Cabarrus County has chosen instead of the per capita basis. Using this method, the dollar amounts of *ad valorem* (property) taxes levied by the county and each municipality in the county in the preceding fiscal year are added. The proportion that each unit's levy bears to the total levy of all units in the county determines the amount of local sales and use tax revenue that each local government receives. Thus, when one Cabarrus local government increases its tax rate and/or grows significantly more than another, it will impact the distribution of these sales taxes. Currently, Concord receives 21.64% of the local sales tax returned. Concord's portion has been on a downward trend over the last ten years, primarily due to changing tax rates among local governments.

The final .25% of the total 2.25% for local use is returned to Cabarrus County for school needs.

If the General Assembly changes the formulas to further redistribute the sales tax dollars paid in Concord so that others benefit, estimates show the City could eventually lose over \$2.3 million annually in existing revenue. Keep in mind this is in addition to the \$1 million plus Concord is losing because the General Assembly will no longer allow local governments to charge business privilege licenses taxes. The sales tax redistribution proposals provide a windfall to select local governments by taking revenues from the local governments whose communities and budgets bear the physical and fiscal brunt of the costs of development. In effect, the proposed legislation aims to socialize sales tax revenues and redistribute them under the guise of "fairness."

This budget recommendation does not anticipate these bills passing (the worst case), but does not take a best case approach either. Growth in sales tax is projected to be flat in relation to FY 2014-15

projections, just to try a middle of the road approach. If one of the sales tax bills do pass, that will just add to the dilemma for FY 2015-16 and beyond.

THE ECONOMY AND THE CHALLENGES OF GROWTH

Ironically, all these revenue issues have surfaced while Concord's economy is improving. Growth is strong in the residential and commercial sectors. Industrial growth is experiencing a comeback, particularly in the area of distribution. All these factors combined mean we need the growth in sales tax and other revenues to offset the increase in demand for infrastructure and services generated by this growth.

Speculative buildings constructed or under construction that has been spurred by the City providing investment grants. Also, Alevo has purchased the former Philip Morris property and will have a production line of batteries to be used for their grid bank product in operation later in 2015. This acreage, combined with other properties along the George Liles Parkway extension currently under construction, means Concord has over 3,000 acres of property zoned for business near the geographic center of the City.

It was noted that the increase in speculative building development has been supported by City grants based on new tax base generated. Since we are working with private landowners, this often requires partnerships to make the pricing competitive in comparison with publicly owned parks. These type of efforts will need to continue to develop the infrastructure and buildings these employers desire as they explore sites in the southeast or across the United States. While it requires some investment of public funds, the Concord City Council has shown they believe these public/private partnerships are preferable to develop the product that brings new jobs and investment to our community over an even greater reliance on public funds like as in other jurisdictions. Obviously investment requires revenue.

Retail development has also made a comeback. New shopping opportunities have been added to the City, both in new growth areas and in Downtown. Downtown continues to move forward with several new restaurants coming into existing storefronts. The completion of the Heilig-Meyers renovation into market rate apartments this summer should establish the viability of residential development in downtown, helping to support the further diversification of retail businesses.

The single-family subdivisions platted before the recession that stalled are now back in business. There are many reports of a shortage of inventory of new and existing house coming on the market. While homebuilding is not back to pre-recession levels, which is not bad, it is rapidly growing. At the same time building of multi-family apartments units has exploded. Again, all this development requires the infrastructure and services to support the growth. This requires new revenue associated with growth.

GROWTH MANAGEMENT

While local government revenues are under assault, there are some in the General Assembly still focused on the elimination of tools local governments have used to reduce the impact of rapid growth on the quality of life of residents as well as the environment. This is troublesome as power is being concentrated in Raleigh rather than in the hands of the people who vote for local government officials that serve the areas where they live. Growth management has been one of the biggest challenges facing Concord over the past decade 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 density,

requiring higher development standards in rural areas and in reducing the impact of development on the environment.

With growth picking up, so do the concerns of adjacent land owners over density, traffic, noise, etc. The FY 2016 recommendation includes money for a consultant to help update the land use plan. There has been no update since before the recession so this study will be timely.

FY 2015-16 will also see the completion of the update to the Downtown Master Plan. With the addition of the new apartments in the Heilig-Meyers Building, the completion of City Hall and recent changes to the UDO to allow microbreweries, it is time to relook at downtown and the new opportunities that exist.

We continue to look for ways to be user friendly in working with those seeking to make quality investments in our community. The implementation of the Accela software through the partnership between Cabarrus County and Concord that will take place this summer will go a long way in this effort.

NEW CITY HALL AND THE BUILDINGS IT REPLACES

The construction of a New City Hall located at the intersection of Cabarrus Avenue and Market Street, adjacent to the Police Headquarters, is well underway. The building should be complete by the end of December 2015.

Council has decided the fate of the buildings that will be vacated. 30 Market is slated to be demolished to make more room for a public. Before that can happen, a building for the Traffic Management Center will need to be constructed at the Brown Operations Center in advance of the demolition of the old police headquarters. The funds for construction of this Traffic Management Center are included in the FY 2015-16 recommendation, assuming we do not see a worst case revenue scenario coming from the General Assembly.

The two City buildings on Union Street will be studied, possibly with the assistance of the School of Government's Development Finance Initiative. This study will focus on the best use of these buildings downtown and could help with locating a buyer and financial assistance to support the sell. The buildings should be vacated early in 2016.

NEW WATER SOURCE AND EXISTING WASTEWATER NEEDS

Concord, Kannapolis and Albemarle have funded a line to bring treated Yadkin River water from the Albemarle system. Construction is nearing completion the project should be finished by late summer. The upfront capacity purchases that includes a "take or pay" amount in the Albemarle agreement, is one of the reasons a small water rate adjustment was recommended to be phased in over FY 2014-15 and FY 2015-16. The budget contains the second of these anticipated increases.

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 some of its neighbors who are adjacent to free water sources fed by larger rivers. The Water and Sewer Authority of Cabarrus County (WSACC) has completed the new master plan for the entire County. This data is now being used to develop strategic plans for water and wastewater.

Water will begin a phased implementation of smart meters. This project will not be as aggressive as in Electric initially as the need to replace meters is not as urgent and Electric has led the way in testing the technology during the pilot project.

WSACC has implemented a rate increase for the wholesale treatment of wastewater. The recommendation to increase Concord's wastewater rates covers this increased cost. This budget also includes funds for capital improvements and maintenance of the system, particularly in areas of Concord where aging lines are more likely to lead to rainfall infiltration.

ELECTRIC SYSTEM

The City's current 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.

Electric has updated the RW Beck study across rate classifications and those changes have been included in the rate schedule. If necessary, a slight increase in the Purchased Power Adjustment may be made this fall.

On October 28, 2014, the North Carolina Utilities Commission granted a certificate of public convenience and necessity for the construction of the Kings Mountain Energy Center, an approximately 475 MW natural gas-fired combined cycle generating facility. Construction of the facility is anticipated to begin in the summer of 2015, and commercial operation is scheduled to begin in the first-quarter 2018. Concord has entered into a contract with NTE, the builder and operator of the plant. Under the terms of the agreement, the City of Concord will be provided with electric generation services by NTE using a portion of the capacity and energy generated by the facility for an initial term of 20 years. This will allow Concord to utilize this source when the Duke contract ends in 2019.

AIR AND SURFACE TRANSPORTATION

Air transportation

Concord Regional Airport (CRA) continues to be a vital resource in supporting the business and general aviation communities. Allegiant Air began operations in December of 2013 and has been providing twice weekly service on Monday and Friday to the Orlando-Sanford International Airport serving the Orlando / Daytona Central Florida market. In addition, on November 13th, 2014, Allegiant added a second destination with twice a week service to the St. Pete-Clearwater International Airport (PIE). Allegiant added a third non-stop destination with twice a week service to the Ft. Lauderdale Hollywood International Airport (FLL) in May, 2015.

There is more interest in providing flights from CRA to other destinations and back during particular days of the week. Staff will continue to analyze the upfront costs it takes to make these arrangements work before making recommendations. The activity has already helped to solidify the airport's position in qualifying for FAA funding for airports with commercial type operations. However, with such growth come other needs. A new terminal for commercial passengers and related parking must be developed on the south end of the Airport. The new terminal would be funded through a FAA grant matched by the City of Concord. The parking will likely be financed if a deck is needed. Passenger fees and parking fees will need to generate the revenue to cover the debt.

Surface transportation

This budget maintains 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.

The Burrage Road Bridge replacement is completed and the rehabilitation of the concrete portion of the street will be complete this summer. After these projects are completed, the NE Subset sidewalk extension will be constructed in the same area. In addition, the design work for improvements to Brookwood Avenue continues along with the matching dollars for the traffic management grant and the funding set aside for the Virginia Street improvements. Of course, it also includes dollars that have been set aside previously for participation with NCDOT on other projects.

Staff has been able to develop a fully functional traffic management operation center on a very tight budget. The traffic management grant will enable staff to take this to another level. As noted earlier, the traffic management center has been housed in the basement of 30 Market Street in the old Police Headquarters. Funds are included in this budget, partially out of the Transportation Fund, to construct a new facility and supporting infrastructure on land at the Brown Operations Center.

Projects impacting NCDOT facilities that are programmed with Concord's participation:

I 85 Widening Projects and NC 73 to 29-601 Connector in Rowan County

- The project between Concord Mills Boulevard and NC 73 is complete. Concord participated with NCDOT to provide sidewalks and bicycle accommodations along both Poplar Tent Road and NC 73.
- NCDOT is now getting ready to start another I-85 project from NC 73 to 29-601 Connector in Rowan County. This will include significant improvements to the interchanges at Exits 58 (US 29) and 60 (Copperfield/Dale Earnhardt). The City of Concord and the City of Kannapolis are cooperating to include aesthetic improvements to the end of the bridges at these interchanges.

Exit 49- Three projects have surfaced as priorities in the I-85 – Exit 49 area. These include a “fly over” directly into the first entrance to Concord Mills Mall, pedestrian improvements along Bruton Smith Boulevard and the completion of the Derita Road widening project, including the bridge, from the Rocky River to the end of Concord Mills Boulevard. All of these projects now have been included for NCDOT funding in future fiscal years. The City of Concord has pledged to provide 20% of the cost of these projects.

Derita Road – Traffic congestion is choking this important corridor that serves the Airport, the growing industrial area, and Concord Mills. Concord was required to pick up the total cost to match the Federal funds for Phase 1 construction of this NCDOT Road going from Poplar Tent Road to the Rocky River Bridge. The match is estimated to be \$3,036,763. However, as noted above NCDOT has now allocated funds to complete the rest of the project all the way to Concord Mills Boulevard. Design and permitting is completed and right-of-way acquisition for the Phase I portion has been underway. Construction has been delayed to allow the full project to be bid at the same time.

George Liles Parkway Extension – Project continues with Blythe acting as contractor. There are incentives for contractor to finish portion between Weddington and Concord Parkway (US 29) first and this portion should be complete this summer. Entire project to Roberta Road should be completed in 2017, including the interchange at US 29.

Congestion Mitigation and Air Quality Projects – Concord is working with NCDOT on two CMAQ road projects to improve NCDOT facilities. These require local matches that have been budgeted using the transportation fund.

The first is the intersection of Poplar Tent and US 29 (C-4918-A). The City will manage the project during construction. The construction will incorporate "superstreet" design. It has been delayed repeatedly waiting for NCDOT approvals but should start in 2015.

Another CMAQ project is to provide extra capacity by expanding lanes on South Union Street and Warren C. Coleman; this project is scheduled for funding in the amount of \$1,294,915 with Concord providing a 20% match. This project is underway.

Cabarrus Avenue Bridge over Norfolk Southern Railroad – The replacement of this bridge is nearing completion. Concord is participating to add Texas Classic Railing, decorative lighting and sidewalks on Cabarrus Avenue, and a mast arm traffic signal at Powder Street.

Public Transit

The Rider Transit Commission, made up of representatives from both cities, and the Concord City Council adopted a new Transit Development Plan in 2014 after months of analysis and public input.

However, the biggest obstacle for the future is likely to be changes and/or decreases in Federal revenue. The Cabarrus County Transportation System and the Salisbury fixed-route bus system are now lumped in with the Rider System to compete for Federal Transit Administration funding. This could result with the revenue "pie" being near the same with more systems getting funding from the same source. These changes could eventually have a dramatic impact on the ability to maintain the current level of service. Funding is included for Concord's portion of a study with Cabarrus County to analyze better coordination between these systems, or even consolidation.

PUBLIC SAFETY

The Cabarrus County Schools received a School Resource Officer matching grant from the N.C. Department of Public Instruction. This budget contains these funds and others from the City in anticipation this will continue in FY 2015-16. The grant pays for the salaries and benefits for 18 officers to work as School Resource Officers in Cabarrus County Elementary Schools. There are nine SROs assigned to Concord Police Department and nine assigned to Cabarrus County Sheriff's Office. Funds were approved to cover the FY 13-14 and FY 14-15 school sessions. We are told these funds will be recurring as the legislators have stated in Senate Bill 589 but that is yet to be seen. Salaries and benefits are paid on a 12-month basis and not for 10 months as is stated in our current SRO High School contract. This offers more police officer coverage on the streets when schools are not in session. The City of Concord has been responsible for providing the equipment for the School Resource Officers, including vehicles, so this program has a budgetary impact regardless of the personnel, along with the necessary vehicles and other equipment. The routine replacement of vehicles will take place to maintain the one car per officer plan, however, older vehicles continue to be used to cover these positions. The recommendation stands that if this funding ends after the grant period, these positions should be eliminated through attrition unless the Board of Education picks up the costs. All the schools impacted are attended by Cabarrus County residents so County residents who live inside the City of Concord should not have to pay double.

The City will also be assigning body cameras to all officers during the summer of 2015. This project and the first year of storage will be funded thorough drug seizure money that has been held in reserve. In future years, the cost of storage and camera replacement will be a regular component of the Police Department budget.

Fire Station 11 is under construction at a site adjacent to the Rocky River on Weddington Road. This station will house a ladder company and truck that will be moved to provide better protection to the many businesses in this area. The station will have a Cabarrus County EMS unit and will be located at the trail head for the Hector H. Henry, II Greenway segment in that area, and next to the Weddington Road Bark Park. The Fire Station should be complete in late summer of 2015.

RECREATION AND OPEN SPACE

Developing other sections of the Hector H. Henry, II greenway remains a priority. The fire station site on Weddington Road at the Rocky River will also be used as a trail head and parking for the Greenway section running from Weddington Road north toward the Airport and south toward Charlotte Motor Speedway. The 58 acre site also provides a limited amount of additional usable land to develop other needed recreation facilities for the western side of Concord. The newly named Weddington Road Bark Park (for dogs) is under construction, along with the greenway connector that runs from this park, along Weddington Road to eventually connect to the sidewalk system near the Concord Convention Center. These projects should be completed in late summer of 2015.

Continued development of the McEachern Greenway is also a priority as planning continues on how to connect the section in Mickey McGee Park north to beyond Cabarrus Avenue. Funds are already budgeted for construction of part of this segment.

The Rocky River Golf Club continues to be one of the highest quality municipal golf courses in North Carolina. A small project to expand the clubhouse will begin later in 2015 so gatherings of larger groups can be accommodated, resulting in increased revenue. Although funds were not included as a part of this recommendation, the bunkers on the course need to be rehabilitated. Plans were to have a two phase project starting in FY 2015-16 but revenue limitations would not allow for this.

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 to advance City technology to meet customer expectations. For example, customers now have technology in the hands as they can report service needs using a City app and their smart devices.

The implementation of the Accela software continues in partnership with Cabarrus County. When completed this summer the end user will have one source to go to when going through the development process. This technology will be very useful to engineers, and architects, as well as small business people who may not have the money to spend on support staff for their development project(s).

Finally, the City has worked hard over the years to develop a fiber optic system to link City facilities. This is a valuable asset. This year we will be working with Tech Edge to develop personnel to oversee this system to make sure we are maximizing its use for the betterment of all departments.

CUSTOMER SERVICE AND CITIZEN COMMUNICATIONS

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. Customer Care handled 144,338 calls in 2014 for an average of 12,028 per month. Coworkers have expanded their ability to handle full transactions so fewer calls are being transferred to others for disposition.

EMPLOYEE COMPENSATION AND BENEFITS

Due to the economic conditions during the recession, the City was very modest in providing performance based salary adjustments, if at all. It is clear that many employers in the public and private sectors are now enhancing their compensation offers as the economy strengthens.

The City completed a comprehensive classification and pay study that was implemented at the beginning of 2015. This plan should help in attracting and retaining good employees. We are seeing competition for some of our best in technical and professional jobs. At the same time, wages for many other jobs remain stagnant in the market place. That is sure to change with the economy heating up and organizations competing for labor.

The cost of retiree health insurance overall and the supplemental retirement benefits in the Police Department continue to rise as baby boomers retire. Police and Fire employees will generally draw the retiree health insurance longer as they tend to retire at younger ages.

EXTERNAL AGENCY FUNDING

For FY 2015-16, external agencies requested \$194,000 from the City of Concord. This compares to the \$122,500 appropriated for such purposes in FY 2014-15. 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.

The recommendations call for funding requests from many of the agencies that received City support last year. \$67,500 is recommended from the General Fund, a 9.4% decrease from FY 2014-15. \$51,000 is recommended from Community Development Block Grant monies, which represents a 24% increase over FY 2014-15. Some agencies with missions more social services in nature are recommended to receive funding from the Community Development Block Fund this year rather than the General Fund, resulting in the shift in percentages. \$14,000 is recommended from the utilities funds. The individual agency funding recommendations are included within the budget of their associated functional areas as directed by Council.

CONCLUSION

The FY 2015-16 budget proposal operationalizes the goals for the City of Concord established by the Mayor and City Council. The services, programs, 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,

A handwritten signature in black ink that reads "W. Brian Hiatt". The signature is written in a cursive style with a prominent initial "W" and a distinct "H".

W. Brian Hiatt
City Manager