

CITY OF CONCORD

DATE: May 11, 2012

TO: Honorable Mayor James Bouley and the Concord City Council

FROM: Thomas J. Aspell, Jr., City Manager

SUBJECT: Fiscal Year 2013 Budget Transmittal Letter

Herewith, I respectfully submit to you the City of Concord Operating Budget and Capital Improvement Program for the fiscal year July 1, 2012 through June 30, 2013.

The objective of this Transmittal Letter is to highlight the Fiscal Year 2013 budgetary opportunities and challenges. Although the economic downturn over the past several years has dramatically impacted how municipal and state governments operate, the FY 2013 budget is proposed in a slightly improving economy.

Throughout this recessionary period the City Council, Administration and staff have dealt with some difficult issues and now are poised to better take advantage of a recovering economy and continued investments in the community. In 2009 and 2010, the elimination of positions left the City leaner; and overall reductions in the vehicle fleet and inventory created an opportunity for continued savings in repairs, motor fuel usage and insurance costs. In 2011 and 2012, the City invested in energy improvement projects that have and will create additional savings in electricity and natural gas in the years ahead. We have stepped up our proven approach of partnering with private enterprises to build projects during the downturn like the Smile Building, the newly confirmed Bindery project, Penacook TIF and Tannery redevelopment, and the purchase of the 9 Commercial Street property as part of the NEOCTIF, all of which will continue to help improve the strength of the local economy in the future.

The City continues to invest in capital infrastructure with the additional phases of the Route 3 corridor improvements, projected through Fiscal Year 2014 completion; energy improvement projects with the domestic solar hot water devices at the Broadway, Manor and Central fire station complexes and the Water Treatment plant; new LED crosswalk lights throughout the City; anti-idling devices on several General Services vehicles; investment in the Hall Street Wastewater Treatment Plant odor control project; pavement and storm-water projects; water main replacements in various neighborhoods throughout the City, including Loudon Road; design for the replacement of the Sewalls Falls Bridge; and preliminary design of a new Multi-Generational Recreation Facility are some of the major projects funded in the past several difficult years. These projects are expected to show significant results in the future.

The FY 2013 budget continues on the course that was set in previous years and is a precursor to the future for both operations and capital plans. This budget is presented with a 2.87% tax rate increase, which is less than the CPI of 3.2% and the Municipal Cost Index of 4.2%.

This budget also contains the necessary funding for continued progress in moving the City closer to its financial security goals. Over the past several years, the City Council has reduced its reliance on the use of unassigned fund balance to balance the budget. Departments have been restructured, positions were eliminated, operations have become more efficient and significant effort has been placed on increasing non-tax revenue. This budget represents a continued sound and responsible approach for future efficiencies and enhanced cost control.

Despite the difficult economic environment of the past years, looking forward, Concord continues to maintain and improve City services and programs. The citizens of Concord are accustomed to a stable and predictable municipal tax rate with a high level of service. Addressed in this budget document are the priorities of the City Council: a balanced budget; maintain reasonable expenses; investigate new revenue opportunities; enhance sustainability of enterprise and other fund operations; improve parks and playgrounds; enhance library services; and maintain high quality public safety services.

While many of the same challenges that were encountered in preparing the FY 2011 and FY 2012 budgets remain, this budget is presented with no material service reductions. It also includes the Parks and Recreation Department's reorganization effort started in FY 2011; significant changes and challenges in the Golf Fund; and anticipates moving forward with the transition of Dame School to the City (although no direct funding is included for immediate operations).

As a result of these efforts, the City's bond rating is at a very high level. Standard and Poor's, one of the nation's largest bond rating agencies, affirmed its AA rating in January and placed the City on a Positive Watch. Moody's Investors Service affirmed its Aa1 rating. Both agencies cited the City's very strong fiscal position, strong fiscal policies and experienced, capable management. Moody's Investors did note the following items that could make the rating go down: depletion of General Fund balance, deterioration of the City's tax base and demographic profile, or significant increase in debt burden. These high bond ratings result in considerable annual savings to the taxpayers in the form of reduced borrowing costs.

Concord remains in a better financial position than most other communities in New Hampshire and the rest of the country. This is due, in large part, to its stable labor market and lower than average unemployment rates, which are well below state and national averages; as well as the City's continued efforts at achieving long-term financial stability. However, significant challenges remain ahead. These challenges include unfunded post-employment liabilities (OPEB); benefit costs associated with an underfunded State retirement system; ever increasing health insurance costs; and deferred capital investments.

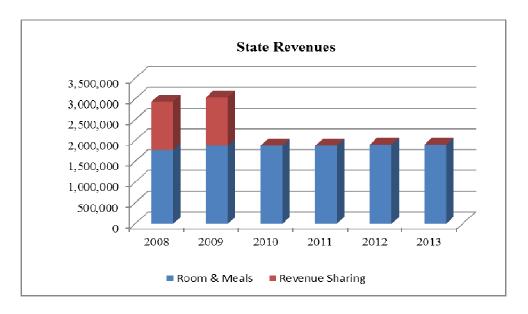
The initiatives put forth here provide for continued financial improvement in the utility funds. The Airport and Arena funds continue to perform at or above expectations and are able to make annual contributions to the City's General Fund overhead costs. The Golf Fund reported a \$64,000 loss for FY 2011 and anticipates another loss for FY 2012. The Parking Fund continues to struggle in some areas and will require enhanced revenue options be explored. For FY 2013, previously unplanned major structural repairs are needed in both the Durgin and Firehouse garages. On a positive note, the parking management has done an exceptional job of collecting old delinquent parking fines and implementing an enhanced collection system going forward. The net results of the Solid Waste, Water and Wastewater Funds are strong. Finally, capital and infrastructure needs, and the ability to fund those needs, grow further apart. The following pages describe this budget in more detail.

Reductions in Positions and Operating Efficiency

City Department Heads and staff continue to provide excellent services to City residents and the business community. Working with such a talented and dedicated team is extremely fulfilling. In FY 2010 the budget eliminated the equivalent of more than thirty-two (32.07) full-time equivalent (FTE) positions, FY 2011 eliminated an additional 1.59 FTEs, and 2012 eliminated 1.25 FTEs. While no layoffs are planned for the FY 2013 budget, there is a net reduction of 1.65 FTEs. Of significance is the reduction of one full-time firefighter, as the Fire Department moves towards one-to-one firefighting staffing levels; the reduction of one full-time Laborer/Truck Driver from the Parks and Recreation Grounds Division; and the addition of a part-time (.5 FTE) Property Room Technician at the Police Department.

Fiscal Resources

Although fiscal resources continue to be scarce, some non-tax revenue sources are showing some signs of improvement. Auto registrations improved slightly for FY 2011, and FY 2012 is anticipated to end the year ahead of FY 2011 and slightly behind FY 2012 budget. FY 2013 is anticipated to show additional signs of improvement. After a rough start in FY 2012 with a change in billing vendor, Ambulance Service Charges are on par with a very strong FY 2011. FY 2013 is anticipating additional growth through better billing strategies. Rooms and meals revenue have remained relatively flat and, although building permit revenue is projected to be down by approximately \$90,000, there is significant interest in the marketplace that may provide for exceeding this projection. This budget allocates these scarce resources to meet the City's legal obligations, core service priorities, and facility obligations. The groundwork for greater efficiency in service delivery and reduced overhead costs began in past budgets and continues here.

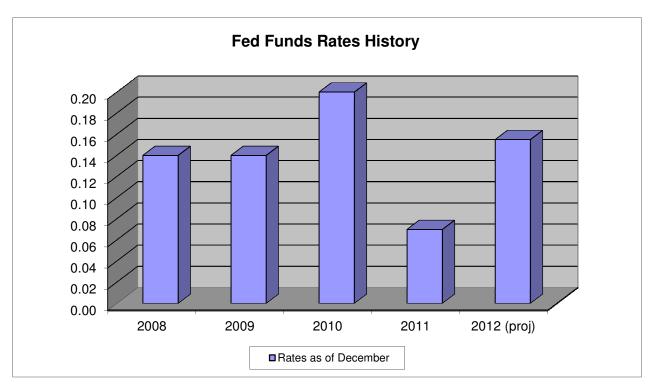


State Revenues

	2008	2009	2010	2011	2012	2013
Room & Meals	1,775,941	1,879,132	1,880,247	1,880,277	1,907,135	1,907,000
Revenue Sharing	1,164,121	1,164,161	0	0	0	0

Please note that the loss of all Revenue Sharing for FY's 2010, 2011, 2012 and 2013 is the equivalent of \$4,656,644. This revenue stream has been completely eliminated from the State budget and is not expected to resurface anytime soon.

Historically, a large revenue producer is interest income. The Fed Funds rate continues to be at historically low levels. In the past, when interest rates were 4-6%, it may not have been worth changing investments for a difference of 50 basis points. Today, most of the new investment options are yielding less than 50 basis points. Five years ago, interest income was approaching \$1.4 million annually for the City of Concord. For FY 2012, interest income revenue is expected to be slightly less than \$60,000.



Demand for Services and Use of Resources

Total service calls for Public Safety over the past year have increased by approximately 6.5%, following a 3.7% overall decline during the previous fiscal year. In FY 2013, it is anticipated to rise slightly above current levels. The demand for Human Services remains steady and the City continues to monitor the impact of the State's changes very closely. Recreation Department program registrations and interest in other recreation activities are up. Library visits and circulation are both significantly up. Demand for Library services and access to personal computers continues to increase, mainly due to the cost of personal computers and internet access for home use.

It is anticipated that long-term energy costs will continue to increase as the economy improves. The City is part way through an energy improvement program and has taken advantage of ARRA funding to make long-term energy saving improvements (solar domestic hot water at three fire stations and the water treatment plant; anti idling devices in several GSD vehicles and new LED crosswalks are in service). Several boilers and the HVAC system at the Fire communication center are expected to be replaced this year. Significant steps have been taken to reduce overall energy consumption and to aggressively participate in energy contracts to manage costs on a longer term basis. The City has entered into contracts to maintain stable electric rates for G2 accounts through 2014, and natural gas costs into FY 2013. It is important to note here that the impact of the contract with South Jersey Energy in conjunction with the Concord Power and Steam (CPS) project is an increase in electricity rates in both the water and wastewater plants (G1 accounts). Additionally, there is anticipated to be a decrease in revenue in both the Water and Wastewater Funds due to decreased usage with the new CPS plant. The offset to this project is

decreased steam costs in the General Fund and the addition of over \$500,000 each year in a payment in lieu of taxes for the project.

The capital project at the Everett Arena is complete. The rink's pipe bedding has been installed, improvements have been made to the entryway of the building and a new scoreboard was donated by Coca-Cola. In the past, General Fund support was needed for major capital improvements such as the locker room renovations. Now, the Arena Fund budget is fully supporting this capital investment. This could not have been accomplished without sound management and the support of major user groups like Concord Youth Hockey, area high schools and their athletic directors, the Capital City Hockey league, the Nor'easters Hockey League and non-ice using groups that rent the Arena in the summer for their events.

Major Initiatives for FY 2013:

- Plans for the development of a Parks and Recreation Foundation, for the purposes of enhancing capital resources, are still underway. With the anticipated transfer of the Dame School property to the City, and the proposed Multi-Generational Recreation Facility, the foundation plan is even more important.
- Parking Fund The fiscal condition of this fund can be described as starting to improve. FY 2011 finished with a loss of \$273,000 and with a positive working capital balance of \$350,000. FY 2012 is estimated to end with positive net revenues over expenses and an increase to ending working capital. This positive result is mainly due to a payment to the fund from the Bindery Project and significant efforts to collect old parking tickets. As City Council recognizes, close monitoring of the solvency of this fund has remained foremost in our fiscal monitoring activities. One unexpected challenge for FY 2013 is major structural improvements needed in both the Firehouse and Durgin Garages. Although the Durgin improvements will be partially offset by revenue from the Durgin trust, there will be a debt service impact in future years. While this fund will be positively influenced by continued downtown redevelopment, the City Council may need to consider either an increase in parking rates, as many communities have done; increased meter coverage area; or expanded hours of parking enforcement to include Saturdays and early evening hours. During FY 2013, it is recommended that the Parking Committee monitor the fund closely and determine necessary adjustments to ensure the Parking Fund's solvency.
- Golf Fund Significant effort has been put into Beaver Meadow Golf Course and the Golf Fund this past year. As part of the overall reorganization between General Services and Recreation, the Golf Course has seen a renewed focus on customer service, quality and playability of the course, enhancements to the appearance of the course, signage, and, most importantly, a philosophy that all areas of the Beaver Meadow Golf Course work together for one common goal. FY 2011 ended with a loss of \$64,000 and FY 2012 is on track to lose an additional \$61,000. The FY 2012 results are completely dependent on the final number of memberships that are purchased and the weather for greens fee play. The financials have been completely reworked to recognize the much lower revenue expectations, and significant adjustments have been made on the expenditure side of the operation as well. The FY 2013 budget focuses on course condition, customer service and ways to improve revenues.
- Other Funds Arena, Solid Waste, Airport, Engineering Inspection, and Property Management Funds round out the picture as more secure in their positions; however, continued focus needs to be maintained on year end positions.

- Financial Reporting FY 2012 marked a new financial reporting protocol. On a monthly basis, all departments receive a copy of the City-wide financial statement and executive summary report that outlines noteworthy areas to consider. This statement is then consolidated to a quarterly report for the City's Fiscal Policy Advisory Committee and the City Council. These statements are provided in lieu of the previous fiscal monitoring report.
- Library Hours and Programming Library hours over the past year have increased significantly from a total of 55 hours per week to 65 hours per week with a predictable schedule. This was accomplished while staff levels remain constant and funded at the same maintenance level as the previous year. The consolidation of staff work stations, continued investments in technology, and the shifting of staff resources allows for increased hours open to the public and enhanced program offerings for adults and children. These changes continue to provide for a more effective management of resources, which will allow for the Library to be open seven days a week, up from the previous six days per week. The metrics speak for themselves: Items Borrowed at Main Library (Children's) +5%, at Penacook Branch +33%; Audio and E-Books Downloaded +57%; Overall Traffic +11%; Classes & Events Attendance +16%; and PC/Internet Use in Hours +15%.
- Customer Service The City strives to provide exceptional customer service in all areas. The Tax Collectors Office is an excellent example of this effort. In addition to the regular hours, and without any additional funding requested beyond the current overtime budget level, this budget proposes for this office to remain open one evening each week until 6:00 PM to allow customers and citizens the ability to conduct business after regular hours. The City Treasurer has researched this option with other communities that currently remain open beyond the standard 4:30 time frame and most agree that citizens appreciate the service. An additional opportunity, with the State eliminating their MAPP system for auto registration, the Tax collector is working on the E-reg program which will allow customers to register their cars online with an electronic check. This will be completed in FY 2012 with no new funding request and it is anticipated that it will be in place before June 15th, 2012. This budget also proposes the City's acceptance of credit cards for motor vehicle and tax collections. A report from the Tax Collector will provide the details of the new proposal before the end of FY 2012 or early in 2013.
- Other Post Employment Benefits The rate of increase in the 'pay-as-you-go' appropriation for retiree health insurance is fast approaching the annual required contribution. It has never been more critical for the City to review all options for mitigating benefit levels and prefunding the OPEB obligation. It has been very challenging for the Council to allocate funds for this liability. However, the pay-as-you-go approach will continue for another 30-40 years. The City must continue to take a serious look at this issue and work towards alternatives to help reduce the future costs. June 30, 2011 reflected a significant increase in this accrued actuarial liability to \$44.6 million.
- Other new initiatives that are reflected in this budget are the projected impacts of the Concord Power and Steam project on the two utility funds; the move of the Prosecutor's and Human Services offices to new leased space somewhere in the downtown area; continued evaluation and movement towards the one to one staffing alternative at the Fire Department to better manage overtime expenses; managing Police Department vacancies; prioritizing snow plow routes to include the new elementary schools; labor negotiations strategies; and Legal/Assessing's utilization of in-house staff to defend the City on abatement cases. FY 2013 also includes funding for the State Primary and Presidential election and an adjusted budget for Human Services based on projected 2012 year-end expenses.

• Significant capital programs that are considered in the capital budget are additional funding for Eagle Square repairs; continued funding for the Route 3 corridor project; General Services equipment replacement; City Hall roof replacement; Information System website; structural repairs to the Firehouse and Durgin Garages; Multi-Generational Community Center preliminary design; and Police portable radio replacement.

General Fund Highlights

Summary of FY 2013 General Fund Budget Appropriations, Revenues and Tax Rate – Compared to the adopted FY 2012 budget, FY 2013 General Fund gross appropriations increased by \$644,000 or 1.3% of spending (this is comparing to the FY 2012 adopted budget, which included funding for the 53rd week payroll). Gross other revenues decreased by 2.3% (this is comparing to the FY 2012 adopted budget, which includes \$500,000 from trust for 53rd week payroll) with a net revenue increase of .25% or \$48,000. See Appendix B of this report for full details of changes by category of spending and revenues.

General Fund Budget Comparison Summary FY2012 Adopted Budget to FY2013 Manager's Recommended Budget

Revenues						
Description	FY 2012	FY 2013	Difference	%		
All Other Revenues	19,355,906	18,904,100	-451,806	-2.3%		
Property Taxes	31,558,832	32,654,333	1,095,501	3.5%		
Total Sources	50,914,738	51,558,433	643,695	1.3%		
Appropriations						
Description	FY 2012	FY 2013	Difference	%		
All Expenses	50,914,738	51,558,433	643,695	1.3%		
Total Use of Funds	50,914,738	51,558,433	643,695	1.3%		

53rd Pay Week

Starting in FY 2013, the City is anticipating accruing year-end payroll each year, eliminating the 53rd week blip and funding a reserve account. (Note that Comp Adjustment in the Miscellaneous section of this budget includes \$50,000 as partial funding for this accrual.) Over the next two years, this amount will be increased until it is consistent with the amount needed for each year's accrual and then remain steady from there on. The additional amount needed for the accrual is anticipated to be adjusted as part of the year end surplus for the next two years.

Tax Base Growth

This budget reflects a real growth increase of .45% to \$3.703 billion in the City's tax base for calculating property tax revenue. Market value change is not included in the target tax rate calculation. This increase is net of abatements and elderly/blind exemptions. While the growth of Concord's economy has slowed, our city remains attractive to new businesses and visitors.

Use of General Fund Surplus

This budget does not include the use of any General Fund surplus to offset the tax rate.

State Reductions

- State Revenues This budget reflects the permanent reduction from the State for Shared Revenues, a \$132,000 reduction in Highway Block Grant funding, and level funding of Rooms and Meals Tax.
- State Expenses This budget reflects Concord contributing the full State retirement contribution for Group II employees and no additional revenue from the State.

Shifting of Resources and Changes to the FY 2013 Budget

- Debt Service Shift For FY 2013, the General Fund budget continued the shift of a net \$168,000 of debt service costs to the Solid Waste Fund. This shift of debt service is for the Old Suncook Road Landfill and includes a \$43,000 annual reimbursement from the State's share of the debt.
- Gross Budgeting of Retiree Health Insurance Costs and Revenues The FY 2013 budget continues this change. While the FY 2012-2013 comparison is comparable, comparing to previous years will still reflect the variance of the shift. Please note the "Comp Increase & Retiree Health" line in the Miscellaneous section of the proposed budget. This change more clearly reflects the actual expenditures and revenues associated with this program. As a result, the gross appropriations and gross revenues will reflect corresponding increases. The net tax rate result remains the same as if the revenues and expenses were netted together, as they have been in previous budgets. Also note that this same change has taken place in the Water and Wastewater Enterprise Fund budgets with no net impact on the rates.

Reductions

- Manage Police vacancies savings \$159,850.
- Eliminate Firefighter position (vacant); add overtime savings \$50,000.
- Assessing appraisal and consulting services savings \$20,000.
- Move storm water labor savings \$31,930.
- Reduce Welfare Aid savings \$42,000.
- All other service reductions savings \$48,070.

Enterprise and Other Funds

The Water and Wastewater Funds need continued close monitoring. This year, the contribution to the overhead in the General Fund increased for Water (\$31,500), Wastewater (\$36,800) and Arena (\$1,100). Additionally, right-of-way maintenance contributions from the Water and Wastewater Funds remain at \$120,000 and \$55,000. FY 2012 remained solid for both utility funds with respect to units sold and revenues collected, and, ultimately, the projected year end fund equity position.

Wastewater and Water Funds Rate Increases

The FY 2013 projected Wastewater rate increase is 1.5%, and the projected Water rate increase is 1.5%; both below projections from the FY 2012 proformas. The driving factor in increasing rates in both funds is for necessary capital investments. A continued increase in rates in future years is necessary to maintain solvency in these funds.

Solid Waste Fund

Revenues are projected to be short of projection by \$122,000 and expenses short of projection by \$157,000. The FY 2012 expenses over revenue are projected to be \$95,000. The Pay-As-You-Throw (PAYT) Program for collection and disposal of municipal solid waste, now in its third year, has proved very successful. Recycling has become a mainstay in Concord, with the latest figures demonstrating that solid waste volumes are down 52% and recycling volumes are up 59% since the advent of the program.

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With this success comes the need to consider adjustments to the PAYT bag prices in order to maintain the Fund's solvency in future years. I recommend that the SWAC continue to consider this issue in FY 2013 and provide a recommendation to the City Council that will include projections for the next five years.

BUDGETARY CHALLENGES ASSOCIATED WITH PREPARING THE FY 2013 GENERAL FUND OPERATING BUDGET

CITY OF CONCORD FISCAL POLICY ADVISORY COMMITTEE FY 2013 GENERAL FUND OPERATING BUDGET GAP UPDATE – February 2012

The presentation to the Fiscal Policy Advisory Committee (FPAC), and subsequent report to City Council, in February 2012, outlined the following budgetary challenges for FY 2013. The gap of \$3.8 million represents an 11.95% increase needed in the tax rate. Ultimately, FPAC recommended, and the City Council agreed, not to set a specific target tax rate increase. Instead, the message to the City Manager was to bring a responsible budget to the City Council that was in keeping with the Council's priorities and goals.

How the Gap was Eventually Closed

Revenue Difference Between the Model and Recommended Budget

Increases in revenues played a role in closing the gap. The most significant items that exceeded the model projections are listed below. Overall, miscellaneous non-tax revenues exceeded the model by 2.3% or \$434,000.

The other major differences are:

- \$152,000 Motor Vehicle Registrations
- \$150,000 Ambulance Service Charges
- \$175,357 Transfers in from Other Sources
- \$170,485 Transfers in from Trust

	FY2013			
	Proposed		Model Less	
Item of Revenue	Budget	FY13 Model	Proposed	Percent
MV Registrations	5,300,000	5,148,000	(152,000)	-3.0%
Ambulance Service Charge	1,300,000	1,150,000	(150,000)	-13.0%
Fees & Charges-Programs, Services & Products	1,893,376	1,887,096	(6,280)	-0.3%
Fines, Penalties & Costs	722,000	781,235	59,235	7.6%
Franchise Fee	730,000	700,000	(30,000)	-4.3%
Intergovernmental-Federal	115,500	95,000	(20,500)	-21.6%
Intergovernmental-Local	617,210	590,048	(27,162)	-4.6%
Intergovernmental-State	125,900	126,000	100	0.1%
Highway Block Grant - State	756,590	754,305	(2,285)	-0.3%
Rooms and Meals Tax - State	1,907,000	1,880,000	(27,000)	-1.4%
Investment Income	60,000	98,380	38,380	39.0%
Licenses and Permits	995,982	1,062,184	66,202	6.2%
Miscellaneous-Donations	5,700	10,506	4,806	45.7%
Misc-Miscellaneous	67,200	149,531	82,331	55.1%
NHRS Share of Retiree Health Insurance	1,057,900	1,180,385	122,485	10.4%
Retiree Share of Health Insurance	516,320	506,340	(9,980)	-2.0%
Capital Contributions	25,250	19,140	(6,110)	-31.9%
Other Taxes	624,912	620,123	(4,789)	-0.8%
Transfers-In Other	1,473,590	1,278,233	(195,357)	-15.3%
Transfers-In Trust	609,670	434,065	(175,605)	-40.5%
Total Revenues	18,904,100	18,470,571	(433,529)	-2.3%
Amount to be Raised by taxes	33,220,172	34,644,645	1,424,473	4.1%
Total Sources of Revenue	52,124,272	53,115,216	990,944	1.9%

Appropriation Difference Between the Model and Recommended Budget

The real contributors to closing the gap came from appropriation reductions from the model. Among the prime items were:

- \$194,000 Benefits and fringes lower than model.
- \$539,661 Retiree health insurance increase limited to 5.9% for retirees under age 65, and 1% for retirees over age 65.
- \$183,000 Transfers out to other funds, namely a \$118,000 reduction in transfer to the Capital Projects Fund and a \$20,000 reduction in transfers out to trusts.
- \$17,000 Reduction in overlay.
- \$1,424,473 From 2.87% tax rate increase.

	FY2013		Model Less	
Item of Appropriation	Proposed Budget	FY13 Model	Proposed	Percent
Compensation	23,596,265	23,577,385	(18,880)	-0.10%
Retirement	3,467,740	3,480,763	13,023	0.40%
Beneflex	6,634,890	6,812,030	177,140	2.60%
Fringe Benefits	2,177,227	2,180,882	3,655	0.20%
Allocated Costs	(605,080)	(632,307)	(27,227)	4.30%
Supplies	2,393,770	2,321,061	(72,709)	-3.10%
Outside Services	1,974,474	1,858,809	(115,665)	-6.20%
Miscellaneous	1,095,630	1,130,624	34,994	3.10%
Utilities	1,175,710	1,142,794	(32,916)	-2.90%
Insurance	462,857	453,921	(8,936)	-2.00%
Retiree Health Insurance Costs	2,382,240	2,921,901	539,661	18.50%
Transfers Out - Solid Waste	1,410,000	1,410,000	-	0.00%
Capital Outlay	155,080	206,924	51,844	25.10%
Transfers Out	724,520	907,321	182,801	20.10%
Debt Service	4,513,110	4,750,000	236,890	5.00%
Total Expenditures	51,558,433	52,522,108	963,675	1.80%
Owerlay	300,000	317,000	17,000	5.40%
Service Credits	265,839	276,108	10,269	3.70%
Total Uses of Funds	52,124,272	53,115,216	990,944	1.90%

Mandated Services

All departments previously conducted a review of services mandated by State Law. A listing was assembled by the departments. The effect of this listing was to reinforce to Administration and the Fiscal Policy Advisory Committee the need to focus funding where it is most required. Mandates continue to play a critical role in the budget decision-making process.

Closing Notes on Fiscal Year 2012

Contrary to the conclusion of FY 2011, FY 2012 saw almost no snowfall; however, there were more than 20 treatable snow and ice events. The savings recognized in Snow and Ice Control is approximately \$200,000. Without needing to spend time on snow and ice removal issues, crews were able to complete other road, culvert and brush clearing work that otherwise would not have been accomplished.

The significant investments made in the City's two downtowns continue to pay dividends. In addition to the projects recently completed, Downtown Concord will see the redevelopment of the old Bindery site and the Endicott Hotel; Manchester Street has seen two significant new auto dealership buildings; Loudon Road is experiencing the complete reconstruction of one fast food restaurant and a new big box drug store, and new construction is taking place on D'Amante Drive in the area of the Steeplegate Mall complex. City construction projects continue with neighborhood road paving, continuation of the Route 3 corridor project, water main replacements on Loudon Road, and a significant odor control project at the wastewater plant. Upcoming for FY 2013 and the future are plans for the Sewalls Falls Bridge and the new Multi-Generational Community Center.

Downtown Penacook has seen the clean-up of the former Tannery site, the City's acquisition of additional property for redevelopment purposes, a new building within the Penacook TIF District and improvements to the water infrastructure.

Continued improvements to Downtown Concord remain a high priority. The City's contribution to Intown Concord, Inc. is proposed to be funded through the Economic Development Reserve. In-town Concord, Inc. is working with the City and a myriad of other organizations regarding the continued idea of reconstructing Main Street.

The reorganization of the General Services Department-Grounds Division with the Recreation Department is complete and starting to pay initial dividends. The focus on customer service for one stop shopping with parks/grounds and recreation has streamlined the chain of command and ability to have issues addressed very quickly. There is a renewed focus on Beaver Meadow Golf Course, course improvements and increased levels of customer service.

Challenges Looking Ahead

- State/Local Government Relationship Reports indicate that the economy is improving mildly nationwide, and certainly the unemployment rates in Concord and New Hampshire indicate the same. The State continues to look for ways to reduce its expenditures and expand its revenue base. The recent court decision regarding the retirement system increasing the employee contributions is likely to be resolved during FY 2013 and the potential impact of the results are yet to be seen. The City also continues to work with the State on projects like the Sewalls Falls Bridge funding, the Old Suncook Road Landfill, the Concord Power and Steam generating facility project and, most recently, as part of a consortium with other communities for purchasing of commodities and other commonly used products. Creating strong working relationships with the State will be crucial to the long term success of this community and the future prosperity that we fully expect will occur.
- Solid Waste/Recycling Cost Increases The City has recently rescinded its interest in participating with the Concord Regional Solid Waste/Resource Recovery Cooperative (Co-op) single stream recycling project. While this plan originally may have had some merit, as time passed and the potential liability to the City continued to increase, the business plan for this project became less and less desirable. However, the City does continue to have interest in single stream recycling and will be considering other alternatives to accomplish this goal with significantly reduced costs. Looking forward, it appears that the financial advantage of the attractive solid waste disposal costs that the Coop has provided the City for over 20 years is no longer a financial advantage, and the Co-op is actually using reserve funds to decrease tipping fees to levels that are more competitive in the general marketplace. A significant reduction in the region's solid waste volumes due to the economic downturn, coupled with increased recycling efforts, are driving tip fees upwards since there is a smaller base of solid waste to spread the Co-op's fixed costs. Strong consideration will need to be given to continue participation in the Co-op past 2014. The significant reduction in solid waste volumes and increased level of recycling that we have observed with the adoption of Pay-As-You-Throw will continue to serve us well. However, the Pay-As-You-Throw Program warrants close monitoring, as expenses currently outpace revenues. The Solid Waste Advisory Committee will need to review the cost of bags and consider the timing of future bag cost increases. Continued fine tuning of this program is needed to achieve its long term objectives. An additional threat looming over the City is the Old Suncook Road Landfill site and the potential State-mandated closure costs which will have a significant impact on costs for this fund and the City. These costs are acknowledged in CIP #381 and may necessitate an increase in the General Fund Transfer.

• Energy Cost Increases – The City has entered into contracts for natural gas and electricity that will keep these budgeted costs somewhat level through 2013 and into 2014. The exception will be the cost of electricity associated with the two utilities and the South Jersey Energy contract. As explained earlier in this letter, the utility funds and G1 electricity accounts will realize an increase in electricity costs based on the cooperative agreement between the State, City, South Jersey Energy and Concord Power and Steam; and a reduction in water/wastewater revenues due to decreased usage. The benefit to the City will be realized by the General Fund through reduced steam costs and a significant payment in lieu of taxes revenue stream for future years from Concord Power and Steam. Other wild cards are the volatile costs of gasoline, diesel and No. 2 heating oil. In the recent past, the City has purchased contract pricing for these fuels. The current climate makes a long-term commitment less than desirable and the City is currently purchasing on the spot market pricing. Internally, the City meets regularly to discuss and make decisions on the right time to buy into longer-term agreements. Lessons have been learned from past long-term purchases at the peak of the market. Long-term energy costs are expected to continue to rise as the economy improves and demand expands in China and other Asian markets.

Outlook for the Future

This proposed budget is a team effort from start to finish. The department heads and City staff embraced the City Council's goals and worked all year to diligently meet them. Concord has positioned itself well. We are fortunate to live in a community that is attractive to residents, businesses and visitors. We will continue to face challenges, in large part due to the continued down-shifting of the State's costs onto the City. We must meet these challenges and create our own opportunities through continued superior service delivery and planned investment in our infrastructure, while keeping the tax rate at a manageable level.

The City of Concord is in the process of achieving an urban renaissance. Most of the major demographic trends now at work are in favor of an urban presence, at least among a significant cohort of the emerging adult population – smaller households, later marriages, decisions to not marry at all, decisions not to have children, the emergence of a large and active baby boom population in its 60s and 70s – point to some form of re-emergence of urban choice. As the economy recovers, the demand for urban housing will outgrow supply. The more people are enabled by technology to communicate with one another while remaining physically isolated, the more they will need a physical form of social life. Those that have a choice will move to cities with a high quality of life in order to experience the things enjoyed a century ago: evening activities, café sociability, casual acquaintances they meet on the sidewalk every day, and local merchants who recognize them.

Concord must remain competitive! Knowledge-based workers can choose to live anywhere they desire, and this trend will continue into the foreseeable future. Attracting and retaining people and businesses that will continue to add value to the community will require that the City make investments in quality of life issues. Simply put: place matters.

I recommend this budget to the City Council.

Appendix A Capital Improvement Program (CIP)

General CIP Overview: Municipalities are empowered by NH RSA 674:5 to create a Capital Improvement Program (CIP) for the purpose of planning for the orderly and coordinated implementation of capital investments in facilities, infrastructure, and equipment for a period of at least six (6) years. In Concord, capital projects are funded by a variety of sources, including, but not limited to, the General Fund (general obligation bonds, capital transfers/outlays, and reserve funds); impact fees; water and sewer investment fees; State and Federal grants; bonds and capital transfers supported by Enterprise Funds (such as the airport, arena, golf, parking, water and sewer funds); as well as grants. The City has been diligently preparing a Capital Improvement Program as part of the annual budget process since the early 1990s.

FY 2011 marked the introduction of an expanded planning horizon from 6 to 10 years. This will allow the City Council and Administration to better schedule major capital expenditures in order to help avoid spikes in the City's tax rate, as well as rates and charges assessed by the City's various enterprise funds. The FY 2013 CIP continues the use of this expanded planning horizon.

Although the CIP includes projects scheduled over the next 10 years, the FY 2013 budget only appropriates funding for those projects to be completed during the upcoming fiscal year. Specifically, as part of the budget process, cash outlays from the General Fund, various reserve funds, and the enterprise funds are appropriated as part of the City's budget adoption process. In keeping with practices enacted in FY 2012, the budget resolution will also appropriate most bonded projects, alleviating the need to have separate appropriation actions throughout the year. However, a total of eight (8) projects have been omitted from the appropriation resolution – as denoted by an asterisk – as these projects require matching funds from the State or Federal government or donations in order to move forward. In other cases, the projects are still preliminary in nature or are subject to ongoing discussions or negotiations with regulators or other third parties. These projects will be presented for City Council approval when confirmation for outside funding has been received. Funding commitments for the ensuing "out years" of the CIP (i.e. FY 2014 – 2022) will be reviewed as part of the budget adoption process for those respective fiscal years.

The proposed Capital Improvement Program runs from FY 2013 to FY 2022. The ten-year CIP totals \$261,494,225, all funding sources combined.

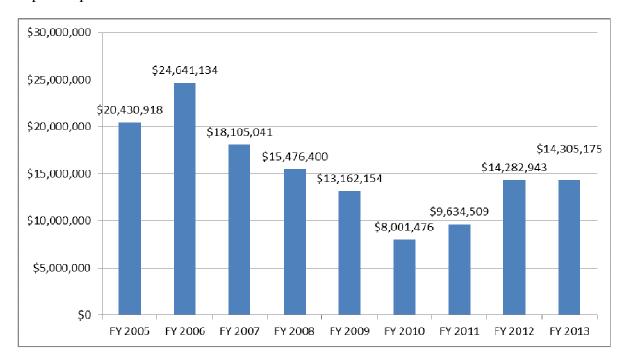
<u>Selection and Prioritization of Capital Projects</u>: The proposed Capital Improvement Program budget for FY 2013 totals \$14,305,175 million (all funds, all sources). This amount is essentially unchanged from FY 2012. While the City's financial situation has stabilized since the global financial collapse in late 2008, the City's financial position remains not as robust as it once was and capital spending remains at historically low levels. Therefore, in keeping with past practice, all capital projects proposed for FY 2013 were reviewed and recommended for funding only if they satisfied one or more of the following criteria:

- 1. The project will maintain or improve health, safety, or welfare of the general public or City personnel;
- 2. The project effects critically needed maintenance for key infrastructure, facilities, or equipment, whereby deferred maintenance would severely impede municipal operations;
- 3. The project will result in dramatic efficiencies or cost savings for delivery of municipal services;
- 4. The project will better position the City to undertake certain priority projects as the City's economic and fiscal circumstances improve;

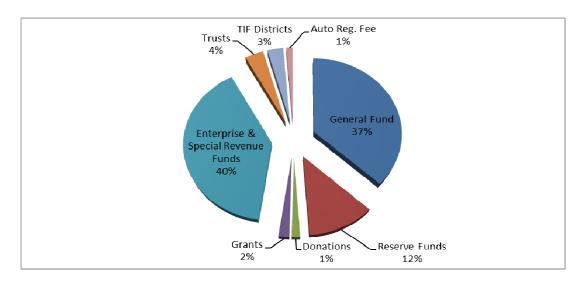
- 5. A significant portion of the project can be financed by sources other than the General Fund or Enterprise Funds; or,
- 6. The project implements a City Council goal or priority.

Key details of the FY2013 Capital Budget are as follows:

1. Total Spending: The total proposed CIP for FY 2013 is \$14,305,175, including \$300,000 in funds for CIP #443 - City Wide Community Center, which were previously included in the FY 2012 Budget and never appropriated. The FY 2013 total CIP spending is essentially unchanged from FY 2012's amount of \$14,282,943 (budget to budget; all funds all sources). A comparison of capital expenditures since FY 2005 is below.

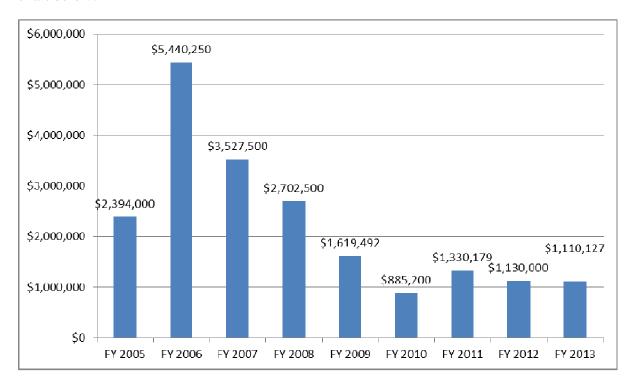


2. Spending by Funding Source: The \$14,305,175 CIP is comprised of the following funding sources:



3. Highway & Sidewalk Improvements:

a. For FY 2013, the Annual Highway Program has been consolidated from four separate capital projects into one, CIP #78. Recommended funding for FY 2013 is \$1,110,127. This amount is essentially unchanged from the FY 2012 level of \$1.13 million and FY 2011 of \$1.33 million, respectively. Spending on this program remains at historically low levels. See the chart below:



- b. \$2,394,225 has been budgeted to continue the City's ongoing commitment to complete reconstruction of the Route 3 North Corridor from downtown Concord to Penacook Village (CIP #35). These funds will be used to construct the portion of the roadway between Stark Street and the Boscawen Town Line;
- c. \$200,000 has been included to re-signalize the Fruit / Pleasant / Warren Street intersection (CIP #283).

4. Economic Development Initiatives:

 a. \$430,000 is recommended for acquisition of the final pieces of real estate required for the new Storrs Street / Constitution Avenue connector roadway to be funded by the North-End Opportunity Corridor Tax Increment Finance ("NEOCTIF") District (CIP #18).

5. Vehicle & Equipment Purchases:

a. \$1,162,000 is recommended for new vehicle and equipment purchases for the General Services Department Fleet. Major purchases include three 10-wheeled dump trucks (\$526,000), a new Vactor truck (\$350,000) and two new sidewalk plows (\$160,000).

b. \$662,000 has been included in CIP #4 for purchase of new Fire vehicles. Major purchases include two new ambulances.

6. Building Repairs:

- a. \$501,328 has been programmed for repair and replacement of the City Hall roof (CIP #65).
- b. \$45,000 has been budgeted for demolition of #10 Prince Street, which was acquired in October 2011 (CIP #65).
- c. \$60,000 is programmed to make repairs to the fire suppression system at the Combined Operations and Maintenance Facility ("COMF") (CIP #323).
- d. \$15,000 has been included for maintenance of the City Library's fire alarm and sprinkler systems (CIP #551).

7. Parks & Recreation:

- a. \$875,000 is recommended for design of the new Multi-Generational City Wide Community Center. This includes \$300,000, which was previously carried in the FY 2012 budget but never appropriated. This project will be funded through a mixture of donations, General Fund supported bonds, and an appropriation from the Recreation Foundation. See CIP #443 for details.
- b. \$175,000 has been programmed for Phase II repairs of Eagle Square (CIP #281). Funds will replace all "Z-brick" within the plaza and will supplement the \$245,894 appropriated in FY 2012 for other improvements to the Square.
- c. \$10,000 has been carried for costs associated with an interim athletic field at Terrill Park (CIP #59). This will supplement \$135,000 in funds previously included within the CIP in FY 2012; of which \$60,000 were appropriated and \$75,000 were unappropriated donations.
- d. \$10,037 is programmed for repointing of the White Park Bridge (CIP #51)

8. Public Safety:

a. \$100,039 is programmed for Phase 2 of a three-part project to replace the Police Department's portable radios (CIP #368).

9. Technology:

- a. \$165,427 has been recommended for CIP #2, the City's annual computer hardware and software upgrades.
- b. \$33,000 has been carried for completion of the redesign of the City website (CIP #302). This supplements \$67,000 appropriated in FY 2012 for overhaul of the website.

- c. \$28,000 has been included for upgrade of the Library automation servers (CIP #477).
- d. \$13,500 has been programmed to replace the City Hall third floor photocopy machine (CIP #130).

10. Airport:

- a. \$230,000 has been budgeted for the replacement of the front end loader (CIP #77). Of this total, 95% of the cost will be paid for by the State and Federal grants.
- b. \$12,554 has been budgeted for maintenance of the fuel farm (CIP #471).
- c. \$21,028 has been carried for miscellaneous pavement improvements (CIP #75).

11. Parking:

a. \$1,570,116 has been carried for structural repairs to the Durgin and Firehouse Block garages (CIP #432 and #433).

12. Water System:

- a. \$2,299,711 is recommended for Phase II water main replacement in Loudon Road, between Canterbury Road and Branch Turnpike (CIP #85).
- b. \$300,000 has been carried for improvements to the Water Plant (CIP #88).

13. Sewer System:

a. \$252,382 has been carried for additional repairs and improvements to the Hall Street Wastewater Treatment Plant (CIP #104), and \$146,500 has been carried for improvements to the Penacook Plant (CIP #466).

14. Solid Waste:

a. \$285,000 has been tentatively programmed for interim improvements and ongoing permitting and monitoring activities at the Old Suncook Road Landfill (CIP #381).

Summary and Detail reports of the capital program are described in the Capital section of this budget.

Total Expenditures

Appendix B							
General Fund Budget Comparison by Category							
FY2012 Adopted Budget to							
FY2013 Manager's Recommended Budget							
DINTENTING							
REVENUES Recommended Percen							
Category of Revenue	FY 2012 Adopted	FY 2013 Budget	Change				
Taxes	\$ 31,558,832	\$ 32,654,333	3.47%				
Other Taxes	5,811,983	5,922,912	1.91%				
Licenses and Permits	1,047,049	980,800	-6.33%				
Department Service Charges	3,153,471	3,376,896	7.09%				
Federal and State Shared-other	1,363,240	1,308,300	-4.03%				
Highway Block Grant	867,017	756,590	-12.74%				
Rooms and Meals	1,880,000	1,907,000	1.44%				
Inspection Fees	82,035	85,932	4.75%				
Fines and Penalties	216,000	189,000	-12.50%				
Rents and Leases	233,321	226,390	-2.97%				
Transfers - in Trust	968,600	609,670	-37.06%				
Transfers - in Enterprise Funds	1,279,170	1,473,590	15.20%				
Miscellaneous	2,154,020	2,067,020	-4.04%				
Fund Balance	300,000	-	-100.00%				
Total	\$ 50,914,738	\$ 51,558,433	1.26%				
4	APPROPRIATIONS	D 11	D 4				
Color of A	EV2012 A L. 4. I	Recommended	Percent				
Category of Appropriation	FY2012 Adopted	FY2013Budget	Change				
Compensation	\$23,390,665	\$23,596,265	0.88%				
Fringe Benefits	14,348,102	14,662,097	2.19%				
Outside Services	1,858,809	1,974,474	6.22%				
Supplies	2,275,550	2,393,770	5.20%				
Utilities	1,088,375	1,175,710	8.02%				
Insurance	432,306	462,857	7.07%				
Capital Outlay	197,070	155,080	-21.31%				
Debt Service Miscellaneous	4,544,206	4,513,110	-0.68% -2.13%				
Allocated Costs	1,119,430 (613,890)	1,095,630 (605,080)	-2.13% -1.44%				
	2,274,115	2,134,520	-1.44% -6.14%				
Transfers out	2,274,115	2,134,320	-0.14%				

\$50,914,738

\$51,558,433

1.26%