

# CITY OF CONCORD

**DATE:** May 9, 2014

**TO:** Honorable Mayor James Bouley and the Concord City Council

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

**SUBJECT:** Fiscal Year 2015 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, 2014 through June 30, 2015.

The objective of this Transmittal Letter is to highlight Fiscal Year 2015 budgetary opportunities and challenges. This budget is presented with a slowly recovering economy, both regionally and nationally, and continued loss of state funding.

The City continues to make significant investments in its infrastructure and management of daily operations in order to meet the needs of the citizens and community. The City is currently in an excellent position to capitalize on the improving economy as it takes hold over the next few years.

This organization has seen many accomplishments during Fiscal Year 2014 including:

- Final approval of the Sewalls Falls Bridge project;
- Replacement of the Fire Department's Engine 4, which is expected to be delivered in June 2014;
- Completed successful implementation of the General Services Department Citizen Tracker, Report a Concern program;
- Improvements to the Memorial Field parking lot, press box and Doane Diamond;
- Major improvements to downtown Penacook in conjunction with the Route 3 North project;
- Approval of the Loudon Road project;
- Achieved a record high solid waste recycling rate;
- Opened a new skating pond at Beaver Meadow Golf Course;
- Opened the West End Farm Trail; and
- Acquired 270 acres in the Broken Ground area for permanent conservation.

Fiscal Year 2015 will again bring significant investments in the City's infrastructure. The overall Capital Improvement Program continues to be very aggressive. The Capital Improvement Plan (CIP) includes:

- \$2,500,000 for the **FINAL** phase of the Route 3 North Corridor Improvements;
- \$200,000 for the replacement of the concession stand at Memorial Field;
- \$175,000 for the replacement of the wood floor at the Green Street Community Center;
- \$85,000 for temporary pool repairs at Keach, Merrill, Kimball and Rolfe Parks;
- \$652,000 for the design of the new Citywide Community Center;
- \$550,000 for continued improvements to the Police Station, including door and window replacements;
- \$1,785,000 in sewer system improvements, including mains rehabilitation, pump station improvements, and Hall Street plant renovations;
- \$600,000 for Horseshoe Pond drainage improvements;
- \$1,138,000 for the annual Highway Improvement Program;
- \$1,930,000 in water system improvements, including the meter project and plant and pump station upgrades; and
- \$70,000 for the Golf Course Mitigation Project in conjunction with the new pond.

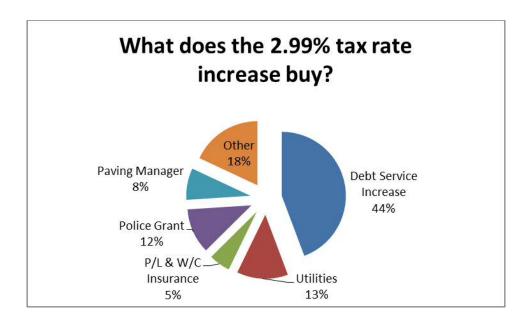
The Fiscal Year 2015 CIP budget continues the City's commitment to its water, wastewater, and highway infrastructure needs. For Fiscal Years 2008 through 2015 the following amounts have either been approved or are anticipated to be approved, inclusive of this budget:

- \$10.6 million for water distribution system upgrades;
- \$3.3 million for the Hall St. Wastewater Treatment Plant Odor Control Improvements (CIP #89);
- \$8.8 million for ongoing pavement rehabilitation in the City's neighborhoods; and
- \$18.9 million for the Route 3 North Corridor project.

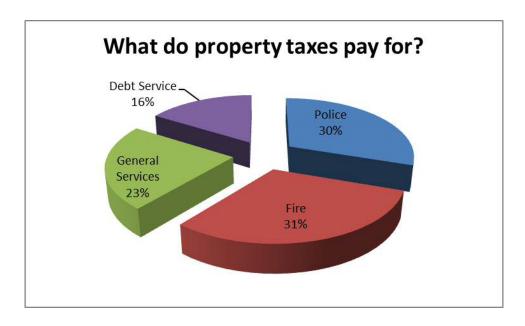
This budget is presented with a 2.99% proposed tax rate increase. The additional revenue derived from this increase will go entirely to support:

- \$131,900 in increased utility costs;
- \$54,900 in increased workers comp and property/liability insurances costs:
- \$116,400 for the final year of the Police Department of Justice grant commitment;
- \$81,400 inclusion of the paving manager position onto the General Fund instead of the CIP so as to increase the amount of paving work;
- \$452,000 debt service increase for projects underway; and
- \$170,000 in other budgetary increases (equivalent to 0.5% on the tax rate).

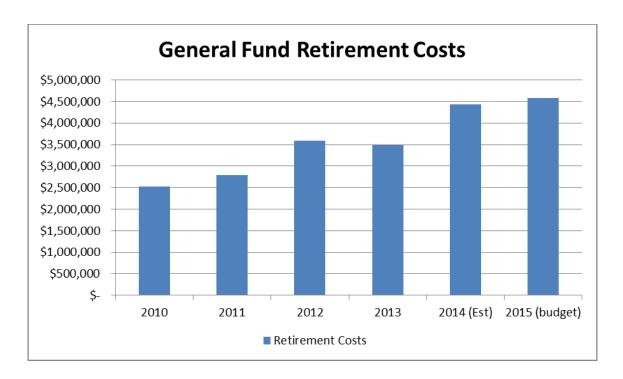
Additional note: Notwithstanding the above tax rate increase, the City has achieved its fiscal goal of maintaining debt service under the Council's fiscal goal of 10% of expenses.



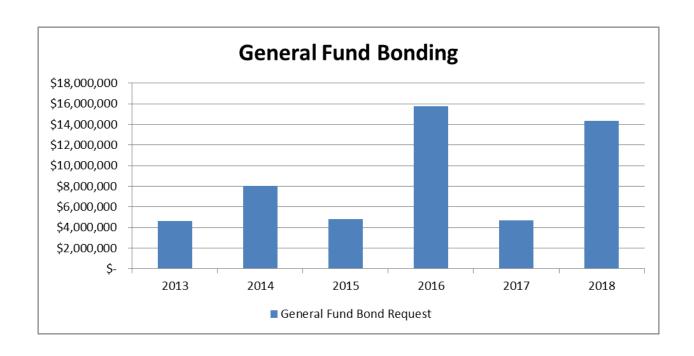
The total Fiscal Year 2015 General Fund Operating budget is \$54,989,019 and the amount to raise in taxation is \$35,313,115. This amount essentially supports Police, Fire and General Services operations (less associated revenues) plus debt service, totaling \$33,705,165.



Due to State funding changes in the Retirement System, this expense has grown considerably in the past few years and now consumes 8.2% of the overall General Fund budget and just under \$4.6 million for Fiscal Year 2015.



For Fiscal Year 2015, the General Fund CIP budget presents total bonding needs of \$4.825 million, and includes the final phase of the Route 3 North Corridor project, continued General Services Equipment Replacement Program (two new sidewalk tractors and a highway grader), Police Station Building Rehabilitation, design of the Citywide Community Center, and other smaller projects. The graph below illustrates the bond projections from Fiscal Years 2013 through 2018.



Notwithstanding the above, the City of Concord has been successful in maintaining a stable budget while continuing to provide very high quality services. However, a recent legal ruling striking down the Medicaid Enhancement Tax on New Hampshire hospitals, and the subsequent announcement by Standard and Poor's that they are placing the State of New Hampshire's bond rating on a negative watch, illustrates the continued pressure on the State finances and leaves in question what their next move will be to balance their own budget in the coming years and what impact may be passed down to local municipalities.

# **Balanced Budget Financial Position and Improved Services**

This is the sixth year in a row of proposing a balanced budget to the Concord City Council without using unassigned fund balance. A truly balanced budget continues to improve the City's overall fiscal health. The strongest indication is the 2013 Fiscal Year End Unassigned Fund Balance of \$9.1 million dollars or 18.7% of expenditures, which is ahead of the City Council's goal of 17.5%.

Despite the difficult economic environment of the past years, Concord continues to maintain and improve City services and programs. Addressed in this budget document are the priorities of the City Council: a balanced budget; expansion of the tax base; public information and communications; and a Parking Fund Master Plan. Specific projects identified in the priorities are: Downtown Complete Streets Project; Citywide Multi-Generational Community Center; Opportunity Corridor Development Initiatives, including South Main Street, Penacook Village, Downtown 2<sup>nd</sup> & 3<sup>rd</sup> Floor Redevelopment, and North Central Opportunity Corridor/Storrs Street Connections & South End Rail Yard; and expansion of the Neighborhood Street Improvement Program. The Council priorities also include completion of the ongoing initiatives that the City has underway.

The City's pragmatic financial policies have paid dividends in the form of a very high credit rating. Standard and Poor's upgraded the City from AA to AA+ in May 2013 citing "Very strong management conditions, very strong budget flexibility, adequate budget performance and very strong liquidity." Moody's Investors Service affirmed the City's Aa1 rating at the bond sale in January 2013. Moody's cited the City's very strong fiscal position and sound fiscal policies, as well as its experienced and capable management team. Both rating agencies maintain that the City must remain cognizant of depleting its General Fund balance.

Concord remains in a better financial position than most other communities in New Hampshire, the State government, and the nation. In 2014, the Policom Corporation once again ranked Concord as the #1 micropolitan economy in the United States. This distinction is attributable, in part, to the City's sound financial management practices, stable labor market, and low unemployment rate. 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 ongoing capital needs primarily in public buildings, neighborhood streets, and the storm water system.

# **Changes in Positions and Improved Operating Efficiency**

City Department Heads and staff continue to provide excellent services to City residents and the business community. The Fiscal Year 2015 budget recommends no new positions.

Downtown Concord and Downtown Penacook are significant assets that need to be protected and nurtured. However, the complexity of the various issues and the differing needs of the many stakeholders in each can challenge the coordination of service delivery and the maintenance of a sustained vision. Given the planned improvements in downtown Concord, new operation and maintenance costs to support the Complete Streets Project will be considered by the City Council separately and as part of the total project approval. This same approach will be applied to the Citywide Community Center Project.

#### Fiscal Resources

Although fiscal resources continue to be scarce, some non-tax revenue sources are showing signs of improvement. Auto registrations improved for Fiscal Year 2014 and are anticipated to be ahead for Fiscal Year 2015. Ambulance service charges are trending lower for Fiscal Year 2014 and no additional growth is anticipated for Fiscal Year 2015. Rooms and meals revenue is expected to increase slightly for Fiscal Year 2015. Recreation fees did not materialize as anticipated in Fiscal Year 2014 and are budgeted lower for Fiscal Year 2015. This budget allocates these limited resources to meet the City's legal obligations, core service priorities, and facility maintenance needs. The groundwork for greater efficiency in service delivery and reduced overhead costs began in past budgets and continues here.

Historically, a large revenue producer is interest income. The Federal 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 0.25 - 0.5%. Today, most of the new investment options are yielding less than 0.5% annually. For Fiscal Year 2014, interest income revenue is expected to be approximately \$25,300 in the General Fund.

#### Demand for Services and Use of Resources

Total service calls for Public Safety over the past year have decreased by approximately 6.0%, following a 1.6% overall decrease the previous fiscal year. In FY 2015, the volume of service calls is anticipated to rise slightly above current levels. The demand for Human Services remains steady and the City continues to monitor the impact of changes by other governmental entities very closely - namely the Federal fuel assistance program which would have the most significant impact. Parks & Recreation Department program registrations and interest in other recreation activities are up and ongoing changes are made to meet demands. Library circulation is down slightly, however the demand for Library services and access to personal computers remains strong.

It is anticipated that long-term energy costs will continue to increase as the economy improves. The City is anticipating a more than 30% increase in both electricity and natural gas costs as current contracts expire from July through December 2014. The City will be completing the replacement or upgrading the boilers/HVAC systems at the Manor and Broadway Fire Stations during the remainder of Fiscal Year 2014 and the beginning of Fiscal Year 2015. Improvements at the Heights Fire Station are on hold pending completion of a facility assessment project. This continues the significant steps that have been taken to reduce overall energy consumption city-wide.

# General Fund Highlights

Summary of Fiscal Year 2015 General Fund Budget Appropriations, Revenues and Tax Rate – Compared to the adopted Fiscal Year 2014 budget. For Fiscal Year 2015, General Fund gross appropriations increased by \$1,534,987 or 2.9% of spending.

# General Fund Budget Comparison Summary FY2014 Adopted Budget to FY2015 Manager's Recommended Budget

Revenues				
Description	FY 2014	FY 2015	Difference	%
All Other Revenues	\$19,740,202	\$20,241,054	\$500,852	2.5%
Property Taxes	\$33,713,830	\$34,747,965	\$1,034,135	3.1%
Total Sources	\$53,454,032	\$54,989,019	\$1,534,987	2.9%
Appropriations				
Description	FY 2014	FY 2015	Difference	%
All Expenses	\$53,454,032	\$54,989,019	\$1,534,987	2.9%
Total Use of Funds	\$53,454,032	\$54,989,019	\$1,534,987	2.9%

#### Tax Base Growth

This budget reflects no real growth increase to the \$3.793 billion City tax base used in calculating property tax revenue. This increase is net of abatements and elderly/blind exemptions. Market value change is not included in the target tax rate calculation. 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 Funding Impacts**

- State Revenues This budget reflects the permanent reduction from the State for shared revenues, a continued \$108,000 reduction in Highway Block Grant funding, and an increase in funding of \$160,000 for Rooms and Meals Tax. Concerning the Meals and Rooms Tax revenue, it is important to note that the City is disadvantaged in two ways when it comes to the distribution of this revenue source. First, the distribution formula does not recognize that the funds are generated as a function of economic activity and not according to relative population size. Second, the State has not achieved the legally mandated level of revenue distribution to the municipalities. The law was initially intended to have the State return 40% of the collection to municipalities and keep the remaining 60%. However, the State has not yet reached that level of revenue distribution. The distribution to municipalities is at 25% and not the legislatively mandated 40%.
- State Expenses This budget reflects Concord contributing the full State retirement contribution for Group II employees with no additional revenue from the State; and a continued substantial increase in the retirement rates for both Group I and II employees.

#### Tax Increment Finance (TIF) Districts

Currently the City has three tax increment finance districts. These are the North End Opportunity Corridor TIF (NEOCTIF), Sears Block TIF, and Penacook Village TIF. Since 1998, the City has invested a combined \$25.2 million in infrastructure improvements in these three districts. This investment has yielded total new development valued in excess of \$76.7 million. The NEOCTIF and Sears Block TIF have exceeded expectations. While still in its infancy, the Penacook Village TIF, enacted in 2010, is performing well, despite limited development activity, and is well positioned to support the impending redevelopment of the remaining Allied Leather Tannery site.

Started in Fiscal Year 2014, an administration charge, as allowed by statute, will continue to be assessed to each of the TIF Districts. The charge is based upon total staff costs to manage these Districts. In total, charges of just over \$52,000 are to be recorded as revenue for the General Fund.

Continuing in Fiscal Year 2015, the Sears Block TIF District (SBTIF) will make financial contributions to the General Fund and Parking Fund for debt service reimbursements. Specifically, the SBTIF will make a \$264,125 contribution to the General Fund in Fiscal Year 2015. Of this total, \$85,900 will reimburse the General Fund for debt service payments it supported from 2005 to 2013 for the Capital Commons Project. These reimbursements will continue through Fiscal Year 2027. The remaining \$178,225 represents debt service payments which will be paid by the SBTIF, rather than the General Fund, for non-TIF supported bonds previously issued to support the Capital Commons Project in 2005 and 2007.

Relative to the Parking Fund, the SBTIF will make the second installment of four (4) annual payments intended to reimburse the Parking Fund's equity contribution of \$550,000 plus interest for the Capital Commons Garage in 2005 and 2007. The Fiscal Year 2015 payment is \$270,000. This is an increase of \$43,000 over Fiscal Year 2014. In total, it is anticipated that the SBTIF will reimburse the Parking Fund a total of \$689,000 by Fiscal Year 2017. Further, the SBTIF is poised to absorb some of the Parking Fund supported debt service for the Capital Commons Project commencing in Fiscal Year 2018.

Lastly, in accordance with standard practice implemented in Fiscal Year 2005, this budget includes releasing a portion of the captured tax revenues generated by new incremental development which has been constructed in the NEOCTIF District since it was enacted in 1997. In total, \$678,000 of tax revenues shall be released, which equates to tax revenues associated with \$25,985,400 in captured assessed value (or approximately 52% of all new incremental assessed value created within the District).

## **Enterprise Funds**

#### Parking Fund

The Parking Fund continues to struggle. While a transfer-in from the Sears Block Tax Increment Finance District of \$270,000 is anticipated in the Fiscal Year 2015 budget, the inclusion of necessary maintenance and debt service costs due to major capital improvements, namely in the Durgin Block Parking Garage, add significant stresses to this fund. Financial models project that this Fund will lose almost \$78,000 in Fiscal Year 2015 with an ending working capital position of almost zero, and will lose over \$300,000 in 2016. In conjunction with the management changes implemented in Fiscal Year 2014, a comprehensive strategic plan for the Parking System will commence in June 2014. The results of this study, together with recommendations from the Parking Committee and City Administration, will be presented to the City Council in early 2015 for implementation as part of the Fiscal Year 2016 budget.

#### Golf Fund

The Golf Fund reported a gain of \$32,100 for Fiscal Year 2013. A very positive result in this fund due in part to the new City-operated Pro Shop, and increases in memberships and daily fees. Funding of \$26,500 is included in the General Fund budget to support clubhouse debt service and only two years remain on this bond. This fund anticipates a modest gain of \$13,700 for Fiscal Year 2014 and is anticipating a similar gain in FY 2015. The new Golf Pro and Pro Shop are commencing the second year of operation and the City is excited about the new restaurant contract with the 1896 Pub and Grille.

#### Wastewater and Water Funds

For Fiscal Year 2015, the contribution to the overhead in the General Fund increased for Water (\$13,260) and Wastewater (\$16,321). Additionally, right-of-way maintenance contributions from the Water and Wastewater Funds remain at \$120,000 and \$55,000. Although these amounts are significantly less than the contributions made prior to Fiscal Year 2010, as the funds are improving, it is essential to increase this funding to help adequately address the impact these utilities have on the pavement infrastructure. Fiscal Year 2014 remained solid for both utility funds with respect to units sold and revenues collected and, ultimately, the projected year-end fund equity position.

The FY 2015 projected Wastewater rate increase is 2.69%. The projected Water rate increase is 2.44%. The Water rate increase is consistent with the Fiscal Year 2014 pro forma projection and Wastewater is lower than the Fiscal Year 2014 pro forma projection. In both funds, the driving factor in increasing rates is the need for necessary capital investments. Regular rate increases will be required in future years in order to maintain the solvency of these funds.

#### Solid Waste Fund

This is the fifth year of the Pay-As-You-Throw program. Although the Fund has been struggling for a couple of years, the new contract with Casella for both collection and disposal of municipal solid waste and recycling will decrease expenses in Fiscal Year 2015.

#### Fiscal Year 2015 Budget Preparation

A presentation was made to the Fiscal Policy Advisory Committee (FPAC), and subsequent report to City Council in February 2014, which outlined the main budgetary challenges for Fiscal Year 2015. The gap of \$3.5 million represented a 10.1% 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 again this year 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 and cognizant of the continued downshifting of costs from the State.

Below is a summary of the major expense reductions used to help close the funding gap. The full list of reductions accepted from departments can be viewed in Appendix B, Service Reductions at the end of the budget book.

#### Reductions

- \$200,000 manage Police vacancies through attrition
- \$144,900 other departmental reductions
- \$40,000 manage General Services' vacancies through attrition
- \$120,000 reduce retirement severance contingency
- \$229,000 reduce transfer to Solid Waste Fund
- \$900,000 no funding for OPEB

Below are the major revenue changes used to help close the funding gap.

#### **Increased Revenues**

- \$174,100 projected increase in Motor Vehicle registration revenue
- \$160,000 increase in Rooms and Meals Tax
- \$134,000 increase in Building, Electrical, Mechanical and Plumbing permit revenue
- \$148,000 transfer from Insurance Reserve
- \$1,034,100 / 2.99% tax rate increase

# **Closing Notes on Fiscal Year 2014**

Fiscal Year 2014 experienced very heavy snowfall and many weather events requiring plowing or salting and sanding. After factoring in a \$99,860 transfer from contingency, expenses are over budget in Snow and Ice Control overtime and supplies in the amount of \$79,100 plus related benefit costs.

The significant investments made in the City's two downtowns continue to pay dividends. Recently completed projects in Downtown Concord include the "Bindery/Love Your Neighbor" Building, as well as the newly renovated Endicott Hotel. More redevelopment opportunities are on the horizon, including the soon-to-be vacated Department of Employment Security building.

In Penacook Village, environmental cleanup of the former Allied Leather Tannery and Amazon Realty sites will be completed this construction season, leaving the City well positioned to resume efforts to partner with a private developer to redevelop these important properties. In addition, the City is working with interested parties on additional redevelopment opportunities within the Penacook Village TIF District.

#### **Looking Ahead and Ongoing Initiatives**

Overview – While there are indications that the economy is beginning to improve in the country, state and in Concord, in terms of new construction and improved economic activities, those positive indicators will not fully influence the City's budgeting until after Fiscal Year 2015. As such, this recommended budget reflects slow growth estimates that will enable us to maintain existing levels of service. However, even within this constrained financial environment, this budget provides for significant progress in areas of importance to sustaining and improving the quality of life in Concord.

Economic Development – In order for Concord to continue to grow economically, the City must ensure that it works collaboratively within its departments to achieve the important goals it has laid out. Mayor Bouley and the City Council has created the Impact Fee Review Committee, the Main Street Committee, and the Upper Floor Development Committee, all to focus on how to properly balance future economic development with the overall needs of the community.

Energy Cost – Contracts for natural gas and electricity expire on June 30 and December 31, 2014, respectively. The City is working with Beacon Integrated Solutions on new requests for proposals and expects pricing will increase 25% to 35% above the current contract levels due to the supply delivery restrictions in the New England market. While costs of gasoline, diesel and No. 2 heating oil remain volatile, the City has locked into 50% of the anticipated gasoline volume through June 30, 2015. Diesel and heating oil do not currently have any contracts and are market priced. Internally, the City meets regularly to discuss and make decisions on the timing of when to buy into longer-term agreements.

General Services Department – There is a need to review the division level administration positions to ensure that they are aligned with the current and future needs of the organization. It is apparent that the responsibilities of these positions have evolved over the last decade. In addition, the reclassification of positions in the Public Properties Division shall be reviewed so as to improve the maintenance of existing facilities through staffing adjustments.

Fire Department – A review of the organizational structure and executive staffing levels within the department need to be undertaken so as to ensure that the highly trained and multi-disciplined staff receive the support and management needed to keep the department in the top echelon of public safety providers in the country.

Solid Waste/Recycling – Bag revenues and other revenue streams over the next several years will not be sufficient to support the fund in a positive balance. The Solid Waste Advisory Committee has been tasked with reviewing bag prices and other revenue streams and making recommendations to the full City Council on pricing that will be commensurate with the associated cost of solid waste disposal. A report and recommendation is expected in late summer or fall of 2014.

Citywide Heights Multi-Generational Community Center – Phase II of design is proposed in this budget. The Parks & Recreation Department has operated in the new center for over a year. Programming will continue at that site until construction takes place in the future. As part of Phase II, the City will also examine the optimization and potential reuse of existing community centers.

City Pools – It has been over a decade since the seven neighborhood pools have been renovated. The time is fast approaching to undertake significant rehabilitation of these unique neighborhood amenities. The proposed Capital Improvement Program identifies over two million dollars in work that will be necessary over the next decade to keep all of the neighborhood pools open. The City Council and the Recreation & Parks Advisory Committee should determine over the next year if the reinvestment in the neighborhood pool system is a priority for the community, prior to the significant expenditures that must soon begin.

Customer Service – The City continues to strive to provide exceptional customer service in all areas. The Tax Collector and City Clerk Offices continue to stay open until 6:00 PM on Thursday evenings. The Collections Office has been averaging 10 customers per evening after 4:30 PM since opening. Although the Clerk's Office has not seen the same type of demand, recently they have seen some increase in evening activity and plan to continue the hours into the future. The City also now accepts credit cards in all major departments and recently expanded the program to include the Parking Division for fines and penalties. City Administration continues to explore potential use of credit cards for the Arena and utility customers as well. The Report a Concern feature on the City's website continues to be a success through its use of smart phones and i-Pads. This is a significant investment in technology that will need to be supported in future budgets. Concerns are routed directly to the responsible division manager, primarily in the General Services Department, and issues can be addressed quickly, easily, and efficiently and closed out in record time.

Landfill Closure – A 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 the City. These costs are acknowledged in CIP #381.

Sewalls Falls Bridge – Currently under design and anticipated to be released for bid in Fall 2014. Construction to start in Spring 2015 with completion in 2016.

Downtown Complete Streets Project – Scope and timing of project to be reviewed by City Council in Spring 2014 with construction anticipated to start in Summer 2014.

Other Post-Employment Benefits (OPEB) – The rate of increase in the pay-as-you-go appropriation for retiree health insurance is fast approaching the annual required contribution. City staff continues to review all options for mitigating benefit levels and prefunding the OPEB obligation. It has been very challenging for the City 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 develop alternatives to help reduce the future costs. June 30, 2013 reflected a decrease in this accrued actuarial liability to \$44.6 million.

#### Conclusion

The City of Concord has established a history of achieving balanced budgets through an extremely difficult economic period. City management places a high priority on adhering to comprehensive financial policies and long-range planning strategies, as well as continuing to exercise strong fiscal discipline. These practices ensure the City's ability to preserve budgetary balance, maintain essential services and address future budget challenges.

The City Council's top priorities, including needed strategic investments, are reflected in this budget. The Fiscal Year 2015 budget is balanced in both the fiscal and policy sense, to ensure Concord's bright future.

#### Thank you

I wish to recognize the employees that helped bring the many parts of this endeavor together into one document for the City Council and this great community. All Department Heads and their immediate staff have provided creative leadership in shaping their budgets and various alternatives.

I recommend this budget to the City Council.