



TOWN OF CONCORD,  
MASSACHUSETTS

**Town Manager's Proposed  
Enterprise Budgets  
FY2011**

For the Fiscal Year  
July 1, 2010 - June 30, 2011



*Printed on 30% post consumer recycled paper*

**March 22, 2010**

**V. 1.1**

**Government Finance Officers Association**

**Distinguished Budget Presentation Award**

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The Government Finance Officers Association of the United States and Canada (GFOA) presented a Distinguished Budget Presentation Award to the Town of Concord, Massachusetts for its annual budget for the fiscal year beginning July 1, 2009. In order to receive this award, a governmental unit must publish a budget document that meets program criteria as a policy document, as an operations guide, as a financial plan, and as a communications device.

This award is valid for a period of one year only. We believe our current budget continues to conform to program requirements, and we are submitting it to GFOA to determine its eligibility for another award.



GOVERNMENT FINANCE OFFICERS ASSOCIATION

*Distinguished  
Budget Presentation  
Award*

PRESENTED TO

**Town of Concord**

**Massachusetts**

For the Fiscal Year Beginning

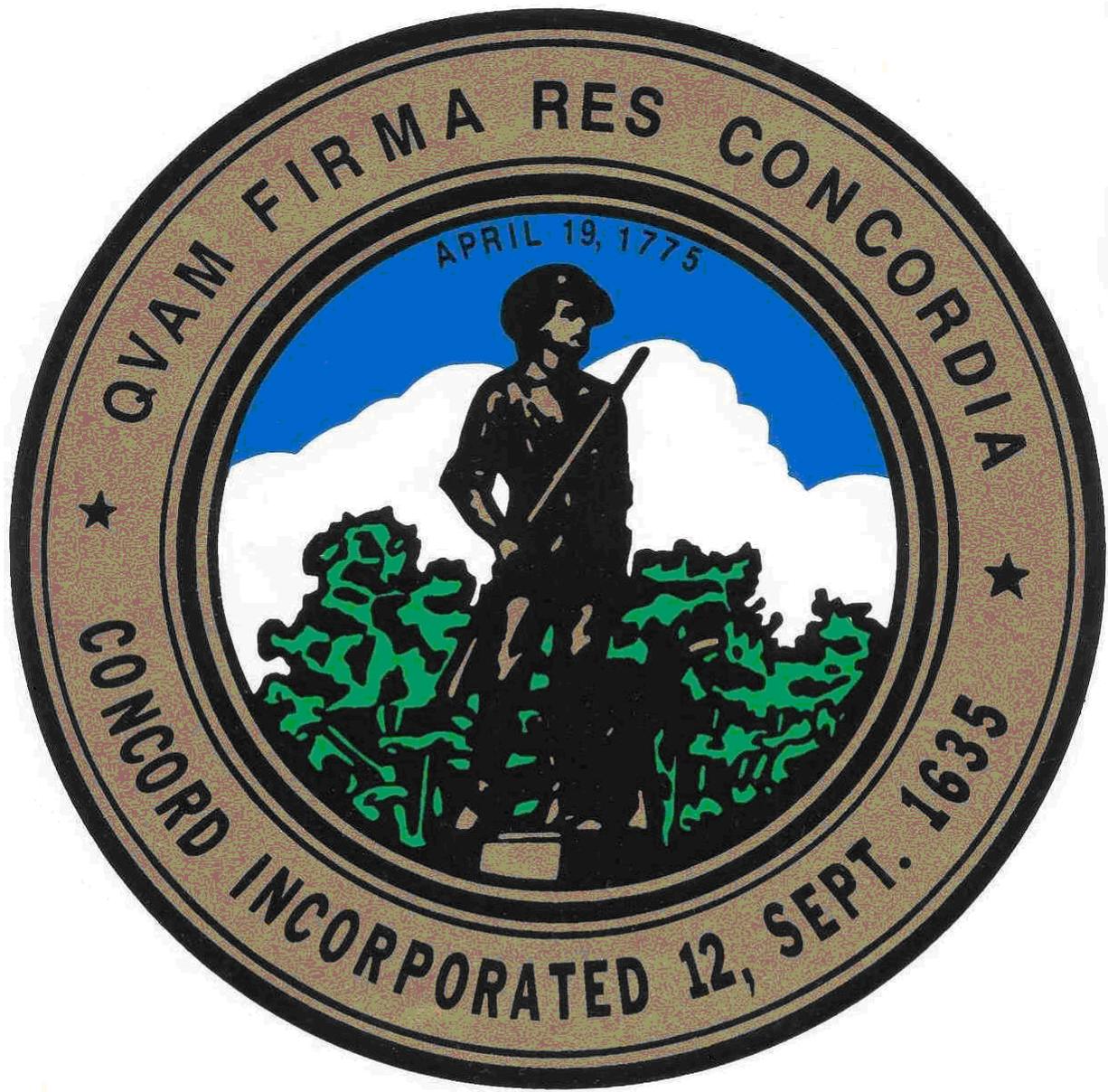
**July 1, 2009**

A handwritten signature in black ink, appearing to be 'HR'.

President

A handwritten signature in black ink, appearing to be 'Jeffrey R. Egan'.

Executive Director

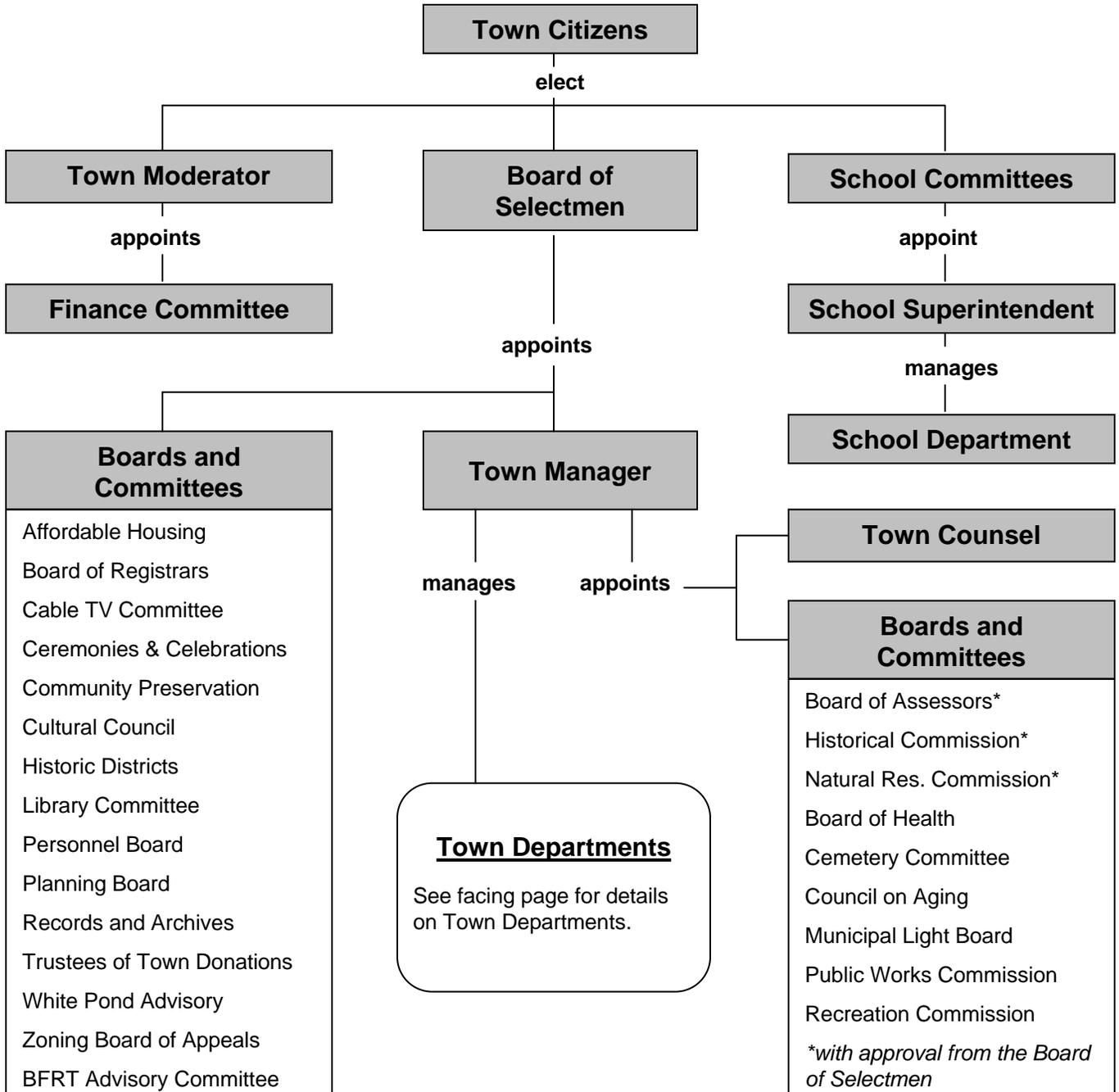


**Town Government Mission Statement:**

*The mission of Concord's Town Government is to enhance the quality of life of Concord residents by providing efficient, effective, and innovative services, protecting the Town's character, and being a responsible steward of Town resources.*

The chart below outlines how Concord citizens, either through elections or by sitting on boards and committees, can influence and participate in the operations of their government.

On the facing page, a chart shows how Town Government is structured under the Town Manager.

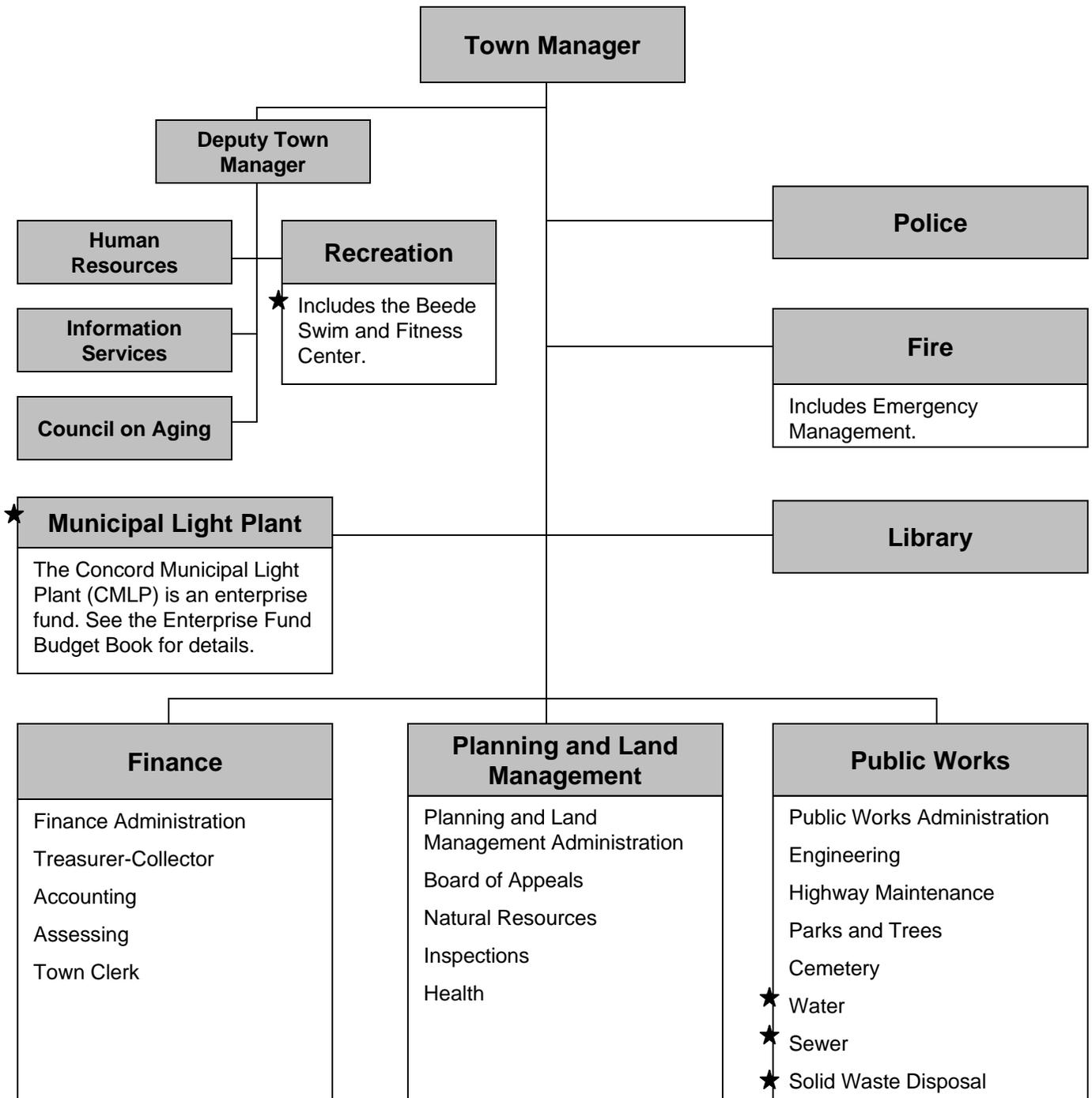


The Town Manager oversees Town Departments, including the following 5 business-type activities:

- The Concord Municipal Light Plant;
- The Water Division;
- The Sewer Division;
- The Beede Swim and Fitness Center; and
- The Solid Waste Disposal Division.

In this budget book, the above 5 business-type activities are presented (marked by ★ in the chart below). The Light Fund, Water Fund, Sewer Fund, and Swim and Fitness Fund are all Enterprise Funds, while the Solid Waste Fund is a Special Revenue Fund (see page II-1, "A Note on the Solid Waste Fund").

See page II-3 for an organizational chart that focuses solely on the Town's business-type activities.



## Budget Book Guide

### **Section I – Letter of Transmittal**

The Letter of Transmittal is an introduction to the budget book by the Town Manager. Included in the letter is summary information about each of the four enterprise funds (Light, Water, Sewer, and Swim and Fitness) and the one special revenue fund (Solid Waste Disposal). The letter highlights some of the major changes budgeted for in the coming year.

### **Section II – Budget Summary**

The Budget Summary contains charts, schedules, and narratives that describe the FY10 Enterprise Budgets. The level of detail presented in this summary section allows the reader to grasp the big picture relating to the enterprise operations' recent past, present, and near future.

### **Section III – Light Fund**

The Light Fund presentation provides the charts and narratives necessary to understand the operations and plans of the Concord Municipal Light Plant.

### **Section IV – Water Fund**

The Water Fund presentation provides the charts and narratives necessary to understand the operations and plans of Concord's Municipal Water Services Division.

### **Section V – Sewer Fund**

The Sewer Fund presentation provides the charts and narratives necessary to understand the operations and plans of Concord's Municipal Sewer Services Division.

### **Section VI – Swim and Fitness Fund**

The Swim and Fitness Fund presentation provides the charts and narratives necessary to understand the operations and plans of Concord's Beede Swim and Fitness Center.

### **Section VII – Solid Waste Fund**

The Solid Waste Fund presentation provides the charts and narratives necessary to understand the operations and plans of Concord's Solid Waste Disposal Division.

### **Section VIII – Appendix**

The Appendix contains information describing the budgeting process (including a calendar of events), as well as relevant excerpts from the most recent Audited Financial Statements and a glossary of terms used throughout the book.

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**Section I**  
**Letter of Transmittal**

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## TOWN OF CONCORD

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CHRISTOPHER WHELAN, TOWN MANAGER

March 22, 2010

The Honorable Board of Selectmen:

I am pleased to submit for your review the Town Manager's Proposed Enterprise Budget for Fiscal Year 2011 (July 1, 2010 – June 30, 2011). The document presents the Town's business-type operations. These operations are not tax-supported, are intended to operate in a fiscally self-sustaining manner, and are expected to provide for the continuous renewal of related capital investments in plant and equipment. Each of the funds reported herein is financed by rate-payers, the users of the particular service involved. Five operations are reported upon:

### **Light Fund**

The Concord Municipal Light Plant (CMLP) is a department of the Town government and functions under the specific statutory authority contained in Chapter 164 of the General Laws of the Commonwealth. The Concord Municipal Light Plant was established by an 1898 Town Meeting action. The CMLP provides for the distribution of electricity in accordance with rules set forth by the Department of Telecommunications and Energy and its predecessor state regulatory agencies, and operates in full compliance with generally accepted enterprise accounting standards.

The budget is developed for the Town Manager by the Director of the Light Plant and is reviewed by the Light Board, a five-member body appointed by the Town Manager. The Light Board is the rate-setting body, in accordance with the provisions of MGL Chapter 164. By the terms of the Town Charter, the Town Manager is the Manager of the Light Plant and appoints the Director and all staff. The Town Meeting annually authorizes the Town Manager to expend the income of the fund without further appropriation. For FY11, this action will be taken under Article 15 of the 2010 Town Meeting Warrant.

### **Water Fund**

This fund is managed by the Concord Public Works Department (CPW). The bylaw that established the Water Revolving Fund dates back to 1974. Beginning in 1984, the Town began to apply enterprise accounting standards to its accounting and reporting of the Water Fund activity. Among other aspects of the accounting change, this involved recording the acquisition cost of all plant assets and the recognition of depreciation as an operating expense.

The Public Works Director prepares the budget recommendations for review by the Town Manager. The budget is reviewed by the Public Works Commissioners, a five-member body appointed by the Town Manager. The Commissioners are the water rate-setting body, in

accordance with General Law provisions and the Town Bylaw. The Town Meeting annually authorizes the Town Manager to expend the income of the fund without further appropriation. For FY11, this action will be taken under Article 20 of the 2010 Town Meeting Warrant.

### **Sewer Fund**

This fund also is managed by the CPW. The bylaw that first established the Sewer Revolving Fund was adopted by the Town Meeting in 1976. Enterprise accounting commenced in 1984.

In a process identical to the management of the Water Fund, The Public Works Director prepares the Sewer Fund budget recommendations for review by the Town Manager. The budget is reviewed by the Public Works Commissioners, a five-member body appointed by the Town Manager. The Commissioners are the sewer rate-setting body, in accordance with General Law provisions and the Town Bylaw. The Town Meeting annually authorizes the Town Manager to expend the income of the fund without further appropriation. For FY11, this action will be taken under Articles 18 and 19 of the 2010 Town Meeting Warrant.

### **Beede Swim & Fitness Center Fund**

This facility opened its doors on April 18, 2006. Article 30 adopted by the 2005 Annual Town Meeting authorized the establishment of an enterprise fund for this operation, in accordance with requirements of the General Laws, Chapter 44 , section 53 F 1/2. This section of the state statutes, enacted in 1986, requires that the annual budget of the Center be submitted to the Town Meeting for enactment in the same manner as is the General Fund budget. Accordingly, the motion under Article 21 of the 2010 Town Meeting Warrant will make an appropriation for the estimated expenses of the Center for the fiscal year beginning July 1, 2010 based upon an estimate of the income to be derived from the operation.

The operation of the Center has been assigned to the Recreation Department. Rates and fees are set under the authority of the Town Manager pursuant to Section 22F of Chapter 40 of the General Laws adopted by the Town Meeting in 1992.

### **Solid Waste Fund**

This fund was established by Town Bylaw adopted in 1989. Technically, it is not an enterprise fund but rather is a Revolving Fund. However, the Solid Waste Fund is included in this presentation because its basic purpose is to operate the curbside collection and recycling program as a business-type activity without tax support. Rates are set by the Public Works Commission and program costs are expected to be fully recovered by these rates. There are, however, no capital assets and no depreciation expense is associated with the operation of the Solid Waste Fund.

### **Budgetary Focus**

Each of the five budget presentations focuses on the projection of operating and net income. The long-term objective in the management of the enterprise operations is to generate sufficient income from current operations to fund the operations without tax support, and, for the Light, Water, Sewer and Beede Center enterprises, to fund capital improvements needed to maintain the infrastructure. In general, debt financing of enterprise infrastructure should be

employed only to finance system expansion. Resources derived from recording depreciation as an operating expense plus the net income realized from operations should, over a span of years, provide for the continuous reinvestment in the maintenance and renewal of enterprise physical assets. The Town has a long record of successfully operating its enterprises on this basis.

**Operating income** of each fund is the difference between operating revenues and operating expenses. Certain revenues and expenses are not the result of operations but must be added to or subtracted from **operating income** to arrive at **net income**. These non-operating transactions include:

Revenues:

- Interest earnings on available cash balances
- Fees not associated with operations, such as the electric underground surcharge and the sewer improvement fee

Expenses:

- Interest paid on debt (bonds and notes)

The budgets proposed for **FY11** (calendar year 2010 for CMLP), and the related projections of operating and net income, are:

	<u>Operating Revenue</u>	<u>Operating Expenditure</u>	<u>Operating Income</u>	<u>Net Income</u>
<b>Light Fund</b>	\$27,871,208	\$26,786,235	\$1,084,973	\$1,899,850
<b>Water Fund</b>	3,830,000	3,400,869	429,131	282,697
<b>Sewer Fund</b>	2,386,000	3,141,500	- 755,500	- 914,647
<b>Beede Center</b>	2,398,409	2,436,409	- 38,000	0
<b>Solid Waste Fund</b>	1,072,699	1,081,449	- 8,750	- 8,750

(see also page II-6)

Net income and cash produced by the recording of depreciation expense as part of operating expenditures can be measured against non-operating capital expenses, including scheduled debt principal repayment and the capital expenditure plans for the Light, Water, Sewer, and Beede Center funds not financed by the issuance of new debt (the Light Fund commitments also include the payment in lieu of taxes – Article 14 of the 2010 Town Meeting Warrant):

	<u>Light</u>	<u>Water</u>	<u>Sewer</u>	<u>Beede</u>
<b><u>FY11 Proposed budgets</u></b>				
Net Income Projected	\$1,899,850	\$282,697	- \$914,647	\$0
Depreciation Expense	<u>1,427,295</u>	<u>751,972</u>	<u>1,780,580</u>	<u>293,431</u>
Subtotal	3,327,145	1,034,669	865,933	293,431
Less:				
CMLP PILOT Payment	380,000	0	0	0
Debt Principal Payment	540,000	550,000	574,072	0
Net from Current Operations				
Available for Capital Purposes	<u>\$ 2,407,145</u>	<u>\$ 484,669</u>	<u>\$291,861</u>	<u>\$ 293,431</u>

Planned FY11 capital expenditures of each enterprise, exclusive of expenditures that will be funded by debt issuance, are:

	<u>Light</u>	<u>Water</u>	<u>Sewer</u>	<u>Beede</u>
Capital Outlay	\$ 1,546,000	\$ 772,000	\$ 488,000	\$ 120,000

\$150,000 of the planned Light Fund capital expenditure will be financed from the accumulated balance of the Underground Fund. A portion of the capital program for the Water and Sewer funds will be financed from available cash balances of these funds. Each year need not produce an exact match of this capital funding requirement. It is possible to draw upon accumulated uncommitted cash balances or to accumulate cash resources for future capital expenditures or operating purposes (as is projected for the Light and Beede funds). We seek to manage each of these enterprises with a long-term view, continuously looking out 5, 10 and 20 years. In this regard, the appendix includes 10-year projections for the Water and Sewer Funds.

## **Program Highlights**

### **Light Fund**

The major item affecting operating expenses and revenues for the Concord Municipal Light Plant is the purchase and sale of electricity. Since June 1, 2002, and until September 30, 2009, the CMLP had a very favorable contract with Constellation Power Sources, Inc. to purchase wholesale electricity for Town residents and businesses. This contract expired as of October 2009 and the Town has negotiated new contracts for the purchase of power supply. As a result, the current and future price of electricity will be greater than it was under the former contractual arrangements.

Accordingly, CMLP has taken the following steps over a period of years to make sure that the impact of conversion to new power supply economics would proceed smoothly:

- the Light Plant established a Rate Stabilization Fund to soften the economic effect of higher energy prices and the corresponding result on rates.
- the CMLP has contracted to purchase electricity from Braintree Municipal Light Plant which has constructed a generating plant, and from Miller Hydro in Lisbon, Maine
- the Light Plant is actively exploring additional ways of using renewable energy to meet Concord's electricity needs.
- the CMLP is continuing its efforts to promote energy conservation and has budgeted over \$359,000 in the 2010 budget to continue to provide services which includes energy conservation audits, light bulb and efficiency appliance rebates, solar photovoltaic and hot water demonstrations, and Town-wide conservation initiatives;
- the CMLP has entered into a contract with Morgan Stanley to provide approximately 55% of the Town's power needs for the period October 2009 through December 2012. This contract involved the fixing of a price based upon the forward market price of natural gas for the period through 2012.

The 2010 power supply plan anticipates that about 20% of the town's 190 Kwh energy requirement and 75% of its 55 Mw capacity requirement will be met on the spot market.

## **Water Fund**

The Water Fund is in sound financial condition and needed capital improvements are proceeding on schedule. Article 23 of the 2010 Town Meeting warrant proposes a \$1.9 million bond financing of improvements at the Town's surface water supply, Nagog Pond, including an enhanced disinfection treatment system and improvements to the 100-year old dam and related structures. These improvements will ensure the continued operation of the Nagog water supply in accordance with federal and state mandates. The Water Fund 10-year plan shows debt service on this bond commencing in FY2013, but this coincides with declining debt service resulting from the FY2012 final maturity of bonds issued in 2002. Thus, the impact on ratepayers resulting directly from this project will be about a 1% increase on FY13 water rates.

To maintain sufficient funds to cover operating and capital costs, a rate increase of 3.4% is proposed to be effective June 1, 2010, which translates into an annual dollar increase of approximately \$12 for the average residential customer.

## **Sewer Fund**

It has already been noted that the Sewer Fund's projected operating income and net income are in deficit. In addition, the forecast is that the operating results will remain in deficit for the next several years, while gradually improving during this period. The main cause of this deficit is an increase in the depreciation expense, from \$628,375 in FY05 to \$1,780,580 projected for FY11.

The Sewer Division completed a major renovation project of the Wastewater Treatment Plant in 2008, as authorized by Article 47 of the 2005 Town Meeting and funded by a \$12 million bond issued through the Water Pollution Abatement Trust at a 2% subsidized rate of interest. This project extended the life of the 1987 plant by an additional twenty years. As a budgetary consequence, the town must simultaneously pay back the debt (through FY2027) and recognize a substantially increased annual depreciation expense. Nevertheless, reserve balances carried over from previous years will be adequate to cover the current operating deficit and continue to finance needed sewer system capital maintenance. A rate increase of 5.0% is proposed to be effective June 1, 2010, which translates into an annual dollar increase of approximately \$41 for the average residential customer.

## **Beede Center Fund**

Completing four years of operation as of this April, the Beede Swim and Fitness Center continues to operate successfully. More than 4,650 individuals (representing family memberships, couples and individual memberships) are presently signed up as members to use the four indoor pools and two fitness rooms. Membership numbers have declined over the past year but Beede Center financial results are within budget expectations.

Although the Beede Center is a Town building, it was originally designed and constructed without Town funds. The nonprofit organization, C.C. Pools, raised approximately \$11 million from private donations to complete the project. In May, 2007, the Board of Selectmen accepted the gift of the Beede Swim and Fitness Center from C.C. Pools and the deed transaction was concluded in November 2007. By taking ownership of the facility, the

Town is responsible for its maintenance, which includes providing adequate funding, through the Enterprise operation, for the long-term maintenance of the structure and all facilities within it.

Membership fees remain reasonable with Concord and Carlisle families paying \$133.25 per month and individuals paying \$70.83 per month for use of both the swim and fitness areas. These rates, set for calendar year 2010, are up 75 cents and 83 cents per month, respectively.

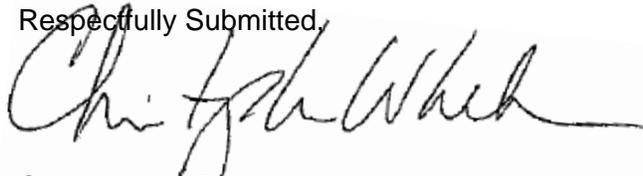
### **Acknowledgements**

Preparation of this document involves teamwork between the Finance Department, the Concord Municipal Light Plant, the Public Works Department and the Recreation Department. I would like to express my appreciation for the efforts of Finance Director Anthony Logalbo and the members of his staff: Jon Harris (Budget and Purchasing Administrator), Adam Roberts (Senior Operations and Budget Analyst), and Gail Henry (Town Accountant). Deputy Town Manager Douglas Meagher also participated as a member of the budget review team.

Preparation of the individual enterprise budget submissions was carried out under the direction of Dan Sack (CMLP Director), Richard Reine (Public Works Director), Alan Cathcart (Water & Sewer Superintendent), Rod Robison (Recycling and Disposal Program Administrator), and Danner DeStephano (Recreation Director). In addition, assistance was provided by Sherman Chapman (CMLP Financial Administrator), Dale Cronan (CMLP Assistant Director), Paul Reinhardt (Public Works Management Analyst), Paul Cote (Assistant to the Water/Sewer Superintendent), and Pam Higgins (Assistant Recreation Director).

The efforts of the staff in compiling this annual document reflect our commitment to maintain the soundness of financial operations and the long-term perspective essential to the successful management of the Town's enterprise operations.

Respectfully Submitted,



Christopher Whelan  
Town Manager

CC: Finance Committee  
Municipal Light Board  
Public Works Commission