



TOWN OF CONCORD,  
MASSACHUSETTS

**Town Manager's  
Proposed  
Enterprise Budgets  
FY2009**

ENTERPRISE FUNDS

- Light
- Water
- Sewer
- Swim and Fitness Center

SPECIAL REVENUE FUND

- Solid Waste

March 24, 2008



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# **Section I**

## **Letter of Transmittal**



## TOWN OF CONCORD

TOWN MANAGER'S OFFICE  
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CHRISTOPHER WHELAN, TOWN MANAGER

March 24, 2008

The Honorable Board of Selectmen:

I am pleased to submit for your review the Town Manager's Proposed Enterprise Budget for Fiscal Year 2009 (July 1, 2008 – June 30, 2009). This document reviews 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**

This fund is managed by the Concord Municipal Light Plant (CMLP), a department of the Town government which functions under specific statutory authority found in Chapter 164 of the General Laws of the Commonwealth. The municipal light plant was brought into existence by an 1898 Town Meeting action. The CMLP has long operated in accordance with rules set forth by the Department of Telecommunications and Energy and its predecessor state regulatory agencies, and in full compliance with enterprise accounting standards.

The budget is developed by the Superintendent of the Light Plant and adopted 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 Superintendent and all staff. The Town Meeting annually authorizes the Town Manager to expend the income of the fund without further appropriation. For FY09, this action will be taken under Article 15 of the 2008 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 the review of the Town Manager. The budget is adopted 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 FY09, this action will be taken under Article 20 of the 2008 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 the review of the Town Manager. The budget is adopted 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 FY09, this action will be taken under Articles 18 and 19 of the 2008 Town Meeting Warrant.

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

This is a new enterprise which 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 the General Fund budget. Accordingly, the motion under Article 21 of the 2008 Town Meeting Warrant will make an appropriation for the estimated expenses of the Center for the fiscal year beginning July 1, 2008 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 other revenues and expenses are not derived from 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 **FY09** (calendar year 2008 for CMLP), and the related projections of operating and net income, are:

|                            | <b>Operating<br/>Expenditures</b> | <b>Operating<br/>Income</b> | <b>Net<br/>Income</b> |
|----------------------------|-----------------------------------|-----------------------------|-----------------------|
| Light Fund (page IV- 10)   | \$15,495,449                      | \$ 440,242                  | \$1,076,224           |
| Water Fund (page V- 8)     | 3,259,397                         | 568,603                     | 421,178               |
| Sewer Fund (page VI- 7)    | 2,655,986                         | (467,986)                   | (513,383)             |
| Swim Center (page VII- 5)  | 2,181,996                         | (38,936)                    | 6,064                 |
| Solid Waste (page VIII- 6) | 961,065                           | (9,490)                     | N/A                   |

Net income and cash produced by the recording of depreciation expense as part of operating expenditures then can be measured against scheduled debt principal repayment and the capital expenditure plans for the Light, Water, Sewer, and Beede Center funds (the Light Fund commitments also include the payment in lieu of taxes – Article 14 of the 2008 Town Meeting Warrant):

|                                     | <u>Light</u>        | <u>Water</u>      | <u>Sewer</u>      | <u>Beede</u>      |
|-------------------------------------|---------------------|-------------------|-------------------|-------------------|
| <b><u>FY09 Proposed budgets</u></b> |                     |                   |                   |                   |
| Net Income Projected                | \$1,076,224         | \$ 421,178        | \$ (513,383)      | \$ 6,064          |
| Capital Reserve Charge              | 0                   | 120,000           | 0                 | 0                 |
| Depreciation Expense                | <u>1,345,903</u>    | <u>826,000</u>    | <u>1,328,600</u>  | <u>308,863</u>    |
| Subtotal                            | 2,422,127           | 1,367,178         | 815,217           | 314,927           |
| Less:                               |                     |                   |                   |                   |
| CMLP PILOT Payment                  | 340,000             | 0                 | 0                 | 0                 |
| Debt Principal Payment              | 640,000             | 585,000           | 671,264           | 0                 |
| Transfer to General Fund            | 0                   | 0                 | 0                 | 41,507            |
| <hr/>                               |                     |                   |                   |                   |
| Net from Current Operations         |                     |                   |                   |                   |
| Available for Capital Purposes      | <u>\$ 1,442,127</u> | <u>\$ 782,178</u> | <u>\$ 143,953</u> | <u>\$ 273,420</u> |

Planned FY09 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 | \$2,508,000  | \$1,274,400  | \$ 583,600   | \$ 192,000   |

\$1,689,000 of the planned Light Fund capital expenditure will be financed from the accumulated balance of the Underground Fund (\$2,575,219 at Dec. 31, 2007 – see page IV-17). 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, the CMLP has had a very favorable contract with Constellation Power Sources, Inc. to purchase electricity for Town residents and businesses. This contract will expire in October 2009 and at that time the Town will have to negotiate a new contract or contracts for power supply. With the recent fluctuations in energy prices, the future price of electricity is very uncertain and will most likely be greater than it is under the current contract.

Accordingly, CMLP has taken the following steps to make sure that the move to a new power supply goes smoothly:

- the Light Plant has established a Rate Stabilization Fund to soften the economic effect of possible higher energy prices and the corresponding result on rates.

- the CMLP has contracted to purchase electricity from Braintree Municipal Light Plant which is building a power plant and is seeking to enter into a similar agreement with Taunton Municipal Light Plant which is proposing to build a new plant;
- the Light Plant is exploring ways of using renewable energy to meet Concord's electricity needs with such companies as Acton Hydro and Berkshire Wind Farm.
- the CMLP is continuing its efforts to promote energy conservation and has budgeted over \$232,000 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 involves the fixing of a price based upon the forward market price of natural gas for the period through 2012. The Town has thusfar set a price for one-half of the contract commitment and the Light Board has voted to request staff to set the price of the remainder during this calendar year based upon the judgment of market conditions during the year.

### **Water Fund**

The Water Fund is in sound financial condition and needed capital improvements are proceeding on schedule. As authorized with the approval of Article 52 of the 2004 Annual Town Meeting, the Water Division has completed the construction of an iron and manganese treatment facility to serve both the Deaconess and White Pond well water. The facility was designed by Tata & Howard of Westborough, Massachusetts and built by Barbato Construction Company of Middleborough, Massachusetts. Upon operation, the facility is expected to improve the color and quality of Concord's water supply.

To maintain sufficient funds to cover operating and capital costs, the Water Division is proposing a rate increase of 3% to be effective June 1, 2008, which translates into an annual dollar increase of approximately \$13 for the average residential customer.

### **Sewer Fund**

It should be noted that the Sewer Fund's operating income and net income are in deficit. In addition, the forecast is that the fund will remain in deficit for the next several years. The main cause of this deficit is an increase in the depreciation expense, from \$628,375 in FY05 to \$1,328,600 projected for FY09, and this depreciation expense will remain at the increased level for the near-term. As an explanatory note, depreciation expense is affected by the amount of new plant and equipment that is purchased, because these funds are set aside to refurbish, renovate, or acquired plant and equipment so that there are funds available to continuously keep these items in a good state of repair. In other words, with additions to plant and equipment, the depreciation expense increases.

Since the Sewer Division has undertaken a major renovation project of the Wastewater Treatment Plant over the past two years, a relatively large amount of depreciation expense has been added to the accounting books and as a consequence the operating and net income results are projected to be negative. Nevertheless, reserve balances carried over from previous years are adequate to cover the current deficit. In addition, to better manage this deficit, the

Sewer Division is proposing a moderate sewer rate increase of 5.0% (or about \$38 for the average residential customer) effective June 1, 2008.

As discussed above, the Sewer Division is concluding a two-year project to renovate the Wastewater Treatment Plant (WWTP), as authorized by Article 47 of the 2005 Annual Town Meeting and funded by \$12 million from a borrowing. The design of the plant renovations was performed by Camp, Dresser & McKee of Cambridge, Massachusetts and construction is being done by Waterline Industries of Seabrook, New Hampshire. Although the plant's capacity is not going to be increased, the rehabilitation is needed to extend the life of the plant for an additional 20 years. The total cost of the project is expected to be \$11.88 million. An amount of \$11 million was borrowed through the Massachusetts Water Pollution Abatement Trust, at a subsidized interest rate of 2% with a 20-year payback period. The loan operates as a draw-down; that is, the Town submits requisitions as bills for the project are incurred.

### **Beede Center Fund**

During two year of operation (as of this April), the Beede Swim and Fitness Center continues to be a great success. More than 5,400 individuals (representing family memberships, couples and individual memberships) are presently signed up as members to use the four indoor pools and two fitness rooms. Attendance levels average approximately 500 individuals a day. Based on a survey conducted by the Town, members view the facility very favorably.

Although the Beede Center is now 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 this past November. By taking ownership of the facility, the Town is now 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 \$131.25 per month and individuals paying \$68.75 per month for use of both the swim and fitness areas.

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Further discussion of the proposed budget for each fund is presented as the introduction to each section of the budget presentation.

### **Acknowledgements**

Preparation of this document involves effective 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 (Budget Analyst), and Gail Henry (Town Accountant). Assistant 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 Superintendent), Richard Reine (Public Works Director), Alan Cathcart (Water & Sewer Superintendent), Rod Robison (Recycling and Disposal Program Administrator), and Danner DeStephano (Recreation Administrator). In addition, assistance was provided by Sherman Chapman (CMLP Business Administrator), Dale Cronan (CMLP Assistant Superintendent), Paul Reinhardt (Public Works Management Analyst), and Paul Cote (Assistant to the Water/Sewer Superintendent).

The efforts of the staff in compiling this annual document are a crucial part of our commitment to the sound financial operation and long-term perspective in the management of our enterprise operations.

Respectfully Submitted,

Christopher Whelan  
Town Manager

CC: Finance Committee  
Municipal Light Board  
Public Works Commission

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