



TOWN OF CONCORD,
MASSACHUSETTS

**Town Manager's
Proposed
Enterprise Budgets
FY2008**

ENTERPRISE FUNDS

- Light
- Water
- Sewer
- Swim and Fitness Center

SPECIAL REVENUE FUND

- Solid Waste

Table of Contents

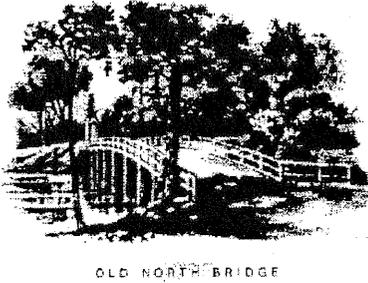
	<u>Page</u>
Section I Letter of Transmittal	I-1
Section II Introduction	II-#
Budget Book Guide	1
Budget Process	2
Budget Schedule	2
FY2008 Budget Schedule (Chart)	3
FY2008 Budget Calendar	4
Budget Organization	6
Operational Organization	6
Enterprise Funds Overall Organization Chart	7
Description of an Enterprise Operation	8
Public Policy Objective	8
Useful Definitions	9
Section III Summary	III-#
Summary Narrative	1
Enterprise Funds as Part of Total FY06 Revenues (Chart & Table)	3
Summary of Comparative Operating & Income Data (Table)	4
Capital Budgets for FY2008 (Table)	5
Capital Budgets for FY2008 - FY2012 (Table)	7
Section IV Light Fund	IV-#
Program Description	1
Summary of Capital Sources and Needs, CY2007 (Table)	5
Operating Revenues	6
Operating Sales (KWH)	6
Operating Expenses	7
Authorized Positions	8
Debt Service	9
Payments to the General Fund	9
Net Income	10
Available Resources	11
Rate of Return	11
Light Fund Debt Service (Table & Chart)	12
KWHs Sold, Revenues, Expenses, Operating Income, & Net Income (CY1998 - CY2007) (Table)	13
Operating Revenues, Expenses, & Income; Net Income (Graph)	14
Sale of Electricity CY1998 - CY2007 (Chart)	15
Residential Rate Comparison 1000 kWh (CY2006) (Chart)	16
Cash Flow Projection, 2006 (Table)	17

Section V	Water Fund	V-#
	Program Description	1
	FY07 Program Highlights	1
	FY07 Capital Plan	2
	FY08 Operating Budget	3
	Operating Revenues	4
	Operating Expenses	4
	Authorized Positions	5
	Debt Service	6
	Payments to the General Fund	6
	Net Income	7
	Available Resources	7
	Capital Spending Plan	8
	Recap – CIP Financing Summary	9
	Water Debt Service (Table & Chart)	10
	Water Billed, Revenues, Expenses, Operating Income, & Net Income FY1998 - FY2007 (Table)	11
	Operating Revenues, Expenses, & Income; Net Income (Graph)	12
	Water Billed by Customer Class FY1998 - FY2007 (Chart)	13
	Water Rates (Per 100 Cubic Feet) (Table)	14
	Concord Water Supply (Map)	15

Section VI	Sewer Fund	VI-#
	Program Description	1
	FY07 Program Highlights	1
	FY08 Capital Plan	2
	FY08 Operating Budget	3
	Operating Revenues	4
	Operating Expenses	4
	Authorized Positions	5
	Debt Service	6
	Payments to the General Fund	7
	Net Income	7
	Available Resources	8
	Capital Spending Plan	9
	Use of Borrowed Funds	11
	Recap – CIP Financing Summary	11
	Sewer Debt Service (Table & Chart)	12
	Sewer Debt Service funded from Betterment Assessments (Table & Chart)	13
	Detail of General Fund Services Provided to Sewer Fund (Table)	14
	Sewage Billed, Revenues, Expenses, Operating Income, & Net Income FY1998 - FY2008 (Table)	15
	Operating Revenues, Expenses, & Income; Net Income FY1998-2008 (Graph)	16
	Sewage Billed by Customer Class FY1998 - FY2008 (Graph)	17
	Sewer Rates (Per 100 Cubic Feet) (Table)	18
	Comprehensive Wastewater Management Plan Phase I Sewer Extensions (Map)	19

Section VII	Swim and Fitness Center Fund	VII-#
	Program Background and Description	1
	Operating Revenues	3
	Operating Expenses	3
	Authorized Positions	4
	Debt Service	5
	Payments to the General Fund	5
	Net Income	6
	Available Resources	6
	FY2008 - FY2012 Capital Program (Table)	7
	Membership Breakdown by Town (Charts)	8
	Membership Breakdown by Category (Table and Chart)	9
Section VIII	Solid Waste Fund	VIII-#
	Program Description	1
	Curbside Contract Costs	1
	Paper Revenue	2
	Curbside Program Statistics	2
	Household Hazardous Waste Disposal Benefit	2
	Curbside Program Subscription Rates	3
	Composting Site Fund Balance	3
	FY08 Budget Changes	3
	Operating Revenues	4
	Operating Expenses	4
	Authorized Positions	5
	Payments to the General Fund	5
	Net Income	6
	Statement of Fund Balance	7
	Fund Balance Detail by Program	7
	Municipal Incentive Grant Program	8
	Detail of General Fund Services Provided to Solid Waste Fund	9
	Curbside Collection Program Operating Revenues, Expenses, & Income FY1999 - FY2008 (Table)	10
	Curbside Collection Program Operating Revenues, Expenses, & Income FY1999 - FY2008 (Graph)	11
	Solid Waste Collected FY1998-FY2007 (Chart)	12
Section IX	Appendix	IX-#
	Organization Charts & Support Statements	2
	Concord Municipal Light Plant	
	Concord Public Works	
	Financial Statements:	8
	Statement of Net Assets	
	Statement of Revenues, Expenses, & Changes in Fund Net Assets	
	Statement of Cash Flows	
	Water Fund: Plan and Projection (Table)	12
	Sewer Fund: Plan and Projection (Table)	13
	Glossary of Terms Commonly Used in Municipal Finance	14

[THIS PAGE INTENTIONALLY BLANK]



TOWN OF CONCORD
TOWN MANAGER'S OFFICE
22 MONUMENT SQUARE - P.O. BOX 535
CONCORD, MASSACHUSETTS 01742

TELEPHONE (978) 318-3000
FAX (978) 318-3002

CHRISTOPHER WHELAN, TOWN MANAGER

March 21, 2007

The Honorable Board of Selectmen:

I am pleased to submit for your review the Town Manager's Proposed Enterprise Budget for Fiscal Year 2008 (July 1, 2007 – June 30, 2008). 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 FY08, this action will be taken under Article 17 of the 2007 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 FY08, this action will be taken under Article 22 of the 2007 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 FY08, this action will be taken under Articles 20 and 21 of the 2007 Town Meeting Warrant.

Beede Swim & Fitness Center Fund

This is a new enterprise which opened its doors on April 18, 2006 and the first full year of operations as an enterprise is FY2007. 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 law, 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 23 of the 2007 Town Meeting Warrant will make an appropriation for the estimated expenses of the Center for the fiscal year beginning July 1, 2007 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 FY08 (calendar year 2007 for CMLP), and the related projections of operating and net income, are:

	Expenditures	Operating Income	Net Income
Light Fund (page IV- 10)	\$14,641,320	\$ 1,590,924	\$2,280,815
Water Fund (page V- 7)	3,105,275	615,725	487,395
Sewer Fund (page VI- 7)	2,357,558	(277,558)	(188,485)
Swim Center (page VII- 6)	2,242,129	(14,129)	57,871
Solid Waste (page VIII- 6)	952,905	(44,085)	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 16 of the 2007 Town Meeting Warrant):

	<u>Light</u>	<u>Water</u>	<u>Sewer</u>	<u>Beede</u>
Net Income Projected	\$2,280,815	\$ 487,395	\$ (188,485)	\$ 57,871
Capital Reserve Charge	0	133,000	0	0
Depreciation Expense	<u>1,308,667</u>	<u>761,800</u>	<u>1,145,150</u>	<u>353,000</u>
Subtotal	3,589,482	1,382,195	956,665	410,871
Less:				
CMLP PILOT Payment	340,000	0	0	0
Debt Principal Payment	535,000	630,000	641,194	0
Transfer to General Fund	0	0	0	28,493
Net from Current Operations				
Available for Capital Purposes	<u>\$ 2,714,482</u>	<u>\$ 752,195</u>	<u>\$ 315,471</u>	<u>\$ 382,378</u>

Planned FY08 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	\$ 900,400	\$ 1,203,100	\$ 20,000

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, constantly 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. First, 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. Second, the CMLP has contracted to purchase electricity from Braintree Municipal Light Plant which is building a power plant and has expressed interest in entering into a similar agreement with Taunton Municipal Light Plant which is proposing to build a new plant. Next, 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. Finally, the CMLP is continuing its efforts to promote energy conservation and has budgeted over \$207,000 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 under the auspices of Concord Conserves.

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 is overseeing with 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 is being build by Barbato Construction Company of Middleborough, Massachusetts. Upon completion, the facility should 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 4.8% which translates into an annual dollar increase of approximately \$20 for the average 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 \$824,000 in FY06 to \$1,145,000 in FY08, 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 is proceeding with a major renovation project of the Wastewater Treatment Plant, a relatively large amount of depreciation expense has been added to the accounting books and has made the operating and net income negative. Nevertheless, reserve balances carried over from previous years are enough to cover the deficit. In addition, to better manage this deficit, the Sewer Division is proposing a moderate sewer rate increase of 5.0% (or about \$36 for the average customer) effective June 1, 2006.

As discussed above, the Sewer Division is in the middle of 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. Through June 30, 2007, an estimated \$6,350,000 will have been spent on the design and partial construction. For FY08, the capital plan provides for \$5,530,000 to complete the construction and provide for construction administration costs. 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 its first year of operation, the Beede Swim and Fitness Center has been a great success. Over 1,067 families, 360 couples, and 754 individuals have 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. On February 5, 2007, the Board of Selectmen accepted the gift of the Beede Swim and Fitness Center from C.C. Pools. By taking

ownership of the facility, the Town is now responsible for its maintenance, which includes providing adequate money for depreciation expense.

Membership fees remain reasonable with Concord and Carlisle families paying \$125 a month and individuals paying \$62.50 a month for use of both the swim and fitness areas.

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

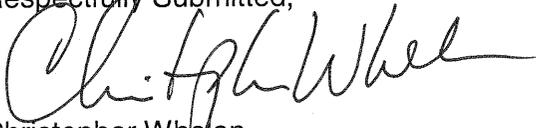
Acknowledgements

Preparation of this document involves effective teamwork between the Finance Department, the Concord Municipal Light Plant, and the Public Works 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), and Michael Ward (Budget Analyst). 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), Ann Dorfman (Recycling and Disposal Program Administrator), and Danner DeStephano (Recreation Administrator). In addition, assistance was provided by Sherman Chapman, Dale Cronan, Paul Reinhardt, and Paul Cote.

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