



TOWN OF CONCORD,
MASSACHUSETTS

Town Manager's
Proposed
Enterprise Budgets
FY2007

ENTERPRISE FUNDS

- Light
- Sewer
- Water
- Swim and Fitness Center

SPECIAL REVENUE FUND

- Solid Waste



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March 24, 2006

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Section I

Letter of Transmittal



OLD NORTH BRIDGE

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CHRISTOPHER WHELAN, TOWN MANAGER

March 24, 2006

The Honorable Board of Selectmen:

I am pleased to submit for your review the Town Manager's Proposed Enterprise Budget for Fiscal Year 2007 (July 1, 2006 – June 30, 2007). 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 FY07, this action will be taken under Article 20 of the 2006 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 FY07, this action will be taken under Article 25 of the 2006 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. As with the Water Fund, 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 FY07, this action will be taken under Articles 23 and 24 of the 2006 Town Meeting Warrant.

Swim and Fitness Center Fund

This is a brand new enterprise operation which opens its doors on April 18th. 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 27 of the 2006 Town Meeting Warrant will make an appropriation for the estimated expenses of the Center for the fiscal year beginning July 1, 2006 based upon an estimate of the income to be derived from the operation. Until the FY07 appropriation takes effect on July 1, 2006, the Center will be operating through the auspices of the Recreation Revolving Fund. The motion under Article 27 will transfer all revenues and expenditures of the Center occurring through June 30, 2006 to the new Enterprise Fund as of the end of this current fiscal period.

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 swim 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 of Concord 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 FY07 (calendar year 2006 for CMLP), and the related projections of operating and net income, are:

	Expenditures	Operating Income	Net Income
Light Fund (page IV-9)	\$15,461,469	\$ 878,928	\$1,706,838
Sewer Fund (page V-9)	1,867,642	73,358	285,258
Water Fund (page VI-7)	2,947,699	528,301	444,678
Solid Waste (page VII-6)	887,884	(41,014)	na
Swim Center (page VIII-5)	2,218,210	-0-	na

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, and Sewer funds (the Light Fund commitments also include the payment in lieu of taxes - Article 19 of the 2006 Town Meeting Warrant):

	Light	Sewer	Water
Net Income projected	\$ 1,706,838	\$ 285,258	\$ 444,678
Depreciation expense	<u>1,207,619</u>	<u>773,493</u>	<u>778,000</u>
subtotal	\$ 2,914,457	\$1,058,751	\$1,222,678
Less:			
CMLP PILOT payment	\$ 340,000		
Debt principal payment	\$ <u>475,000</u>	\$ <u>100,000</u>	\$ <u>505,000</u>
Net from current operations available for capital purposes	\$ <u>2,099,457</u>	\$ <u>958,751</u>	\$ <u>722,678</u>

Planned FY07 capital expenditures of each enterprise, exclusive of expenditures that will be funded by debt issuance, are:

Light	Sewer	Water
\$1,777,000	\$ 248,000	\$ 628,400

In each instance, therefore, the proposed budgets are expected to generate sufficient resources from current operations to cover capital expenditures planned for the fiscal period. Each year need not, however, produce an exact match of this capital funding requirement. It is possible each year to draw upon accumulated uncommitted cash balances or to accumulate cash resources for future capital expenditures. Therefore, we are also seeking to manage each of these programs 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.

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

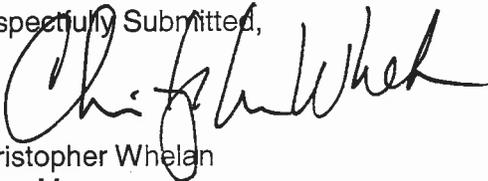
Acknowledgements

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), David Berry (Special Projects Assistant), and Cheryl Smith (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), Bill Edgerton (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, Grace Gray, Paul Cote, and Paul Reinhardt.

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