



## TOWN OF CONCORD

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CHRISTOPHER WHELAN, TOWN MANAGER

March 16, 2015

The Honorable Board of Selectmen:

I am pleased to submit for your review the Town Manager's Proposed Enterprise Budgets for Fiscal Year 2016 (July 1, 2015 – June 30, 2016). The document presents the Town's business-type operations. These operations have the following characteristics:

- They are **not** supported from property taxes but rather from fees and charges directly related to the services provided;
- They are intended to operate in a fiscally self-sustaining manner with respect to operating expenses, capital expenses and long-term liabilities; and
- They are expected to provide for the continuous renewal of all related investments in plant and equipment without resort to debt-financing except for the expansion of the related plant or service, and for this purpose depreciation expenses is accounted for as an operating expense and is incorporated into rate-setting and planning.
- As departments of the Town government organized under the direction of the Town Manager, each enterprise functions within the personnel bylaw and financial rules and regulations of the town government. Each enterprise receives various central administrative services, including through the Human Resources Department and the Finance Department, the cost of which is allocated to the enterprise.

Each of the funds reported herein is financed entirely by rate-payers, the users of the particular service involved. Six operations are reported upon:

### **Light Fund**

The Concord Municipal Light Plant was established by an 1898 Town Meeting action. The CMLP provides for the distribution of electricity and operates in full compliance with generally accepted enterprise accounting standards.

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 Massachusetts General Laws (M.G.L.). The CMLP is managed under the operational authority of the Town Manager pursuant to Section 9 of the Town Charter and designation in the Light Department Administrative Code as Manager of the Municipal Light Plant. The Town Manager appoints the five-member Light Board, the department head (the CMLP Director) and all CMLP staff. The CMLP Director supervises all department staff and reports to the Town Manager. It is the CMLP

Director's responsibility to keep the Light Board fully informed of department matters so that the Board can effectively carry out its responsibilities of oversight and planning.

The budget is developed for the Town Manager by the CMLP Director and is reviewed by the Light Board. The Light Board is the electric utility rate-setting body, in accordance with the provisions of M.G.L. Chapter 164. Rates are subject to limited oversight of the Commonwealth of Massachusetts Department of Public Utilities, as the Light Plant operates as a home-rule municipal light plant. The Town Meeting annually authorizes the Town Manager to expend the income of the Light Fund without further appropriation. For FY16, this action will be taken under Article 46 of the 2015 Town Meeting Warrant.

### **Water Fund**

The bylaw that established the Water Revolving Fund dates back to 1974. Beginning in 1984, the Town has applied 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 is appointed by the Town Manager. The Concord Public Works (CPW) Department includes the Water/Sewer Division. The Water/Sewer Superintendent reports to the Public Works Director. CPW staff prepares an annual Water Fund budget recommendation for review by the Town Manager. The budget is also reviewed by the Public Works Commissioners, a five-member body appointed by the Town Manager. The Commissioners are the water utility 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 Water Fund without further appropriation. For FY16, this action will be taken under Article 50 of the 2015 Town Meeting Warrant.

### **Sewer Fund**

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, CPW staff under the direction of the Public Works Director prepares the annual Sewer Fund budget recommendation for review by the Town Manager. The budget is also reviewed by the Public Works Commissioners. The Commissioners are the sewer utility 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 Sewer Fund without further appropriation. For FY16, this action will be taken under Articles 48 and 49 of the 2015 Town Meeting Warrant.

### **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 property 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. The Town Meeting annually authorizes the Town Manager to expend the

income of the fund without further appropriation. For FY16, this action will be taken under Article 47 of the 2015 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 of the Commonwealth, 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 51 of the 2015 Town Meeting Warrant will make an appropriation for the estimated expenses of the Center for the fiscal year beginning July 1, 2015 based upon an estimate of the income to be derived from the operation.

The operation of the Center has been assigned by the Town Manager to the Recreation Department under the direction of the Beede Center Director. 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. The Recreation Commission, appointed by the Town Manager, also monitors the performance of the Center and provides guidance and advice.

### **Recreation Fund**

New to this year's Enterprise Budget book is a section on the Recreation Fund. In previous years, some information was presented in the Town Manager's Budget Book. The transition is being made this year so that there can be one place where financial and budgetary information about the Recreation Fund activities can be detailed.

With the adoption of Article 3 at the 1979 Town Meeting, this Fund was established by Town Bylaw to be used solely for the maintenance and support of recreation and park facilities and services of the Town. The Recreation Fund is not an enterprise fund but rather is a Revolving Fund, since it has no capital assets and no depreciation expense is associated with its operations. Like the Solid Waste Fund, the Recreation Fund is included in this presentation because its basic purpose is to operate the recreation programs as a business-type activity. Rates are set by the Recreation Commission and program costs are expected to be fully recovered by these rates. At the time that the Recreation Fund was established, there was no requirement that an annual appropriation would needed to be adopted by Town Meeting and the Bylaw was written so that expenditures can be made by the Town Manager without further appropriation, so there is no action required of and no article presented to the 2015 Town Meeting.

### **Budgetary Focus**

Each of the six budget presentations focuses on the projection of operating income and net income. The long-term objective in the management of each enterprises is to generate sufficient income from current operations to fund operating and capital needs without tax support. 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 FY16 (calendar year 2015 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>	\$26,195,913	\$24,386,056	\$1,809,857	\$2,245,351
<b>Water Fund</b>	4,782,000	4,030,980	751,020	655,797
<b>Sewer Fund</b>	2,698,000	3,257,556	<b>-559,556</b>	<b>-464,693</b>
<b>Solid Waste Fund</b>	1,257,998	1,254,795	3,203	3,203
<b>Beede Center Fund</b>	2,441,368	2,741,330	<b>-299,962</b>	<b>-266,762</b>
<b>Recreation Fund</b>	1,852,119	1,852,119	0	0

One measure for determining whether an enterprise has sufficient resources to fund necessary capital improvements is to: (a) sum net income plus cash generated from recording depreciation expense and (b) subtract debt principal repayments and transfers in the form of Payments in Lieu of Taxes or PILOT (for the CMLP only). This arrives at the net resources available for replacement and renewal of plant and equipment. For each enterprise, this amount can then be compared to the planned capital outlay expenditure, as shown in the following:

<u>FY16 Proposed Budgets</u>	<u>Light</u>	<u>Water</u>	<u>Sewer</u>	<u>Beede</u>
<b>Net Income Projected</b>	\$2,245,350	\$ 655,797	\$ <b>-464,693</b>	\$ <b>-266,762</b>
<b>Depreciation Expense</b>	<u>1,725,892</u>	<u>1,056,237</u>	<u>1,556,563</u>	<u>511,127</u>
<b>Subtotal</b>	3,971,242	1,712,034	1,091,870	244,365
<b>Less:</b>				
<b>Debt Principal Payment</b>	760,000	520,000	653,932	0
<b>CMLP PILOT Payment</b>	477,600	0	0	0
<b>Net Resources derived from Current Operations and available for Capital Purposes</b>	<u>\$2,733,642</u>	<u>\$1,192,034</u>	<u>\$ 437,938</u>	<u>\$ 244,365</u>

The planned FY16 capital expenditures of each enterprise (exclusive of expenditures that will be funded by debt issuance) are as follows:

	<u>Light</u>	<u>Water</u>	<u>Sewer</u>	<u>Beede</u>
<b>Capital Outlay</b>	\$1,573,330	\$2,620,690	\$ 1,789,080	\$ 277,000

It is not necessary that Net Resources from Current Operations equal or exceed the actual or planned Capital Outlay for each year. In FY16, for example, the Water Fund, Sewer Fund, and Beede Center has greater capital outlay needs and the difference will be financed from the available cash balance of this fund. Nevertheless, over the long term, it is the objective to manage each of these enterprises so that the cost for replacement and renewal of plant and equipment will be met from cash generated by current operations.

In some cases, there is additional funding available for capital purposes. For example, the Light Plant conducts work to place utility wires underground and these projects are financed from the accumulated balance of the Underground Fund.

## **Program Highlights**

### **Light Fund**

The major item affecting operating expenses and revenues for the Concord Municipal Light Plant is the purchase of power supply and distribution of electricity to customers. Since changes in purchased power costs are passed along to customers, the Light Plant's portfolio of power supply purchase agreements in effect at any time greatly affects the price that its customers will pay. In 2015, purchased power expense is projected to be approximately \$18 million or 74% of operating costs.

The Concord Municipal Light Plant is also actively pursuing efforts to promote energy conservation and renewable energy. In 2009, the Light Board voted to implement a new residential tiered rate structure in which the unit price rises at higher monthly or bi-monthly consumption levels. The Light Plant is in the process of implementing the utilization of its Smart Grid infrastructure to allow CMLP and its customers to manage electricity usage. In 2015, the Light Plant is implementing a new "Greening Your Heat" program, which provides free 30-minute energy audits for the homes of Concord residents and addition funds to partially pay for the weatherization improvements suggested in the audits. In addition, for both residential and commercial customers, there are rebate programs to encourage the purchase of energy-efficient lighting fixtures and energy-star appliances.

The Light Plant Board is committed to reducing the Town's dependency on electricity generated from fossil fuels. Initiatives include seeking to purchase commercially available electricity from renewable sources, developing utility-scale solar generation in Town, facilitating rooftop solar in Town, and participating in wind power generation projects outside of Town. All of these efforts will contribute to the goal of increasing the percentage of electricity generated from renewable sources from the 16.8% of all purchased power in 2015 to 30% by 2020.

In 2014, the Light Plant began offering broadband service to Town residences and commercial establishments. This service uses the excess capacity of the optical fiber network that has been installed throughout Town for the Smart Grid program. In 2013, Town Meeting

approved Article 48 which authorized the Town to borrow up to \$1 million in startup funds to get the project off the ground. In 2014, an amount of \$100,000 was borrowed under this authorization and in 2015 it is estimated that an additional \$425,000 will be used. It is expected that after the initial startup period, revenues from this service will cover costs.

## **Water Fund**

The Water Fund is in sound financial condition and needed capital improvements are proceeding on schedule. With the passage of Article 23 of the 2010 Town Meeting warrant, an amount of \$1.9 million of bond financing has been made available for improvements at the Town's surface water supply, Nagog Pond. These improvements include an enhanced disinfection treatment system and repair to the 100-year old dam and related structures. It is anticipated that next year's Town Meeting, the 2016 Annual Town Meeting, there will be a request of \$6.5 million of borrowing authorization to construct the Nagog Pond Filtration Facility and \$1.4 million to replace the Nagog Intake Structure. These investments will expand the current limited seasonal use of this water supply. The 10-year plan (page IV-14) presents the proposed capital improvements.

To maintain sufficient funds to cover operating and capital costs, a rate increase of 3.9% is proposed to be effective June 1, 2015, which is an annual dollar increase of approximately \$16.20 for the average residential customer over the year.

## **Sewer Fund**

It has been noted above that the Sewer Fund's projected operating income is negative. In addition, the forecast is that operating results will remain in deficit for the next several years, while gradually improving during this period (see page V-10). The main cause of this deficit is an increase in the depreciation expense, from \$628,375 in FY05 to \$1,556,563 projected for FY16, a reflection of the infrastructure improvements that had been made in 2006-08 to the treatment plant first put into service in 1987.

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 Massachusetts 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 FY27) 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 cash balances will continue to be sufficient to finance needed sewer system capital maintenance.

As part of renovations to the Wastewater Treatment Plant carried out in 2005, the Town agreed to install an innovative state-of-the-art tertiary treatment process called "CoMag". This involved the installation of phosphorus reduction equipment. The Town negotiated an incentive agreement with the former manufacturer/installer, Cambridge Water Technology, Inc. (CWT), which has been acquired by Siemens Industries, Inc. The decision to install the innovative process has turned out very well for the Town. As a result of this agreement, the Sewer Fund received incentive payments of \$1,006,882 in FY13 and final payment of \$2,943,125 in FY14. (see page V-8, "Non-operating revenue").

A rate increase of 3.0% is proposed to be effective June 1, 2015, which is an annual dollar increase of approximately \$18.60 for the average residential customer.

### **Solid Waste Fund**

The Town offers curbside trash and recycling collection to all residences and small commercial facilities. The program pays for itself through issuing subscriptions, which make a residence eligible for trash and/or recycling pickup, and by selling barrel tags and stickers, which make a garbage barrel eligible for pickup. The Solid Waste Fund holds no capital assets and the collection and disposal of trash and recycling is contracted out to a third party, Waste Management of New England. There are approximately 3,500 subscribers for this service. In FY16, it is expected that the Solid Waste Fund will generate a slight net income.

### **Beede Center Fund**

Completing its ninth year of operation as of April 2015, the Beede Swim and Fitness Center continues to operate successfully. Given that it is the only one of the Town's enterprises that operates in a competitive market, the Beede Center is very dependent upon the satisfaction of its members and on the overall condition of the regional and national economy to maintain membership levels for what may be seen as a discretionary expense. Thus far, the Beede Center has been received enthusiastically by the community and is increasingly perceived as an important contributor to the community's physical health.

Despite the challenging economic conditions of recent years, the Beede Center has been able to maintain its memberships. Family memberships have increased from 485 to 494 from January 2014 to January 2015, and individual memberships have increase from 1,103 to 1,133 in the same period.

During FY15, the Beede Center completed an extensive renovation of its HVAC system. The dehumidifier system for the pool area, a key component of the facility, was in need of replacement. The project entailed the replacement of existing boilers and hot water systems, as well as installation of new ducts and piping. A benefit of the renovation will be a more efficient use of electricity and natural gas.

The construction cost for the project of \$1.513 million came in slightly under budget. Article 29 of the 2014 Town Meeting authorized an appropriation of \$1 million out of the FY14 Depreciation Fund Balance for the project. With \$299,000 already appropriated for previous capital purposes along with \$175,000 from the Sawyer Trust Fund and \$55,000 from the Beede Center Endowment Fund, the Beede Center did not need to borrow funds to complete the project. As a result of this project, a new \$1.5 million asset, which needs to be depreciated, has been brought onto the Beede Center's books. Accordingly, annual depreciation expense which was \$330,287 in FY14 is expected to be \$511,127 in FY16. This increase is a primary reason why net income for FY16 is a negative \$266,761. Due to the increased depreciation expense, net income is projected to remain negative until FY19.

## **Recreation Fund**

The Town has had the Recreation Fund since 1979, though this is the first year that the Fund has been presented in the Enterprise Budget Book, which will provide a more appropriate place in which the financial and budgetary information can be displayed.

The Recreation Fund earns revenue from user fees to cover its expenses. In FY16, it is projected that the revenues of \$1.8 million will offset expenses of the same amount. It should be noted that projections are very tentative, since 44% of total operating expenses are for temporary status employees, such as fitness instructors, summer camp counselors and after-school day care workers. As the demand for a particular program increases, so does staffing and expenses, as well as revenues earned from program fees. Although this allows the Recreation Department to be very flexible with its cost and hire on staff to meet the need, it also makes budgeting difficult.

The Recreation Department provides three main types of programs: recreation programs such as fitness sessions; summer programs such as camp; and school year programs such as before and after school day care. For those Concord residents who cannot afford the program fees, the Recreation Department has a scholarship fund. In FY14, approximately \$140,000 in scholarships was provided.

## **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 his staff: Jon Harris (Budget and Purchasing Administrator) and Sean O'Brien (Sr. Budget & Operations Analyst).

Preparation of the individual enterprise budget submissions was carried out under the direction of Richard Reine (Public Works Director), Alan Cathcart (Water & Sewer Superintendent), Rod Robison (Recycling and Disposal Program Administrator), David Wood (CMLP Director), Pam Higgins (Beede Center Director), and Laura Lunig (Recreation Services Director). In addition, assistance was provided by Paul Reinhardt (Public Works Management Analyst), Paul Cote (Assistant to the W&S Superintendent), Cassandra Green (CMLP Power Supply and Rates Administrator), and Sherman Chapman (CMLP Financial Administrator).

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, and Recreation Commission