

Section I

Letter of Transmittal

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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, 2011

The Honorable Board of Selectmen:

I am pleased to submit for your review the Town Manager's Proposed Enterprise Budget for Fiscal Year 2012 (July 1, 2011 – June 30, 2012). 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 FY12, this action will be taken under Article 15 of the 2011 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 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 FY12, this action will be taken under Article 20 of the 2011 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, 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 FY12, this action will be taken under Articles 18 and 19 of the 2011 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 2011 Town Meeting Warrant will make an appropriation for the estimated expenses of the Center for the fiscal year beginning July 1, 2011 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. 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. The Town Meeting annually authorizes the Town Manager to expend the income of the fund without further appropriation. For FY12, this action will be taken under Article 17 of the 2011 Town Meeting Warrant.

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 **FY12** (calendar year 2011 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>
Light Fund	\$28,429,089	\$26,522,147	\$1,906,942	\$2,651,699
Water Fund	4,053,000	3,504,757	548,243	367,245
Sewer Fund	2,479,000	3,221,640	- 742,540	- 485,257
Beede Center	2,383,618	2,476,694	- 93,076	- 75,076
Solid Waste Fund	1,113,861	1,109,608	4,253	4,253

See also page II-6

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

<u>FY12 Proposed budgets</u>	<u>Light</u>	<u>Water</u>	<u>Sewer</u>	<u>Beede</u>
Net Income Projected	\$2,651,699	\$367,245	- \$485,257	- \$75,076
Depreciation Expense	<u>1,428,136</u>	<u>819,862</u>	<u>1,785,704</u>	<u>308,772</u>
Subtotal	4,079,835	1,187,107	1,300,447	233,696
Less:				
Debt Principal Payment	530,000	550,000	583,649	0
CMLP PILOT Payment	380,000	0	0	0
Net Resources from Current Operations Available for Capital Purposes	<u>\$ 3,169,835</u>	<u>\$ 637,107</u>	<u>\$716,798</u>	<u>\$ 233,696</u>

The planned FY12 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>
Capital Outlay	\$ 2,174,000	\$ 935,000	\$ 623,000	\$ 122,000

It is not necessary that Net Resources from Current Operations equal or exceed the Capital Outlay for each year. In FY12, for example, the Water Fund 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 the Light Plant, an amount of \$910,000 is planned to be used for work to place wires underground and this project will be financed from the accumulated balance in the Underground Fund (see page III-13).

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 changes in purchased power costs are passed along to customers, the agreements that the CMLP has in purchasing electricity greatly affect the amount that customers pay. The current power supply portfolio is shown in the following table:

CONCORD MUNICIPAL LIGHT PLANT
power supply portfolio as of 3/1/11

SUPPLIER	FUEL	Capacity	Energy	contract period	
		KWs per month	KWHs per Year	START	END
Morgan Stanley	gas	0	145,000,000	10/01/09	12/31/13
Braintree - Watson	gas	9,206	9,200,000	07/01/09	06/30/29
NYPA *	hydro	1,300	5,700,000	Long term contract	
Granby, MA *	landfill gas	1,000	8,000,000	06/01/10	05/31/13
Miller Hydro *	hydro	0	5,300,000	03/01/10	05/31/16
Dominion	gas	8,100	0	06/01/10	05/31/15
ISO NE (spot market)		Balance	Balance		
summary:					
Total requirements		55,000	194,200,000		
total contracted		19,606	173,200,000		
% of total required		35.6%	89.2%		
* Renewable Sources					

As a result of these agreements, the 2011 budget for power supply expense is proposed to be \$20.6 million, as compared to actual expenditure of \$13.2 million in 2009. To mitigate the effects of the rise in purchased power cost, the Light Plant established a Rate Stabilization Fund beginning in January 2006. \$3.1 million was drawn from this fund in 2010 and an amount of \$3.7 million is proposed to be used in 2011 to lessen the rate increase that would otherwise have been required.

The Concord Municipal Light Plant is proceeding with its effort to promote energy conservation and renewable energy. In 2009, the Light Board voted to implement a new residential rate structure in which users of lower amounts of electricity pay a lower rate. In addition, the CMLP is in the process of establishing a Smart Grid infrastructure that will allow it to better manage its customers' electricity demands. These steps have been taken to encourage conservation.

To promote renewable energy, the Light Plant Board is actively pursuing several initiatives. These initiatives include seeking to purchase commercially available electricity from renewable sources, developing utility-scale solar generation in Town, facilitating rooftop solar in Town, and exploring the possibility of 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 current 10% of all purchased power to 20% by 2015 and 30% by 2020.

Even with these energy conservation measures and with these renewable energy projects within the Town's borders, the configuration of Concord's power grid is reaching its capacity: the transformers which carry power from outside of Concord to Town customers have a limitation of 50 Mega Volt Amperes (MVA), a measure of electricity capacity. Currently, peak

demand equals approximately 47.8 MVA. If demand were to increase beyond 50 MVA, there would be the possibility of delivery failure or brown-outs. Accordingly, the Light Plant is analyzing its options to increase capacity and I expect to make a proposal to Town Meeting within the next year.

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. Once completed, this project 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 FY12 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 3.5% is proposed to be effective June 1, 2011, which is an annual dollar increase of approximately \$13 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 \$1,785,704 projected for FY12.

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 continue to finance needed sewer system capital maintenance. A rate increase of 5.0% is proposed to be effective June 1, 2011, which is an annual dollar increase of approximately \$44 for the average residential customer.

Beede Center Fund

Completing five years of operation as of April 2011, the Beede Swim and Fitness Center continues to operate successfully. Given that it is the only one of the Town's enterprises that competes in an open marketplace, the Beede Center is very dependent upon the satisfaction of its members and also on the overall condition of the regional and national economy to maintain membership levels for what may be seen as a discretionary expense. Thusfar, 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, membership numbers have declined only slightly. The largest decrease has been in family memberships, which have decreased from 685 in March 2010 to 580 in January 2011.

To adjust to these times, the Beede Center has trimmed some of its expenses while maintaining its high level of customer service. For the financial period ending on June 30, 2010, the Beede Center had a net income of \$243,342. In addition, due to careful management, the Beede Center's unreserved fund balance available for any contingency is over \$1.2 million. At the same time, 2011 membership fees remain reasonable with Concord and Carlisle families paying \$133.25 per month and individuals paying \$71.66 per month for use of both the swim and fitness areas.

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 David Wood (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

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