

## **Section II**

### **Introduction**



## Budget Book Guide

To assist the reader in navigating this budget book, we are providing this guide outlining the organization of the budget document. This guide can be used along with the Table of Contents to identify the location of a particular area of interest. The following list is a description of each section of this budget book.

- Section I is the Town Manager's Letter of Transmittal. This letter is an introduction to the budget book by the Town Manager. Included in the letter is summary information about each of the four enterprise funds and the one special revenue fund. This information includes data about their projected operating and net incomes, and their projected spending plans, for FY2007. In addition, the letter highlights some of the major changes in the five budgets for FY2007.
- Section II, of which this guide is a part, contains materials on how to read and understand the budget book. Included are a discussion on the budget process, along with a budget schedule, a budget schedule chart, and a budget calendar; discussions on budget and operational organizations, along with an organization chart; and a description of what constitutes an enterprise operation, plus other useful definitions.
- Section III is the Summary. Here, with tables and charts, various comparative summary data are presented. Included are data and a chart comparing enterprise fund revenues with total town revenues; a summary of comparative operating and income data; and capital budgets for FY2007, plus the capital improvement program for FY2007 through FY2011.
- Sections IV, V, VI, VII, and VIII include the budget narrative, the budget detail; a table showing the account's staffing history; where applicable, capital and debt data; and other relevant data for each fund or activity. Each account represents a department (electric, water, sewer, Swim and Fitness Center) or an activity (solid waste disposal). The narrative pages describe the account, while the numbers pages outline the budget for the account. Section IV contains the Concord Municipal Light Plant Fund; Section V contains the Sewer Fund; Section VI contains the Water Fund; Section VII contains the Solid Waste Fund; and Section VIII contains the Swim and Fitness Center Fund.
- Section IX is the Appendix, which contains organization charts and support statements for the Concord Municipal Light Plant and Concord Public Works (Water and Sewer Division, and Solid Waste), financial statements (net assets; revenues, expenses, and changes in fund net assets; and cash flows), a ten-year projection for the Water and Sewer Funds, and a glossary of terms commonly used in municipal finance.

## **Budget Process**

The Town of Concord operates under state statutes in general; and under the Town Charter as amended, which established the present Selectmen-Town Manager form of government; and under various Town bylaws. The legislative body of Concord is an Open Town Meeting, in which all voters registered in Concord are permitted to participate. While Town Meeting has the sole authority to appropriate funds for the General Fund operating budget and capital projects, it does not appropriate funds for the electric, sewer, and water enterprise funds, or for the special revenue funds. For the three existing enterprise funds and Solid Waste Special Revenue Fund, the responsible department heads, with review by the Town Manager, develop the proposed budgets. The Town Manager then submits these proposed budgets to the Board of Selectmen and Finance Committee, and to the public, prior to the Annual Town Meeting. Each budget is approved by the responsible policy committee as a spending plan, and the Town Meeting authorizes the Town Manager to expend the funds. The new Swim and Fitness Center enterprise fund follows this same pattern, with the additional requirement that the Town Meeting enacts this budget as an appropriation. The Swim and Fitness Center Fund is authorized under MGL c. 44, s. 53F½, a state law enacted in 1986 that sets forth conditions for newly-established enterprise funds.

The fiscal year for the electric utility begins on January 1, while the fiscal year for all other funds begins on July 1. The calendar/fiscal year 2006 budget for the electric enterprise was adopted by the Concord Municipal Light Board in February of 2006. The fiscal year 2007 budgets for the water and sewer enterprises, and for the solid waste special revenue operation, will be adopted by the Public Works Commission as part of this ongoing budget process.

Like prior budgets, these CY2006/FY2007 budgets have been developed based upon projected assumptions of available revenue. These budgets are based primarily upon fees charged for the services provided by each activity. Added to these service fees are projections for grants and miscellaneous special revenues, such as interest earned.

The projected expenditures are calculated based upon the costs of operating the existing service. These operating costs include salaries and employee benefits, debt interest payments, and infrastructure repair and maintenance, including depreciation expense.

## **Budget Schedule**

Beginning in September each fiscal year, the responsible boards and commissions discuss budget issues and provide policy guidance to the staff at a series of working meetings. By February the responsible departments develop and submit their budgets to the Town Manager. With input from these parties, the Town Manager submits the proposed budgets to the public at a hearing held in mid to late March

Shown on the following pages are a calendar of important dates and a chart of the budget schedules for developing and acting on the CY2006/FY2007 budgets, including the enterprise/special revenue budgets.

## Town of Concord FY2007 Budget Calendar

*This calendar describes the steps leading to adoption of the budget for those accounts overseen by the Town Manager under the jurisdiction of the Board of Selectmen, and requiring appropriation by the Town Meeting. The School Superintendent and School Committees carry out similar steps leading to Town Meeting.*

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*Note: "FY" stands for "fiscal year", which ends on June 30 of the designated year*

### 2005

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|-------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| September 22      | FY2007 fiscal planning meeting: Board of Selectmen, School Committee, Finance Committee                                                                                   |
| September 29      | Budget Instructions issued to all departments, boards, and committees                                                                                                     |
| October 14        | Capital Improvement Program FY2007-2011 requests due                                                                                                                      |
| November 4        | FY2007 Operating Budget requests due                                                                                                                                      |
| Nov. 14 - Dec. 2  | Operating and Capital Budget Request review: meetings with Town department heads, Budget Review Team                                                                      |
| November 17       | Finance Committee votes Budget Guidelines, which are issued to Selectmen and School Committees by November 30                                                             |
| November 28       | Classification Report submitted by Board of Assessors to Board of Selectmen (setting the FY2006 property tax rate or rates)                                               |
| December 3 (Sat.) | Selectmen/Committees Coordination Meeting: planning session for April 2006 Annual Town Meeting                                                                            |
| December 5        | Public hearing (Classification Hearing), proposed property tax rates for FY2006 (based on FY2006 appropriations voted at April 2005 Town Meeting)                         |
| December 5        | Warrant opened for 2006 Annual Town Meeting                                                                                                                               |
| December 19       | Preliminary FY2007 Operating Budget recommendations, and final recommendations for FY2007-2011 CIP compiled by Budget Review Team for Town Manager's review and decisions |

## **FY2007 Budget Calendar (continued)**

### **2006**

- January 2 Preliminary draft of Town Manager's expenditure/appropriation recommendations for FY2007 Operating Budget submitted to Board of Selectmen
- January 3 Warrant for Town Meeting closes at 4:00 p.m.
- January 24 90 days prior to the Annual Town Meeting the Town Manager's Proposed Budget for FY2007 (General Fund operations and proposed appropriations) is published and submitted to Selectmen; also, no later than this date, the Superintendent of Schools submits budgets for Concord Public Schools and Concord-Carlisle High School to respective School Committees; through February these committees and Finance Committee conduct reviews
- February 3 Proposed operating budgets for FY2007 Enterprise Funds submitted by departments to Town Manager
- February 16 Public hearings advertised for General Fund operations for FY2007
- February 17 Legal deadline for mailing of Town Meeting Warrant to residents (at least 10 days prior to public hearing)
- February 27 Finance Committee's public hearing on Town Manager's General Fund operating budget proposals for FY2007, and all other non-school financial articles on the Town Meeting Warrant
- February 28 Finance Committee's public hearing on Education budget proposals for FY2007 (CPS and CCRSD School Committees, and Minuteman Science-Technology High School)
- March 16 Finance Committee completes its recommendations for Town Meeting
- March 17 Town Manager's Proposed Budget for FY2007 Enterprise Operations published (10 days prior to public hearing)
- March 27 Public Hearing on Enterprise Fund budgets and warrant articles
- March 31 Finance Committee Report to printer
- April 14 Finance Committee Report mailed to residents (at least 10 days prior to Town Meeting)
- April 24 Town Meeting (first session): consideration of budget and enactment of appropriations

## Town of Concord FY2007 Budget Schedule

July	August	Sept	October	Nov	Dec	January	Feb	March	April	May	June
<b>Implement Adopted FY2006 Budget (Ongoing)</b>											
	Establish goals; hold planning meeting										
		Depts develop operating & CIP budget requests									
			Depts present budget requests; Finance Comm presents budget guidelines								
					Warrant is open						
					Town Manager reviews budgets & submits them to the Board of Selectmen						
						Departments develop & submit Enterprise Fund budgets to Town Manager					
							Finance Comm holds hearings & completes final recommendations on Town Mgr & education budgets & all articles				
								Town Mgr reviews, publishes & holds hearing on Enterprise Fund budgets			
									Town Meeting discusses & adopts Town, education, & CIP budgets		
July	August	Sept	October	Nov	Dec	January	Feb	March	April	May	June

## Budget Organization

Where applicable, there has been an allocation of resources from the Town's enterprise operations (Water, Sewer, Light, and Swim) or special revenue fund (Solid Waste) for management services provided to each fund (such as accounting and treasury services) or direct expenditures incurred and allocated from a central account (such as group insurance and debt service). These allocations are shown in the budget detail for each fund.

In those instances where the allocation of overhead costs among funds has been changed materially, this was done only after a review by the responsible department head and the concurrence of the fund manager for the fund proposed to be charged. This procedure was set forth in the Town Manager's budget instructions to each department head.

The budgets of the enterprise and special revenue funds are included in full in this budget book. In accordance with Town bylaws, the budgets of the electric, sewer, and water enterprise funds and certain special revenue funds (such as Solid Waste, Recreation, and Cemetery) are not appropriated by Town Meeting, but rather are adopted by designated boards and committees, as outlined in the Budget Process subsection on Page II-2 herein. The enterprise budgets are presented to Town Meeting for information purposes, and the warrant for the Town Meeting provides for a series of votes authorizing the Town Manager to operate these activities for the ensuing year. The Swim and Fitness Center Fund budget is required to be enacted by the Town Meeting, according to the state statute under which this enterprise fund is authorized.

## Operational Organization

The Town's four enterprise operations and the solid waste disposal operation are organized in accordance with Town bylaws and the Town Charter. The CMLP Board is the rate-setting authority for the electric utility. The Public Works Commission is the rate-setting authority for water, sewer, and solid waste services. Under the Town Charter, the Town Manager serves as Manager of all Town enterprise and special revenue funds. The Town Manager supervises all personnel and expenditures, exclusive of the schools, regardless of the funding source.

While the term "enterprise fund" has a specific accounting meaning that does not fit the operation of the Solid Waste Disposal Fund, for ease of reference all of the Town's business-type operations are referred to as enterprise operations.

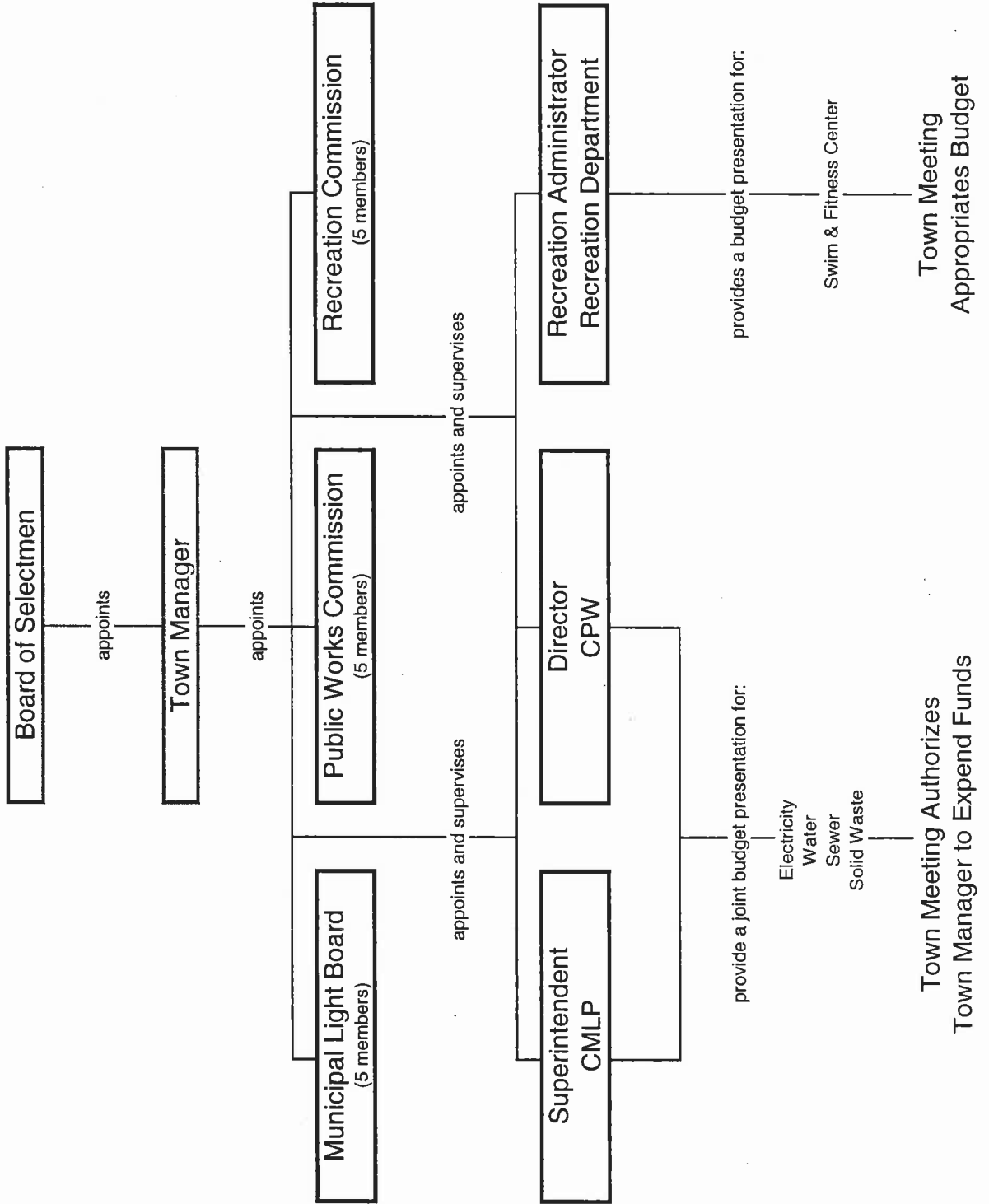
The organization of the Town's enterprise operations is shown on Page II-8. The budgets presented for Light, Sewer, Water, and Solid Waste are *spending plans* and do not have the same restrictive legal interpretation as the voted appropriations made for the Town's **General Fund** operations. The budget for the Swim and Fitness Center is, however, to be enacted by the Town Meeting as an appropriation.

The enterprise operations are, however, subject to the same personnel bylaws and administrative procedures as all other Town departments. Central services are provided from the Town Finance Department for billing and collection, banking, cash and



debt management, purchasing administration, general accounting, and payables. General management of the enterprise operations is provided from the Town Manager's Department. The Town Personnel Department handles recruitment, employee relations, and employee benefit administration for the enterprise operations. Other Town departments provide specialized services as required. These cost components appear in the Water, Sewer, Solid Waste, and Swim budgets as "General Fund Services". In the CMLP budget, these costs are included primarily under the category of "Administrative and General Expenses".

**Town of Concord  
Enterprise Funds  
Overall Organization Chart**



## Description of an Enterprise Operation

An enterprise operation is a business-type activity supported primarily by charges for services received. Funds raised from charges are dedicated to the specific purpose of the enterprise operation, and cannot be diverted to other unrelated uses.

The concept of an enterprise operation also includes the maintenance of the capital facilities of the business. That is, fees for services are charged to recover not only the operating costs of the activity but also the “using up” (depreciation) of the capital investments supporting the service. A successful enterprise operation would never need to borrow funds to replace and renew the existing infrastructure of the business. Borrowing would be required only to expand the business (for example, to extend water or sewer service into new areas). Of course, enterprises in both the public and private sectors often fall short of this definition of “success”.

Budget and financial reports for enterprise operations utilize terms and concepts that differ significantly from those utilized for General Fund tax-supported reports that are the routine focus of public attention. The purpose of enterprise financial reporting is to measure with reasonable accuracy and consistency the Net Income derived from operations, and then to measure the availability and use of capital acquisition and construction financing.

The presentation of the enterprise budgets included in this budget book utilizes budgetary terms and concepts, and the reporting structure found in the audited financial statements for the same enterprise funds. In this budget book, the attention of the user is directed to the key measures of **Net Income** and **Capital Resource Availability**.

## Public Policy Objective

The enterprise fund perspective also accomplishes other public policy purposes:

- Unlike tax-supported services, the charge for an enterprise service is based on use; conservation of whatever is being “sold” is promoted; conversely, there is a financial cost for using more of the service;
- Subsidization by the property tax of operations that are desired to be self-supporting is reduced or eliminated; and
- Consumers who are exempt from the property tax nevertheless share in the financing of the enterprise (for the basic utilities, approximately 20% of the revenue is derived from tax-exempt customers).

## Useful Definitions

An understanding of enterprise operations and financial reporting requires familiarity with terms not used in the normal presentation of the General Fund budgets. The purpose of General Fund reporting is to ensure that voted appropriations, which set the legal maximum authorized spending level, are not exceeded (and, usually as an afterthought, to compare budgeted and actual results). The purpose of enterprise financial reporting, in contrast, is to measure earnings and costs of the business. Presented below are a few of the key terms needed to understand this difference in purpose.

**Enterprise Funds**, as explained above, should be used to account for operations that are financed and operated in a manner similar to private business enterprises:

- (a) when the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or,
- (b) when the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

**Operating Revenue**--Earnings from the provision of services, recorded at the time of service rather than as billed or as received. Revenues and other resources that are not part of Operating Revenue include interest earnings, grants from other levels of government, and proceeds from the issuance of bonds.

**Operating Expenses**--Costs, both direct and indirect, of providing the service, including the cost of using up assets (which is the depreciation expense). Outlays that are **not** part of operating expenses are:

- (a) the acquisition or construction of an asset; and
- (b) debt principal and interest cost.

**Depreciation**--The using up of an asset chargeable to current users. Depreciation is a non-cash expense that is intended to provide resources for capital maintenance and eventual replacement in order to sustain the provision of the service.

**Inter-fund Transfers/General Fund Services**--These are the "indirect cost" components of the enterprise operations. They include billing, treasury, investment and accounting services provided centrally by the Town Finance Department; personnel management services provided by the Personnel Department; and various planning, environmental management, general management, and other services provided through other Town departments. In the case of the water, sewer and solid waste enterprises, this category also includes allocated costs from the Public Works Administration and Engineering Divisions.

**Operating Income**--The difference between Operating Revenue and Operating Expense for a fiscal period.

**Net Income**--Operating Income *plus* other non-operating income (such as interest earnings) *less* debt interest and issuance expense. Net income measures the result of current operations. While Net Income should generally be a positive number, it is possible for an enterprise operation to operate with a loss for a fiscal period and still remain in operation and be financially sound. However, a pattern of negative net income for more than one year, or a declining trend in net income for several years, is cause for concern, and requires remedial action with respect either to rates, expenses, or both.

**Available Capital Resources**--Cash for the replacement and renewal of the assets of the enterprise operation is generated from three sources:

- (a) net income;
- (b) cash produced by the recording of depreciation as an expense; and,
- (c) borrowing.

The first two items, **Net Income** and **Depreciation Expense**, represent the capital resources projected to be generated from current operations. From the combined total of **Net Income** and **Depreciation Expense**, maturing principal repayments on existing long-term debt must first be paid. The remaining balance then can be compared to the proposed Capital Spending Plan. These amounts need not match in any fiscal period, but planned spending which exceeds the projected generation of current capital resources can be financed only if there is an available cash balance in the enterprise, or through borrowing.

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