

Section I

Letter of Transmittal

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CHRISTOPHER WHELAN, TOWN MANAGER

March 12, 2018

The Honorable Select Board:

I am pleased to submit for your review the Town Manager's Proposed Enterprise Budgets for Fiscal Year 2019 (July 1, 2018 – June 30, 2019). 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 expense 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 FY19, this action will be taken under Article 47 of the 2018 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 FY19, this action will be taken under Article 51 of the 2018 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 FY19, this action will be taken under Articles 49 and 50 of the 2018 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 FY19, this action will be taken under Article 48 of the 2018 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 52 of the 2018 Town Meeting Warrant will make an appropriation for the estimated expenses of the Center for the fiscal year beginning July 1, 2018 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 Assistant Town Manager under the direction of the Recreation 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

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 Director 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 need 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 2018 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 enterprise 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 FY19 (calendar year 2018 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	\$28,601,606	\$25,942,802	\$2,658,803	\$902,684
Water Fund	5,366,785	4,443,957	946,778	933,748
Sewer Fund	3,202,398	3,501,678	-299,280	-122,448
Solid Waste Fund	1,421,584	1,421,532	52	52
Beede Center Fund	2,122,500	2,379,905	-257,405	-245,405
Recreation Fund	1,906,015	1,967,452	-44,952	-44,952

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>FY19 Proposed Budgets</u>	<u>Light</u>	<u>Water</u>	<u>Sewer</u>	<u>Beede</u>
Net Income Projected	\$902,684	\$933,748	\$ -122,448	\$ -245,405
Depreciation Expense	<u>1,891,383</u>	<u>1,190,649</u>	<u>1,593,254</u>	<u>363,268</u>
Subtotal	<u>2,794,067</u>	<u>2,124,397</u>	<u>1,470,806</u>	<u>117,863</u>
Less:				
Debt Principal Payment	658,333	485,000	618,831	0
CMLP PILOT Payment	461,000	0	0	0
Net Resources derived from Current Operations and available for Capital Purposes	<u>\$1,674,734</u>	<u>\$1,639,397</u>	<u>\$ 851,975</u>	<u>\$ 117,863</u>

The planned FY19 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	\$1,889,250	\$3,847,260	\$2,217,970	\$567,500

It is not necessary that Net Resources from Current Operations equal or exceed the actual or planned Capital Outlay for each year. If an enterprise has greater capital outlay needs, the difference can be financed from the available cash balance of the fund. 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 2019, purchased power expense is projected to be approximately \$19.2 million or 74.2% of operating costs.

The Concord Municipal Light Plant is also actively pursuing efforts to promote energy conservation and renewable energy. In 2015, the Light Board voted to update its residential tiered rate structure in which the unit price rises with higher 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. Article 26 at the 2017 Town Meeting authorized the Town to borrow \$3 million to speed the process of deploying smart meters through town in order to better manage the electrical distribution system and assist residents and business customers to manage electricity usage. 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 23% of all purchased power in 2017 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 capital funds to get the project off the ground. Article 24 at the 2017 Town Meeting authorized the Town to borrow \$1 million to perform significant equipment upgrades and additional fiber-optic network construction to meet customer demand.

With the installation of service for 850 Concord customers in 2017 and additional 300 installations expected in 2018, the 2018 operating income is projected to be \$104,250. These funds will be available to replenish the fund balance, which has been as expected negative during the startup period and make debt service payments on the borrowed funds.

Water Fund

The Water Fund is in sound financial condition, and needed capital improvements are proceeding on schedule. With Article 28 of the 2016 Annual Town Meeting, the Town approved of \$16.5 million in borrowing to construct the Nagog Pond water treatment facility, replace the water intake pipeline, and rehabilitate the Annursnac and Pine Hill storage tanks. The Water Division is in the process of obtaining the proper permits from the Town of Acton – the location of the water source and proposed treatment plant – for the final design and construction of the plant.

To maintain sufficient funds to cover operating and capital costs, the Water Division is proposing a rate increase of 4.0% for normal residential use as of June 1, 2018 that is an annual dollar increase of approximately \$18.90 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. The main cause of this deficit is an increase in the depreciation expense, from \$628,375 in FY05 to \$1,593,254 projected for FY19, 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.

A rate increase of 1.0% is proposed to be effective June 1, 2018, which is an annual dollar increase of approximately \$7.20 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 3,600 subscribers for this service. In FY19, it is expected that the Solid Waste Fund will generate a slight net income.

Beede Center Fund

Completing its eleventh year of operation as of April 2017, 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 well received by the community and is increasingly perceived as an important contributor to the community's physical health. As of January 1, 2018, the Beede Center had a total of 1,058 individual, 313 family, 269 couple, and 12 student memberships.

For FY19, the Beede Center is estimated to have \$2,122,500 in operating revenues and \$2,379,905 in operating expenses, which combined will result in a negative operating income of \$257,405. A marketing effort is underway to boost membership and thus revenues and measures are being taken to contain costs. With an undesignated fund balance of \$1.35 million and of June 30, 2017, the Beede Center has the resources to absorb this potential loss.

Recreation Fund

The Town has had the Recreation Fund since 1979, though this is the third 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 FY19, it is projected that revenues will be \$1.92 million and expenses will be \$1.96 million. 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 staff to meet the need, it also makes budgeting difficult.

The Recreation Department provides five types of programs: recreation programs; summer camp; school year programs such as before and after school day care; sports clinics, and special programs. For those Concord residents who cannot afford the program fees, the Recreation Department has a scholarship fund.

In FY18, the Recreation Department assumed the responsibility from the Chamber of Commerce of running the Visitors Center in Concord Center. During the first year of operations, revenues from the Visitors Center were \$33,854 and expenses were \$13,582 for a profit of \$20,271.

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 to Jon Harris (Budget and Purchasing Director) and Brandon Roberts (Budget Analyst) for their efforts in facilitating the production of the Enterprise

Budget Book. Input from Kerry Lafleur (Finance Director) and Kate Hodges (Assistant Town Manager) was instrumental in arriving at the final product.

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 Ryan Kane (Recreation Director). In addition, assistance was provided by Paul Reinhardt (Public Works Management Analyst), Paul Cote (Assistant to the W&S Superintendent), Stephen Daly (CMLP Financial Manager), Jon Straggas (Beede General Manager), and Anna McKeown (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,

A handwritten signature in black ink, appearing to read "Chris Whelan", written in a cursive style.

Christopher Whelan
Town Manager

CC: Finance Committee, Municipal Light Board, Public Works Commission, and Recreation Commission