

Section II

Introduction

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Section Overview

This Introduction provides a general description of the Town’s management practices for the four enterprise funds (Light Fund, Water Fund, Sewer Fund, and Beede Center Fund) , the special revenue fund (Solid Waste Fund) and the revolving fund (Recreation Fund).

The sub-sections found in this summary are:

- Overview** II-1
- Management Policies** II-2 to II-3
- Useful Definitions** II-4 to II-5

Enterprise Fund Financial Policy

Along with their missions to provide their respective services in an efficient and effective manner, each of the Town’s enterprise activities must also work to be financially self-supporting.

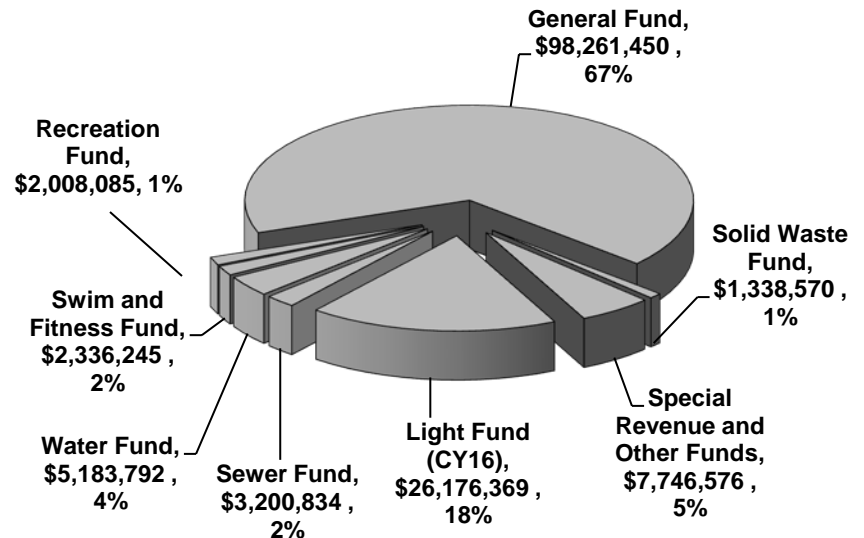
This means that each is expected to cover all costs associated with operations as well as all costs associated with capital maintenance and depreciation by generating the necessary revenue itself (i.e. through user fees).

Debt should only be used to expand an enterprise activity’s capacity or level of service, and not to replace or renew the existing infrastructure.

Enterprise Funds

Light Fund	Section III
Water Fund	Section IV
Sewer Fund	Section V
Solid Waste Fund	Section VI
Swim & Fitness Fund	Section VII
Recreation Fund	Section VIII

Enterprise Revenues as a Percentage of Total FY17 Town Government Revenues
Totaling \$146,251,921



A Note on the Solid Waste Fund & Recreation Fund

The Town’s Solid Waste Fund and Recreation Fund are not enterprise funds; rather, they are special revenue funds established by local bylaw. Both funds control no capital equipment or infrastructure. Their principal purpose is to operate as a business-type activity with little or no taxpayer support. These enterprises represent a significant business-type service of the Town and therefore the budgets for the Solid Waste Fund and Recreation Fund are presented in this Budget Book.

Definition

Enterprise Fund: An accounting and reporting entity for a business-type activity that is separate from the taxpayer supported General Fund and involves a municipal service supported wholly or primarily by user fees. The separate accounting and reporting of such an entity allows the Town to balance the specific costs of providing the service, which typically involves the maintenance of capital infrastructure, with the revenues generated from the related user fees. Resources of an enterprise fund cannot be diverted to other unrelated uses.

Management of the Enterprise Funds

Town Charter and Bylaws

Under the Town Charter, the Town Manager serves as the executive 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.

Enterprise operations are subject to the same personnel bylaws and administrative procedures as all other Town departments.

General Fund Services

Rather than hire their own management, finance, and human resource staffs, each enterprise fund utilizes some of the general Town staff to perform certain core functions. This allows the Town to avoid task duplication and keep overall overhead costs to a minimum.

To compensate for these services, and to maintain the goal of accurate cost accounting and self-sufficiency, each enterprise fund makes regular payments to the General Fund in the form of "General Fund Services" transfers (or in the Light Fund's case, "Administrative and General Expenses" transfers). In some cases, enterprise funds are directly charged for costs (such as health insurance and other employee benefits) throughout the year. Allocations are reviewed each year to tie administrative services payments to the actual services provided.

General Fund services involve the following:

- Financial services are provided by the Finance Department for billing and collection, banking, cash and debt management, purchasing administration, general accounting, payables, financial analysis, and reporting;
- The Human Resources Department handles recruitment, employee retention, and employee benefit administration for the enterprise operations; and
- General management of all enterprise operations is provided from the Town Manager's office, along with more specific administrative services from the Public Works Department (for Water, Sewer, and Solid Waste operations), and from the Assistant Town Manager (for Beede Center & Recreation operations).

Role of Town Meeting

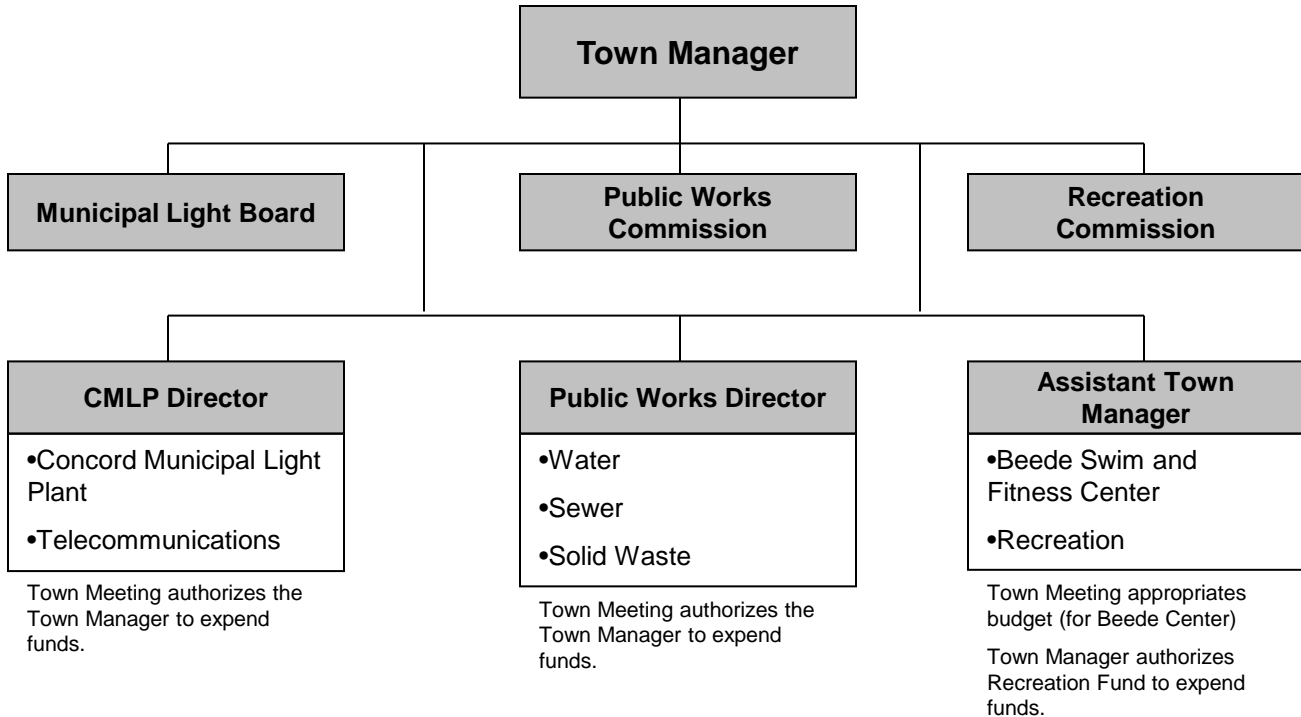
The budgets presented for the Light, Water, Sewer, and Solid Waste funds are *spending plans* and do not carry the same restrictive legal obligations as the voted appropriations made for the Town's General Fund operations. However, the Swim and Fitness Fund's budget is authorized by Town Meeting as an appropriation, in accordance with its enabling bylaw pursuant to state law, M.G.L. Ch. 44, §53 F½. The Recreation Fund does not require an appropriation by Town Meeting and the Town Manager can authorize expenditures.

Setting Rates and User Fees

Rates, or user fees, for each enterprise activity are set by the following entities:

- The Concord Municipal Light Plant (CMLP) Board is the rate-setting authority for the *electric utility (CMLP)*;
- The Public Works Commission is the rate-setting authority for *water, sewer, and solid waste services*;
- The Town Manager is the rate-setting authority for the Beede Swim and Fitness Center (pursuant to M.G.L. Ch. 40 § 22F as adopted by Town Meeting in 1992).

Enterprise Organizational Chart



The Purpose of Enterprise Funds

An enterprise operation is a business-type activity supported primarily by the user fees it charges for its services. Funds raised through these user fees are dedicated to the ongoing operations of the specific enterprise activity, while taxpayer support for the activity is eliminated (or in less ideal cases, significantly reduced).

A key component of Concord's enterprise operations is the maintenance of the capital equipment and infrastructure of the "business". User fees are set to recover operating costs as well as to finance the continuous maintenance (depreciation) of the capital investments supporting the service. A completely 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). However, enterprises in both the public and private sectors often fall short of this definition of "success". See pages II-4 to II-5 for an analysis of how Concord's enterprise activities measure-up to this ideal.

In summary, enterprise funds are management tools that aid in the pursuit of the following policy objectives:

- Property tax subsidies are reduced or eliminated for operations with the goal of self-sufficiency;
- Unlike tax-supported services, the charge for any enterprise service is based on the direct use of a service or resource. However, unlike many private-sector activities, Concord's enterprise funds often promote (through investments, education, and rate structures) the conservation of whatever is being sold (e.g., the Water Division aims to *reduce* water consumption rather than to maximize the sale of water).
- Consumers who are exempt from the property tax (such as nonprofit organizations) nevertheless pay user fees for their consumption of enterprise fund resources. For the basic utilities (Electricity, Water, and Sewer), approximately 20% of 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.

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.

Capital Expenditure - The use of funds to acquire or enhance productive assets, such as structures, land, and equipment (including related plans, designs, and studies), which have a life expectancy of at least 2 years and a cost of at least \$5,000, and procured with the intention of increasing service capacity or efficiency.

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.

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.

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 Human Resources 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.

Useful Definitions (continued)

Net Assets – Sometimes called net worth, *Net Assets* represent how much an entity would be worth after accounting for everything it owns (buildings, equipment, cash, etc.) and subtracting everything it owes (unpaid bills, outstanding loans, etc.).

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.

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.

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

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.

See Glossary on Page IX-8 for more definitions.

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