

# **Section I**

## **Letter of Transmittal**

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TOWN OF CONCORD  
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CHRISTOPHER WHELAN, TOWN MANAGER

March 11, 2019

The Honorable Select Board:

I am pleased to submit for your review the Town Manager's Proposed Enterprise Budgets for Fiscal Year 2020 (July 1, 2019 – June 30, 2020). 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 FY20, this action will be taken under Article 38 of the 2019 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 FY20, this action will be taken under Article 42 of the 2019 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 FY20, this action will be taken under Articles 40 and 41 of the 2019 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 FY20, this action will be taken under Article 39 of the 2019 Town Meeting Warrant.

### **Beede Swim & Fitness Center**

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 45 of the 2019 Town Meeting Warrant will make an appropriation for the estimated expenses of the Center for the fiscal year beginning July 1, 2019 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 2019 Town Meeting.

### **Minuteman Media Network**

In 2015, the Annual Town Meeting voted to adopt Article 37 and accepted M.G.L. 44, Section 53F ¾ authorizing the creation of the PEG Access & Cable Related Fund. As part of a License Agreement, the Select Board has authorized Comcast of Massachusetts to provide non-exclusive cable television and other telecommunication services to homes and businesses in Town. The Agreement also provides for the delivery of PEG Access (Public, Educational and Governmental) television services defined in the Agreement as “noncommercial programming developed by any Concord residents or organizations, schools, government entities.” Three channels are made available to the Town for PEG Access programming and Comcast has provides 4.8% of the company’s gross annual revenues in Concord to the Town for PEG Access operations and related expenses.

In October 2018, the Town assumed the responsibility for the operations of PEG Access services from Concord-Carlisle Television, Inc. (CCTV). The new Town entity to run PEG Access services is the Minuteman Media Network (MMN), which is managed by the Public Information and Communications Manager under the direction of the Deputy Town Manager

who reports to the Town Manager. For FY20, Article 44 of the 2019 Annual Town Meeting proposes that \$600,000 be appropriated from PEG Access and Cable-Related Fund to fund the operations of the Minuteman Media Network.

## **Budgets**

Each of the seven 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 FY20 (calendar year 2019 for CMLP), and the related projections of operating and net income are:

	<b><u>Operating Revenue</u></b>	<b><u>Operating Expenditure</u></b>	<b><u>Operating Income</u></b>	<b><u>Net Income</u></b>
<b>Light Fund</b>	\$31,658,426	\$29,533,027	\$2,125,300	\$1,455,426
<b>Water Fund</b>	5,722,000	4,981,967	740,033	687,514
<b>Sewer Fund</b>	3,245,200	3,008,705	236,495	454,088
<b>Solid Waste Fund</b>	1,481,392	1,480,481	911	911
<b>Beede Center Fund</b>	2,353,000	2,471,594	-118,594	398
<b>Recreation Fund</b>	2,111,000	2,227,855	-116,855	-116,855
<b>MMN Fund</b>	414,352	356,408	57,944	82,109

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:

<b><u>Proposed Capital Plan</u></b>	<b><u>Light</u></b>	<b><u>Water</u></b>	<b><u>Sewer</u></b>	<b><u>Beede</u></b>
Net Income Projected	\$1,446,205	\$687,514	\$454,088	\$398
Depreciation Expense	<u>1,752,134</u>	<u>1,568,209</u>	<u>984,154</u>	<u>378,601</u>
Subtotal	3,198,339	2,255,723	1,438,242	378,999
<b>Less:</b>				
Debt Principal Payment	650,000	485,000	617,570	0
CMLP PILOT Payment	478,000	0	0	0
<b>Net Resources derived from Current Operations and available for Capital Purposes</b>	<b><u>\$2,070,339</u></b>	<b><u>\$1,770,723</u></b>	<b><u>\$ 820,672</u></b>	<b><u>\$378,999</u></b>

The planned FY20 capital expenditures of each enterprise (exclusive of expenditures that will be funded by debt issuance) are as follows:

	<b><u>Light</u></b>	<b><u>Water</u></b>	<b><u>Sewer</u></b>	<b><u>Beede</u></b>
Capital Outlay	\$1,904,544	\$6,308,455	\$3,320,150	\$100,000

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 \$21.2 million or 74.4% 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. For both residential and commercial customers, there are rebate programs to encourage the purchase of LED lighting fixtures and heat pumps. Additional rebates for residential customers are available for weatherization and to encourage the adoption of electric vehicles.

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, hydro and solar power generation projects outside of Town. All of these efforts will contribute to increasing the percentage of electricity generated from renewable sources to 24.8% of purchased power in 2019. In addition, with the purchase of Renewable Energy Certificates (RECs), the Light Plant expects to be able to affirm that 100% of its purchased power in 2019 will be from renewable resources.

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 1,215 Concord customers as of January 2019 and the plan to increase this number to 1,500 customers by the end of 2019, the operating revenues are projected to increase from \$994,719 to \$1,128,108 from 2018 to 2019. As the number of customers increase, so do the expenses and the projected net income for FY20 is \$9,221.

### **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. With this funding, the Water Division has begun the process of developing the Nagog Pond facility, a project that is currently delayed due to permitting challenges and water rights challenges that have been introduced by neighboring communities which have asserted their own interests in drawing water from this valuable resource. Since Nagog Pond is Concord's oldest existing supply and is the single most important drinking water resource available to Concord, the Town has invested considerable time and effort protecting its interests.

To maintain sufficient funds to cover operating and capital costs, the Water Division is proposing a rate increase of 5.0% for normal residential use as of June 1, 2019 that would result in a \$24.48 increase of an annual bill for the average residential customer. The total bill would be \$508 for the year.

### **Sewer Fund**

After having several years of negative operating income, the Sewer Fund is projected to finish FY20 in the black with a positive net income of \$236,495. The main cause of these past deficits have been an increase in the depreciation expense from \$628,375 in FY05 to \$1,448,070 in FY19 – a reflection of the infrastructure improvements that had been made in 2006-08 to the treatment plant first put into service in 1987. With many capital items reaching the maximum depreciable term, the depreciation charge has decreased and in FY20 the depreciation expense is projected to be \$984,154.

A rate increase of 1.0% is proposed to go into effective on June 1, 2019, which would result in an annual increase \$7.20 for the average residential customer. The total bill for the year would be \$699.

### **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. In FY18, there were 3,671 subscribers for this service. In FY20, it is expected that the Solid Waste Fund will generate a slight net income. The average cost per household that disposes of 1.36 barrels of trash per week is \$378.

### **Beede Center Fund**

Completing its thirteen year of operation as of April 2019, 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, 2019, the Beede Center had a total of 1,045 individual, 280 family, 260 couple, and 8 student memberships. In addition, the Beede Center sold 720 3-month passes and 1,082 10-visit passes.

For FY20, the Beede Center is estimated to have \$2,353,000 in operating revenues and \$2,471,594 in operating expenses, which combined will result in a negative operating income of \$118,594 and a positive net income of \$398. At the end of FY20, the Beede Center's fund balance is projected to be \$3,114,749. The monthly membership fee for a family is \$153, for a couple is \$129, and for an individual is \$82.

### **Recreation Fund**

The Town has had the Recreation Fund since 1979, though this is the fourth 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 FY20, it is projected that revenues will be \$2.11 million and expenses will be \$2.22 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. For FY20, revenues from the Visitors Center are projected to be \$25,000 and expenses to be \$15,300 for a profit of \$9,700.

### **Minuteman Media Network**

In October 2018, the Town established the Minuteman Media Network (MMN) to provide PEG Access services for the Town. As a self-sustaining enterprise fund, the vast majority of MMN's revenue comes from fees paid by Comcast as part of License Agreement. Quarterly payments from Comcast are approximately \$90,000 and MMN's fund balance is projected to be \$1,048,688 at the end of FY20. The Town expects to collect \$414,352 and spend \$356,408 during FY20 to provide this service for Concord residents.

### **Acknowledgements**

Preparation of this document involves teamwork between the Finance Department, the Town Manager's Office, the Concord Municipal Light Plant, and the Public Works 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 (Deputy Town Manager) was essential 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 (Environmental Services Program Administrator), and Ryan Kane (Recreation Director). In addition, assistance was provided by Paul Reinhardt (Public Works Management Analyst), Robert Hill (W&S Management Analyst), and Andrew Dutton (Beede General Manager).

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