



## TOWN OF CONCORD

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CHRISTOPHER WHELAN, TOWN MANAGER

March 17, 2014

The Honorable Board of Selectmen:

I am pleased to submit for your review the Town Manager's Proposed Enterprise Budgets for Fiscal Year 2015 (July 1, 2014 – June 30, 2015). 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 expenses 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. Five 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 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 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 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 MGL Chapter 164. Rates are subject to rule, regulations and oversight of the Commonwealth of Massachusetts Department of Public Utilities. The Town Meeting annually authorizes the Town Manager to expend the income of the Light Fund without further appropriation. For FY15, this action will be taken under Article 23 of the 2014 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 FY15, this action will be taken under Article 28 of the 2014 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 FY15, this action will be taken under Articles 26 and 27 of the 2014 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 29 of the 2014 Town Meeting Warrant will make an appropriation for the estimated expenses of the Center for the fiscal year beginning July 1, 2014 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 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.

### **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 FY15, this action will be taken under Article 25 of the 2014 Town Meeting Warrant.

### **Budgetary Focus**

Each of the five budget presentations focuses on the projection of operating income and net income. The long-term objective in the management of each enterprises 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 FY15 (calendar year 2014 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	\$25,107,768	\$22,894,249	\$2,213,519	\$2,657,284
Water Fund	4,715,000	3,863,199	851,802	721,487
Sewer Fund	2,593,000	3,198,605	<b>-605,605</b>	<b>-136,073</b>
Beede Center Fund	2,525,804	2,747,441	<b>-221,636</b>	18,364
Solid Waste Fund	1,211,342	1,210,197	1,145	1,145

See also page II-6

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>FY15 Proposed Budgets</u>	<u>Light</u>	<u>Water</u>	<u>Sewer</u>	<u>Beede</u>
Net Income Projected	\$2,657,284	\$ 721,487	\$ <b>-136,073</b>	\$ 18,364
Depreciation Expense	<u>1,631,778</u>	<u>993,406</u>	<u>1,563,207</u>	<u>497,263</u>
Subtotal	4,289,062	1,714,893	1,427,134	515,627
Less:				
Debt Principal Payment	760,000	520,000	613,557	0
CMLP PILOT Payment	458,650	0	0	0
Net Resources derived from Current Operations and available for Capital Purposes	<u>\$3,070,412</u>	<u>\$1,194,893</u>	<u>\$ 814,061</u>	<u>\$ 515,627</u>

The planned FY15 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	\$2,240,000	\$1,562,500	\$ 2,220,950	\$ 1,260,000

It is not necessary that Net Resources from Current Operations equal or exceed the actual or planned Capital Outlay for each year. In FY15, for example, the Water Fund, Sewer Fund, and Beede Center 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 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 2014, purchased power expense is projected to be approximately \$17 million or 74% of operating costs.

The Concord Municipal Light Plant is also actively pursuing efforts to promote energy conservation and renewable energy. In 2009, the Light Board voted to implement a new residential tiered rate structure in which the unit price rises at higher monthly or bi-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. An energy audit to determine optimal electricity usage is available for free to all residential customers and at a reduced cost for commercial customers. 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 14% of all purchased power of all power in 2014 to 30% by 2020.

A new initiative that the Concord Municipal Light Plant is implementing in 2014 is broadband service to Town residences and commercial establishments. By using the excess capacity of the optical fiber network that has been installed throughout Town for the Smart Grid program, CMLP will begin the enterprise of offering this service to homes and businesses on a pilot basis. In 2013, Town Meeting approved Article 48 which authorized the Town to borrow up to \$1 million in startup funds to get the project off the ground. To date, an amount of \$100,000 has been borrowed under this authorization. It is expected that after the initial startup period, revenues from this service will cover costs.

### **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 availability of the Nagog water supply in accordance with federal and state mandates. It is anticipated that for the 2015 Annual Town Meeting, I will request \$5.0 million borrowing authorization for a Nagog Pond Filtration Facility to expand the current limited seasonal use of this water supply. The 10-year plan (page IV-13) presents the proposed capital improvements.

To maintain sufficient funds to cover operating and capital costs, a rate increase of 4.0% is proposed to be effective June 1, 2014, which is an annual dollar increase of approximately \$16.20 for the average residential customer.

### **Sewer Fund**

It has been noted above that the Sewer Fund's projected operating income is negative. In addition, the forecast is that operating results will remain in deficit for the next several years, while gradually improving during this period (see page V-11). The main cause of this deficit is an increase in the depreciation expense, from \$628,375 in FY05 to \$1,563,207 projected for FY15, 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.

As part of renovations to the Wastewater Treatment Plant carried out in 2005, the Town agreed to install an innovative state-of-the-art tertiary treatment process called "CoMag". This involved the installation of phosphorus reduction equipment. The Town negotiated an incentive agreement with the former manufacturer/installer, Cambridge Water Technology, Inc. (CWT), which has been acquired by Siemens Industries, Inc. The decision to install the innovative process has turned out very well for the Town. As a result of this agreement, the Sewer Fund received incentive payments of \$1,006,882 in FY13 and final payment of \$2,943,125 in FY14. (see page V-9, "Non-operating revenue").

A rate increase of 4.0% is proposed to be effective June 1, 2014, which is an annual dollar increase of approximately \$24.60 for the average residential customer.

### **Beede Center Fund**

Completing its eighth year of operation as of April 2014, 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 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, the Beede Center has been able to maintain its memberships. Although family memberships have declined from 531 to 485 from January 2013 to January 2014, individual memberships have increase from 1,035 to 1,103 in the same period.

In FY15, the Beede Center is proposing an extensive renovation of its HVAC system. The dehumidifier system for the pool area, a key component of the facility, is in need of replacement. The project will entail the replacement of existing boilers and hot water systems, as well as installation of new ducts and piping. A benefit of the renovation will be a more efficient use of electricity and natural gas.

The estimated cost for this project is estimated to be \$1.529 million. Article 29 of the 2014 Town Meeting proposes an appropriation of \$1 million out of FY14 funds for the project. With \$299,000 already appropriated last year for capital purposes along with \$175,000 from the Sawyer Trust Fund and \$55,000 from the Beede Center Endowment Fund, the Beede Center will have enough resources to embark on this project without requesting a borrowing. The \$1 million proposed to be appropriated in Article 29 will come from the Beede Center's Depreciation Fund, established for such capital needs and has a July 1, 2013 balance of approximately \$1.6 million. The major part of the work will be done during the normal shut down period at the end of August 2014.

### **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), Sean O'Brien (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 Richard Reine (Public Works Director), Alan Cathcart (Water & Sewer Superintendent), Rod Robison (Recycling and Disposal Program Administrator), Danner DeStephano (Recreation Director) and David Wood (CMLP Director),. In addition, assistance was provided by Paul Reinhardt (Public Works Management Analyst), Paul Cote (Assistant to the Water/Sewer Superintendent), Pam Higgins (Assistant Recreation Director), and Sherman Chapman (CMLP Financial Administrator).

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  
Recreation Commission

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