

To the  
Board of Selectmen, Town of Upton

**Re: Enterprise Fund**

Several citizens of the Town have been meeting for the past 6 months to discuss the advantages of having the Town adopt an Enterprise Fund. Enterprise Funds are authorized under Mass. General Laws, Ch. 44, §53F1/2. The Massachusetts Department of Revenue and Department of Environmental Protection strongly advocate that the cities and towns adopt Enterprise Funds, and the Department of Revenue offers assistance in setting up such a fund. Adoption of such a fund would involve approval of the Town Meeting.

An Enterprise Fund is a method to provide for a separate accounting and reporting of the revenue and expenses of the water and sewer divisions of the Department of Public Works. While the revenues and expenses of these divisions would be accounted for separately, the funds would still flow to the Town in the same manner as is the current practice, but accounted for separately.

For the reasons which will be set out, the members of the Enterprise Fund Committee urge the Board of Selectmen to adopt the recommendations herein and to insert into the Warrant for the Town Meeting in May an Article whereby the Town votes to adopt the provisions of Mass. General Laws, Ch. 44, §53F1/2.

The primary purpose of an Enterprise Fund is to provide both a mechanism and a requirement for accounting for the revenues and expenses of a particular town activity, separate and apart from the general revenue and expense accounting for the town. The activity that the Enterprise Fund Committee studied was the water and sewer operations of the Department of Public Works. As stated above, the purpose of an Enterprise Fund is to segregate the accounting, but not the funds for the activities that are under the Enterprise Fund.

The Committee studied the revenues and expenses of the water and sewer activities for the past 5 years. In many of those years, both the water and sewer divisions operated at a loss. Charts indicating the revenues and expenses are attached hereto as Exhibits A.

There are a number of benefits to the Town in having an Enterprise Fund.

1. Whether the enterprise operates with a surplus or a deficit, it enables the Town to see, more clearly, what the effect of those operations is on the total Town budget. As a result of this review, the Committee recommended, and the Board has already instituted, an increase in the water usage charge. This issue will be discussed further below.
2. With an Enterprise Fund, if the enterprise activities operate at a surplus, the enterprise (water and sewer) keeps those funds segregated as "retained earnings".
3. There is a third benefit to the Town by having an Enterprise Fund. Upton, like several other towns in a geographically similar position, is the first town outside of Route I-495 with significant developable land. While there can be an honest debate about the costs and merits of further development, saying no to future development will only make living in the Town less attractive. One way to show that the Town desires a future with responsible development is to show to developers and potential home owners that the Town takes a 21<sup>st</sup> century approach to its finances.

The concept of "retained earnings" can benefit the Town in several ways. Clearly, if the expenses of operating the water and sewer activities exceed the revenues from those activities, the enterprise will still need to cover the shortfall from the general revenues of the Town. However, if the enterprise has "retained earnings" (i.e., revenues in excess of expenses) from its operations in a particular year, it can use the "retained earnings" to offset future losses, without the need to go to the Town for funds to cover that subsequent short-fall. Indeed, there was an Article before a Special Town Meeting to authorize another \$50,000 for the Water Department's operations.

The second potential benefit to the Town from "retained earnings" is to accumulate the funds necessary to perform major infrastructure repairs, such as required to upgrade the Wastewater Treatment Plant, repair water and sewer infrastructure or to develop a new water source. For example, in the past two years, the Town has needed significant money (\$475,272) from the general revenues to make emergency repairs to the water distribution system. If the Enterprise Fund is approved for the water and sewer systems, and it operates at a surplus, infrastructure repairs, such as these could be made from the "retained earnings" instead of seeking general revenue funds.

The third way in which "retained earnings" can benefit the Town is by using retained earnings to pay for an expansion of the water and sewer systems. The information obtained by the Committee indicates that there are 2600 households in the Town; that 1000+/- are connected to the water system and 500+ are connected to the sewer system.

As a part of the Committee's work, a study was made of the water usage rates for surrounding and nearby towns. The information indicated that Upton was one of the least expensive towns among those studied in regard to its water usage rates. In the past month, partially as a result of this study, the water usage rates have been increased approximately 25%. Even with that increase, the water rates are still low in comparison to the rates of the other towns studied. Had these new rates been in effect several years ago, the water department might have operated at a small surplus or a much lesser deficit. See Exhibit B

Whether the Town determines to raise the water usage rates in the future is a matter for the Board to determine. In all events, if the Enterprise Fund concept is adopted, water and sewer rates will still be determined by the Board upon the recommendation of the Department of Public Works and not by the DPW, itself.

As a way of decreasing the potential for deficits in the operation of the sewer system (as opposed to the water system), the Committee looked at the option of raising the sewer usage rates. It was felt that because there were so few households using the sewer system, any significant increase in the sewer usage rates would not yield any

substantial increase in revenues and would be overly burdensome on those households.

The Committee decided that it would be preferable to expand the sewer system as a way of increasing the revenues from the sewer system. Such an extension of the infrastructure would require substantial capital (in addition to betterments). If the Town adopts the Enterprise Fund system, and the fund does have "retained earnings", some portion of those "retained earnings" could be used for expansion of the sewer system and, thus, an increase in the revenue generated by the sewer system. The sewer system has significant available capacity to support expansion.

For these reasons, the Committee recommends to the Board that it vote in favor of adoption of the Enterprise Fund concept for the water and sewer operations, and place an article in the Warrant for the Town Meeting in May.