



## TOWN OF PLAINVILLE BOARD OF SELECTMEN & FINANCE COMMITTEE

### Policy on Free Cash

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**Effective Date:** 11/23/20

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#### **1. Definition** (per the Massachusetts Department of Revenue, Division of Local Services)

Free cash is a revenue source that results from the calculation, as of July 1, of a community's remaining, unrestricted funds from its operations of the previous fiscal year based on the balance sheet as of June 30. It typically includes actual receipts in excess of revenue estimates and unspent amounts in departmental budget line items for the year just ending, plus unexpended free cash from the previous year. Free cash is offset by property tax receivables and certain deficits, and as a result, can be a negative number.

The DLS document on "Free Cash" can be found at <https://www.mass.gov/doc/free-cash-0/download>

#### **2. Background**

"Free cash" is the term used by the state for money left at the end of a fiscal year, which was either allocated and under or over spent, as well as revenues that come in higher or lower than projected during the budget process. It is often referred to as "Unallocated Funds" or "Undesignated Funds", which while more descriptive is not the official term used by the State. It should be noted that it is therefore possible for Free Cash to actually be a negative number. It should be the budgeting and operational goal of the town that our planning be conservative enough to always have a significantly positive amount of Free Cash at the end of the year available.

In the past Plainville has used its Free Cash in a variety of ways but with little overall guidance. Often large amounts of Free Cash have been used to directly balance the annual operating budget in an effort to maintain service levels without increasing the tax burden. This results in an operating budget which is out of line with the underlying recurring tax revenues of the town – and eventually big trouble.

#### **3. Goals**

The goals of this policy are two fold.

1. The policy should dissuade us from using Free Cash for normal operating budget expenses. This is a very bad habit, as Free Cash itself is not a recurring source of revenue, and to build recurring budget items on this results in problems when Free Cash varies in amount.
2. The Town needs to build up its General Stabilization Fund to provide financial stability for the town as well as to demonstrate proper reserves for the Bond rating companies. Building up the General Stabilization Fund will therefore be a primary goal of this policy. More details on the General Stabilization Fund will be covered in that policy statement.

#### **4. Things the policy will not attempt to cover**

1. Mandate a Free Cash target for the Town annual budget. While we will have a separate recommendation on a conservative approach to the town budget that will expect a certain amount of Free Cash relative to the overall budget, we recognize that by its very nature precise prediction of such a number is not possible. We will establish a goal for this, and track our performance over the years, but it will not be a hard mandate.
2. Increase the budget for Snow and Ice funding. There will be a separate initiative to drive increased funding for snow and ice (towards a more realistic projection) into the budget. It will impact Free Cash by minimizing the need to use other funds immediately to cover snow and ice at the end of a fiscal year (a behavior which currently reduces the net Free Cash calculated by the state). This will allow us to do better budget planning in the long run.

#### **5. Use of Free Cash**

Flexibility in the use of Free Cash will be dependent upon the state of the General Stabilization Fund relative to its target value, as defined in the General Stabilization Fund policy. In any year that the General Stabilization Fund balance is below its target value, this policy directs that Free Cash be used in only the two following manners:

1. Fund an emergency, non-recurring, unforeseen expenditure
2. Recharge the General Stabilization Fund towards its target value

Once the General Stabilization Fund has reached its target, this policy suggests that Free Cash may also be used for items such as (and this is not an all-inclusive list, but prioritized opportunities):

3. Supplement the OPEB (Other Post-Employment Benefits) Fund
4. Fund additional small capital or other non-recurring expenses
5. If one is established, increase funding to a General Capital Stabilization Fund

It is the policy of the Select Board and the Finance Committee that Free Cash should NOT be used for recurring, normal operating budget items, or to supplement the Gaming Stabilization Fund or Water and Sewer Enterprise Funds except in extraordinary situations or for corrective measures. An example of an extraordinary situation might be (once we believe we have normal funding established) if a difficult winter resulted in the need to transfer money to the Snow and Ice fund. An example of corrective action might be that in the course of a year (especially a year when we budget as tightly as possible) we discover that veteran's benefits, or one of the insurance funds, or street lighting, is underfunded for that year due to an unforeseen change or expense. We might choose to correct that deficit during that year only using Free Cash, while at the same time budgeting appropriately for that change for future years and not relying on Free Cash in the future.

**Approved at a Joint Meeting on November 23, 2020**

**Select Board**

Brian Kelly, Chairman  
Jeffrey Johnson  
Stanley Widak

**Finance Committee**

Tim Mullen, Chairman  
Joseph Ferney  
Paula Sheerin  
James Blase  
Christopher Desprez  
Elizabeth Nowakowski  
Marcia Cavanagh