



## *Memorandum*

To: Board of Selectmen  
Finance Committee

From: Martha White, Town Administrator  
Michael Walters Young, Deputy Town Administrator/Finance Director

Date: Friday, September 21, 2012

Re: Free Cash Certification – as of July 1, 2012

On September 19, 2012, The Town of Natick received its Free Cash and Retained Earnings Certifications effective July 1, 2012. This certification means that all appropriations proposed to be made from Free Cash can now be made at the upcoming 2012 Fall Annual Town Meeting. In summary our certifications are as follows:

<b>General Fund</b>	<b>\$</b>	<b>6,791,984</b>
<b>Water/Sewer Enterprise Fund</b>	<b>\$</b>	<b>849,404</b>
<b>Golf Enterprise Fund</b>	<b>\$</b>	<b>72,642</b>

For historical comparison, this newest certification is shown below juxtaposed against the last 5 years certifications for each fund.

### **Free Cash Balances**

Fiscal Year	FY 2008	FY 2009	FY 2010	FY 2011	FY 2012	FY 2013
Effective Date	7/1/2007	7/1/2008	7/1/2009	7/1/2010	7/1/2011	7/1/2012
<b>General Fund (Free Cash)</b>	\$ 4,784,709	\$ 2,415,060	\$ 3,327,659	\$ 5,899,906	\$ 4,737,528	<b>\$ 6,791,984</b>
<b>Water/Sewer Enterprise</b>	\$ 682,304	\$ 656,440	\$ 1,390,829	\$ 1,980,622	\$ 2,386,297	<b>\$ 849,404</b>
<b>Golf Course Enterprise</b>	\$ 103,010	\$ 97,364	\$ 83,126	\$ 111,897	\$ 71,576	<b>\$ 72,642</b>

In light of the actual certifications, and especially given that the general fund certification is higher than anticipated and higher than previous years, we believe an additional degree of explanation is necessary to understand the Town's philosophy and approach governing the development of Free Cash.

Generally, there are four areas that contribute to Free Cash. They are Revenues in Excess of Estimates, Expense Turnbacks, a Free Cash 'Reserve' or 'Set-Aside' (which serves to protect against a NEGATIVE Free Cash amount), and numerous miscellaneous factors, including things such as changes in receivable balances from year to year, closed encumbrances, etc. Of these four areas that contribute to Free Cash, revenues in excess of turnbacks and miscellaneous factors are the most volatile as they can change significantly year-to-year depending upon the revenues collected by the Town. The expenses and the set-aside are much easier to control from a management standpoint.

Town administration and Finance officials reviewed the last three years figures for Revenues in Excess of Estimates, Expense Turnbacks and Balance of Free Cash remaining (Reserve) to analyze how Free Cash is generated.

As the chart on the next page shows, the amount returned to the Town from Expense Turnbacks and the amount left unspent on annual basis is very consistent. Expense Turnbacks are almost exactly \$2.3 million annually and the Balance of Free Cash remaining on annual basis is between \$550,000 and \$840,000 annually.

Revenues in Excess of Estimates are more volatile, but appear to be on an upward trend. We continually review our Revenue Estimates to see if they are reasonable, reflective of current economic conditions and consistent with our Financial Principles. We have been conservative throughout the recession in light of the global and local economic conditions while ensuring we protect the minimum amount of Free Cash necessary to support annual operations. The chart shows that, surprisingly and positively, revenues tied to economic activity (such as Motor Vehicle Excise, Local Option Excise and Licenses and Permits) have been steadily rebounding since FY 2010. These receipts should be considered in part recurring and should be sustainable moving forward.

But one revenue line in particular – the appropriately named “Misc. Non-Recurring” revenue line – has contributed heavily to Free Cash generation in the last two fiscal years. This line-item includes things such as tax title payments, one-time state aid surplus payments, federal reimbursements from severe storms and bond premiums – all of which can never be guaranteed from one year to the next.

## Free Cash Generation - FY 2010-2012

<b>Certified Free Cash</b>	<b>\$ 5,899,906</b>	<b>\$ 4,737,528</b>	<b>\$ 6,791,984</b>
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### Simplified Free Cash Generators

#### Revenues In Excess of Estimates

Tax Levy	Budget 2010	Actual 2010	Difference	Budget 2011	Actual 2011	Difference	Budget 2012	Actual 2012	Difference
Property Tax Levy	77,024,748	76,761,450	(263,298)	79,684,179	78,301,148	(1,383,031)	86,502,701	85,587,087	(915,614)
<b>TOTAL TAX LEVY</b>	<b>77,024,748</b>	<b>76,761,450</b>	<b>(263,298)</b>	<b>79,684,179</b>	<b>78,301,148</b>	<b>(1,383,031)</b>	<b>86,502,701</b>	<b>85,587,087</b>	<b>(915,614)</b>
State Aid	Budget 2010	Actual 2010	Difference	Budget 2011	Actual 2011	Difference	Budget 2012	Actual 2012	Difference
State Aid - Education	5,856,668	5,843,763	(12,905)	7,168,756	7,070,267	(98,489)	7,245,287	7,200,055	(45,232)
State Aid - Municipal	3,846,406	3,819,600	(26,806)	3,626,284	3,668,970	42,686	3,347,003	3,332,542	(14,461)
Capital	916,839	930,263	13,424	916,839	916,839	-	917,137	916,839	(298)
<b>TOTAL STATE AID</b>	<b>10,619,913</b>	<b>10,593,626</b>	<b>(26,287)</b>	<b>11,711,879</b>	<b>11,656,076</b>	<b>(55,803)</b>	<b>11,509,427</b>	<b>11,449,436</b>	<b>(59,991)</b>
Local Receipts	Budget 2010	Actual 2010	Difference	Budget 2011	Actual 2011	Difference	Budget 2012	Actual 2012	Difference
Motor Vehicle Excise	3,600,000	3,739,367	139,367	3,600,000	3,931,401	331,401	3,749,760	4,082,872	333,112
Other Excise	800,000	440,794	(359,206)	550,000	787,167	237,167	550,000	868,414	318,414
- Local Option Tax	-	307,913	307,913	750,000	1,154,711	404,711	750,000	1,275,551	525,551
Penalties and interest	250,000	474,871	224,871	300,000	658,927	358,927	463,020	424,185	(38,835)
Payments in lieu of taxes	32,500	28,292	(4,208)	32,500	28,866	(3,634)	26,429	47,583	21,154
Charges for Services - trash disposal	965,272	1,002,485	37,213	950,000	1,015,159	65,159	1,007,283	845,923	(161,361)
Other Charges - Ambulance	925,000	1,035,865	110,865	1,100,000	1,466,050	366,050	1,200,000	1,469,941	269,941
Rentals	250,000	199,103	(50,897)	109,000	54,060	(54,940)	14,185	52,324	38,139
Departmental Revenue - Recreation	75,000	267,830	192,830	176,000	154,000	(22,000)	176,000	175,305	(695)
Other departmental revenue	875,000	807,986	(67,014)	800,000	628,771	(171,229)	518,369	841,700	323,331
Licenses and permits	1,050,000	1,260,987	210,987	1,113,400	1,612,749	499,349	1,263,643	2,047,310	783,667
Special Assessments	15,000	22,221	7,221	20,000	28,093	8,093	20,000	4,671	(15,329)
Fines and Forfeits	210,000	167,066	(42,934)	165,000	151,893	(13,107)	160,000	234,354	74,354
Investment Income	350,000	686,279	336,279	418,000	102,227	(315,773)	100,000	157,159	57,159
Misc Recurring	100,000	102,566	2,566	50,000	193,486	143,486	50,000	194,624	144,624
Misc - Non Recurring	-	45,458	45,458	50,000	1,126,130	1,076,130	233,044	1,634,203	1,401,159
<b>TOTAL LOCAL RECEIPTS</b>	<b>9,497,772</b>	<b>10,589,083</b>	<b>1,091,311</b>	<b>10,183,900</b>	<b>13,093,690</b>	<b>2,909,790</b>	<b>10,281,733</b>	<b>14,356,117</b>	<b>4,074,384</b>
Available Funds	Budget 2010	Actual 2010	Difference	Budget 2011	Actual 2011	Difference	Budget 2012	Actual 2012	Difference
Free Cash	2,147,380	2,147,380	-	3,425,336	3,425,336	-	5,466,393	5,466,393	-
Overlay Surplus	1,000,000	1,000,000	-	-	-	-	1,000,000	1,000,000	-
Stabilization Funds	950,751	950,751	-	98,550	98,550	-	689,340	689,340	-
Indirects	2,506,416	2,506,416	-	2,449,757	2,449,757	-	2,535,883	2,535,883	-
Other	210,851	210,851	-	190,851	190,851	-	281,532	281,532	-
<b>TOTAL</b>	<b>103,957,832</b>	<b>104,759,558</b>	<b>801,726</b>	<b>107,744,452</b>	<b>109,215,408</b>	<b>1,470,957</b>	<b>118,267,009</b>	<b>121,365,788</b>	<b>3,098,779</b>
<b>Surplus generated from Revenue Estimates</b>			<b>801,726</b>			<b>1,470,957</b>			<b>3,098,779</b>

#### Expense Turnbacks

	Budget 2010	Actual 2010	Difference	Budget 2011	Actual 2011	Difference	Budget 2012	Actual 2012	Difference
Education	42,462,724	42,391,575	71,149	46,194,532	46,133,940	60,591	46,412,840	46,397,597	15,243
Municipal	26,999,080	25,920,483	1,078,597	28,339,107	27,351,857	987,250	28,996,896	27,780,908	1,215,988
Shared	28,548,519	27,373,839	1,174,680	28,480,003	27,619,787	860,216	33,771,421	32,781,392	990,029
Misc	6,420,677	6,420,677	-	6,680,694	6,327,290	353,404	8,901,415	8,778,738	122,677
<b>TOTAL</b>	<b>104,431,000</b>	<b>102,106,574</b>	<b>2,324,426</b>	<b>109,694,336</b>	<b>107,432,874</b>	<b>2,261,462</b>	<b>118,082,572</b>	<b>115,738,635</b>	<b>2,343,937</b>
<b>Surplus generated from Expense Turnbacks</b>			<b>2,324,426</b>			<b>2,261,462</b>			<b>2,343,937</b>

#### Balance of Free Cash

<b>Balance Remaining at Year End</b>	<b>519,520</b>	<b>841,007</b>	<b>586,117</b>
<b>TOTAL Simple FACTORS</b>	<b>3,645,672</b>	<b>4,573,426</b>	<b>6,028,833</b>

As stated, we have been conservative in our revenue projections and will continue this approach in coming years. Building sustainable operating budgets starts with building sustainable revenues. But we will scrutinize each revenue line-item and evaluate the need to raise – or lower – FY 2014 revenue projections dependent upon activity and best available information.

In light of this Free Cash certification, this memorandum closes with the Free Cash Spend-down Proposal. We are proposing no change to the September 14 proposal at this time; the additional certification provides more unallocated Free Cash. Policy makers, financial reviewers and Town Meeting can evaluate appropriate actions regarding this Free Cash balance at the 2013 Spring Annual Town Meeting.

**Free Cash Spenddown Proposal**

<u>Item</u>	<u>Amount</u>	<u>Rationale</u>
Certified Free Cash as of 7/1/2012	\$ 6,791,984	Certified by DOR on 9/19/2012
.5% of G/F Revenue Set-Aside	\$ (591,191)	As per Financial Policies
FY 2014 Starting Operating Budget	\$ (1,500,000)	Standard from Free Cash for next years Operating Budget
Article 3: Transfer of FY 2012 Local Option Taxes to CSF	\$ (1,275,551)	As per Financial Policies
Article 3: Additional Capital SF Contribution	\$ (2,000,000)	To accommodate future Capital Needs
Article 12: Community Senior Center Project	\$ (22,216)	Redistribution of contributions to the project
Article 13: High School Project	\$ (15,858)	Redistribution of contributions to the project
Article 17: Transfer of Funds to Conservation Fund for Trails Construction and Improvement	\$ (50,065)	Transfer of funds receive from citations issued to development by the Planning Board to use for trails construction and improvements.
<b>Remaining Unallocated Balance</b>	<b>\$ 1,337,103</b>	