



Kristine Trierweiler
Town Administrator

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Office of

BOARD OF SELECTMEN

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To: Board of Selectmen
School Committee
Warrant Committee
Town Departments

From: Kristine Trierweiler, Town Administrator
Medfield Financial Team

Date: January 12, 2021

Re: Medfield Free Cash Balance

In December, the Department of Revenue's Division of Local Services ("DLS") certified the Town of Medfield's Free Cash balance of \$3,357,125. This Town's Free Cash balance is driven by three factors: reduced use of Free Cash to subsidize the operating budget in Fiscal Years 2020 and 2021, a spending freeze that was implemented in March 2020 due to the COVID-19 pandemic, and two budget accounts that were significantly underspent in Fiscal Year 2020.

Per DLS, the Town's Free Cash balance comes from three sources:

- Unexpended Free Cash: The prior year's unexpended Free Cash rolls over to the following year
- Budgetary turnbacks: At the end of the fiscal year, any unspent appropriations in operating budget accounts close to Free Cash.
- Revenues: If revenues exceed budgeted amounts, the additional revenue closes to Free Cash

Reduced Use of Free Cash

From FY2014 through FY2019, the Town used considerable amounts of Free Cash, averaging \$1.4 million in Free Cash usage, most of which was used to subsidize the operating budget. In FY2020 and FY2021, the Town reduced its use of Free Cash to \$800,000 and \$792,597 to meet the Town's newly implemented Financial Policies.

DLS recommends that Free Cash only be used for one-time, nonrecurring expenses. DLS further recommends that if Free Cash is used to subsidize the operating budget, the Town should set a limit on how much would be used. The Town's Financial Policies require that the Town maintain at least 2.5% of its operating budget in Free Cash.

From DLS's [guidance on Free Cash](#):

As a nonrecurring revenue source, free cash should be restricted to paying one-time expenditures, funding capital projects, or replenishing other reserves. If a community incorporates free cash into revenue source projections for next-year operational expenses, it is prudent to place a percentage restriction on the total free cash to be used.

Overall, [the DLS Technical Assistance Bureau] recommends that communities adopt a free cash policy that avoids supplementing current year departmental operations.

Budgetary Turnbacks

Each year, unexpended funds in budget accounts close out to Free Cash. In recent years, the total turnback to Free Cash averaged \$775,000. At the close of FY2020, Town budgets turned back approximately \$2 million and the school budget turned back nearly \$170,000, totaling \$2.150 million. The spending freeze implemented on Town budgets in March 2020 helped generate these high turnback amounts as nondiscretionary spending ended and open positions went unfilled.

Two budget accounts in particular had unusually high turnbacks: health insurance and the Police Department. The health insurance budget returned \$460,000 and the Police Department returned \$475,000, nearly 50% of the total Town turnback of \$1.978 million. Neither of these budgets are projected to have substantial turnbacks at the end of our current fiscal year.

Health Insurance

The health insurance budget funds the Town's premium costs for Town and School employees and retirees. It is particularly difficult to accurately estimate health insurance costs each year as each employee on the Town's most popular family plan costs the Town \$16,663 in premiums per year. The addition of even a few employees to the Town's health insurance plans can result in significant changes in total costs. We are working to evaluate our approach to the health insurance budget in order to more accurately estimate health insurance costs each year. We level funded health insurance from FY20 to FY21.

Through the first six months of FY2021, the health insurance budget has expended 48% of its appropriation.

Police Department

The Police Department turnback is attributable to the changeover in personnel in the Police Department over the last two years. When more senior officers retired or left for other departments, the Department's personnel costs decreased due to a high number of vacant positions. The vacancies have been gradually filled by younger officers whose compensation is lower. As the Police Department returned to its regular staffing levels, the Town's cost for benefits, particularly health insurance also increased. In addition to the changeover in personnel, Chief Guerette implemented new policies to control personnel costs.

Through the first six months of FY2021, the Police Department has expended 48% of its appropriation.

Revenues

During the Town's budget and tax rate setting process, the Town estimates its revenues from various sources, including property taxes, excise taxes, fees, and other sources of funding. If actual revenues exceed estimated revenues, the excess is closed out to Free Cash. The Town typically takes a conservative approach in estimating its revenues since revenue shortfalls will be deducted from Free Cash, or would require budget cuts. Revenues tracked closely with estimates last year and were not a substantial contributor to the FY2020 Free Cash balance.

Outlook

The FY2021 approved budget eliminated a number of existing positions in Town departments and included other budget cuts to meet reduced revenue estimates. At this time, we do not anticipate substantial turnbacks, but will continue to track spending and revenues through the year.

One item of concern is the potential that some expenditures that have been made under the CARES funding for COVID-19 related purposes could be rejected for reimbursement by the state as ineligible. We have been careful to follow program guidance, but if the state does not reimburse certain expenses, the Town or Schools would have to cover the costs from elsewhere in the FY2021 approved budget.

In addition, the School Department is experiencing high costs to deliver educational services under COVID-19 protocols and may need to request an additional appropriation if the schools exceed their FY2021 appropriation. More federal funding for education has been approved, which could help to alleviate this issue.

The Town is moving forward on several debt issuances in 2021, including potential borrowing for capital equipment, affordable housing, a new water treatment plant, and a new elementary school. In order to maintain our bond rating, it is imperative that the Town meet its financial policies, maintain strong reserves, and carefully consider how to use Free Cash in the FY2022 Budget.

Medfield Free Cash Certification				
	Certified	General Fund		
<u>FY</u>	<u>as of</u>	<u>Certified</u>	<u>Appropriated</u>	<u>Balance</u>
2000	07/01/00	2,188,756.46	1,188,756.00	1,000,000.46
2001	07/01/01	2,474,925.00	1,311,000.00	1,163,925.00
2002	07/01/02	1,673,319.00	1,000,000.00	673,319.00
2003	07/01/03	1,409,805.00	800,000.00	609,805.00
2004	07/01/04	1,550,455.00	869,228.00	681,227.00
2005	07/01/05	1,761,225.00	1,000,000.00	761,225.00
2006	07/01/06	1,605,738.00	1,000,000.00	605,738.00
2007	07/01/07	1,339,234.00	700,000.00	639,234.00
2008	07/01/08	1,393,769.00	500,000.00	893,769.00
2009	07/01/09	1,556,547.00	800,000.00	756,547.00
2010	07/01/10	1,311,875.00	500,000.00	811,875.00
2011	07/01/11	1,828,377.00	500,000.00	1,328,377.00
2012	07/01/12	2,269,154.00	910,408.00	1,358,746.00
2013	07/01/13	2,670,660.00	1,316,450.00	1,354,210.00
2014	07/01/14	2,426,282.00	1,527,710.19	898,571.81
2015	07/01/15	2,620,615.00	1,220,000.00	1,400,615.00
2016	07/01/16	2,755,731.00	1,292,000.00	1,463,731.00
2017	07/01/17	2,885,994.00	1,675,000.00	1,210,994.00
2018	07/01/18	2,072,340.00	800,000.00	1,272,340.00
2019	07/01/19	2,234,402.00	792,597.00	1,441,805.00
2020	07/01/20	3,357,125.00	-	3,357,125.00