



FY25 FREE CASH STRATEGY PROPOSAL

Outlining a strategic allocation plan to address immediate fiscal needs, mitigate medium-term risks, and position the Town for long-term stability.



WHAT IS FREE CASH?

Free Cash represents unappropriated funds available at the end of a fiscal year, certified by the Massachusetts Department of Revenue (DOR). It results from surpluses in budgeted revenues, unspent budget appropriations, and revenue collection above expectations. Free Cash plays a vital role in funding one-time expenditures, capital projects, and deficits while maintaining the Town's financial health and stability. The DOR generally recommends that Free Cash should be maintained at a level equivalent to 3% to 5% of a municipality's annual operating budget. This range is considered a best practice to ensure fiscal health and provide flexibility for addressing unforeseen expenses or funding one-time projects. Maintaining Free Cash within this range helps municipalities:

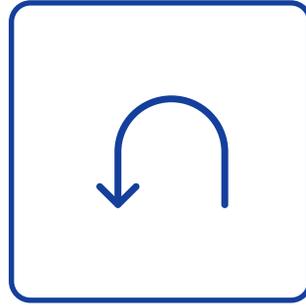
- **Meet unexpected financial challenges without destabilizing the operating budget.**
- **Fund capital projects or offset tax increases in a sustainable manner.**
- **Demonstrate sound financial management to improve credit ratings and reduce borrowing costs.**

EXECUTIVE SUMMARY



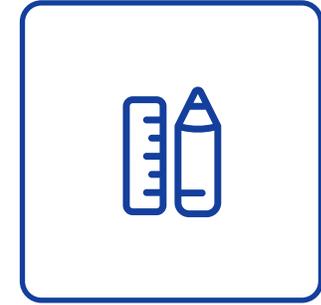
Address Immediate Fiscal Needs

Allocate funds to cover the \$500K snow and ice deficit, meet the \$2.2MM obligation for the Tri-County Vocational High School construction project, and address the projected \$1.3MM shortfall in health care costs.



Mitigate Medium-Term Risks

Preserve financial flexibility by contributing \$500K to pay down pension liability and \$500K to CIP projects and leveraging the \$3.75MM CIP Stabilization Fund for capital improvements as needed or required.



Position for Long-Term Stability

Prepare for future pension obligations by contributing \$300K toward pension obligations, \$200K for additional OPEB contributions, and leverage anticipated new growth revenues from development projects and revenue streams (rental income, excise taxes).

The strategic allocation proposal for the \$5.5MM in FY25 Free Cash balances immediate needs, mitigates medium-term risks, and positions the Town for long-term fiscal stability.

CURRENT FINANCIAL CONTEXT

Snow and Ice Deficit

Annual budget allocation: \$250K
Typical overrun: \$500K, requiring
Free Cash supplementation

Tri-County Vocational High School Construction

Town's FY25 obligation: \$2.2MM+
as an annual obligation for the next
30 years

Rising Health Care Costs

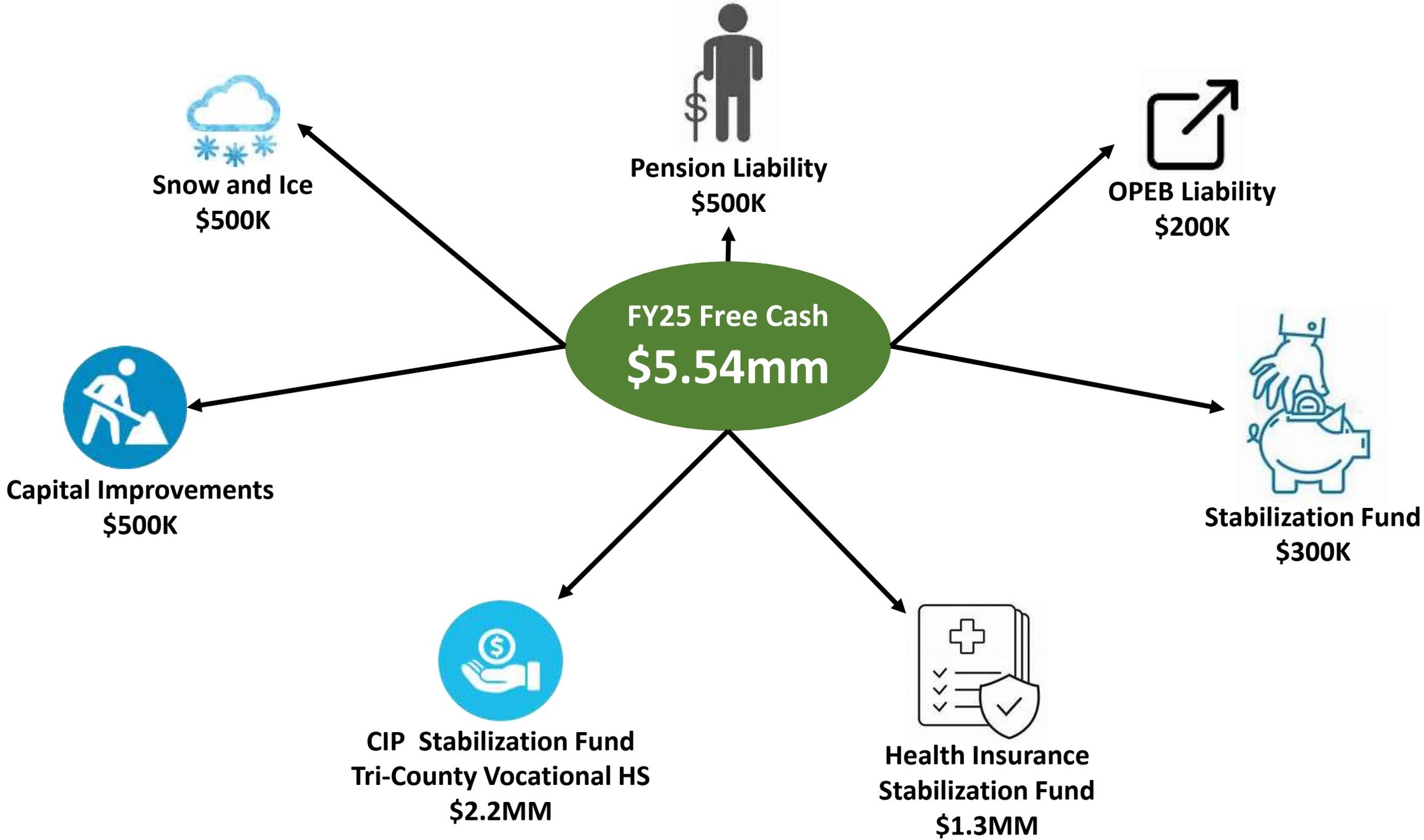
Current budget: \$11.3MM (75/25
employer-employee contribution
split) Projected increase: 12.5%,
addressing forecasted \$1.3MM
shortfall in FY24

Pension Obligations

Required funding schedule approaching FY34/35 full
obligation Potential for a 6.5%+ increase in contributions

Future Revenue Growth

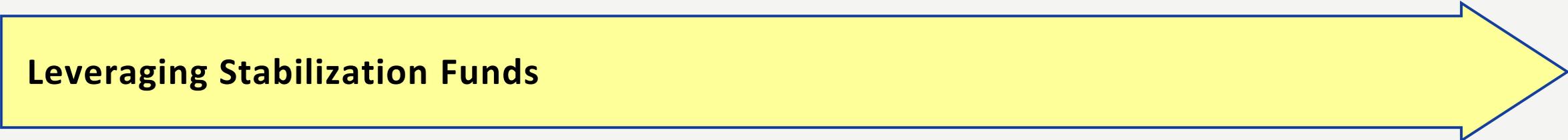
Anticipated new growth revenues from development
projects within 36 months, totaling \$595K annually
Additional projected revenues: \$215K from rental income,
lodging receipts, and excise taxes



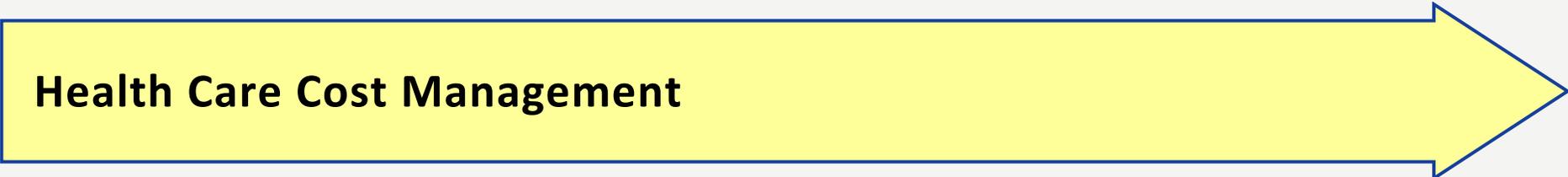
STRATEGIC CONSIDERATIONS



Mitigating Snow and Ice Risk



Leveraging Stabilization Funds



Health Care Cost Management



Pension Prepayment Benefits

RISK MITIGATION AND CONTINGENCY PLANNING

Overcommitting Free Cash

Maintain stabilization contributions and defer discretionary expenditures to balance flexibility with fiscal discipline. Avoid overextending Free Cash reserves to ensure financial stability.

Revenue Timing Risks

Ensure conservative assumptions for new growth timelines and local receipt projections. Monitor actual revenue materialization against forecasts to adapt the strategy as needed.

Health Care Volatility

Closely monitor claims-to-premium ratios and adjust health care cost reserves accordingly. Proactively manage potential budget impacts from fluctuating healthcare expenses.

NEW GROWTH AND REVENUE OUTLOOK

- **Approved Development Projects**

310 Kelley Blvd, 150 Draper Ave, 777 S Washington St, and 72 Elm St development projects expected to bring \$595K in new annual revenue within the next 24-36 months

- **Lodging and Excise Tax Growth**

Projected \$65K increase within next 24-36 months for lodging receipts and motor vehicle excise tax revenue

- **Rental Income**

Anticipated \$150K in additional annual revenue from rental properties and other sources

LONG-TERM FISCAL PLANNING

● FY25

Allocate \$300K to Stabilization Fund to maintain financial flexibility

● FY26-FY27-FY28

Bridge funding gaps with Free Cash until new growth revenues fully materialize

● FY26-FY28

Anticipate \$5M in annual Free Cash to address critical needs

● FY34/35

Prepare for pension funding obligations through proactive prepayments

Whitepaper

FY25 Free Cash Strategy for the Town of North Attleborough

Date:

20 NOV 2024

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Town Manager

Town of North Attleborough, MA Document

Executive Summary

The Town of North Attleborough has \$5.5MM in certified Free Cash available for FY25. This document outlines a strategic allocation plan designed to address immediate fiscal needs, mitigate medium-term risks, and position the Town for long-term stability. Key priorities include funding the snow and ice deficit, meeting the \$2.2MM year one obligation for the Tri-County Vocational High School construction project, managing rising health care costs, and preparing for future pension obligations while leveraging stabilization funds and managing anticipated new growth revenue.

What is Free Cash?

Free Cash represents unappropriated funds available at the end of a fiscal year, certified by the Massachusetts Department of Revenue. It results from:

- Surpluses in budgeted revenues
- Unspent budget appropriations
- Revenue collection above expectations

Free Cash plays a vital role in funding one-time expenditures, capital projects, and deficits while maintaining the Town's financial health and stability.

The Massachusetts Department of Revenue (DOR) recommends that municipalities maintain reserves equivalent to approximately 5% of their total budget to ensure fiscal stability and address unforeseen financial needs, as outlined in Massachusetts General Laws (M.G.L.) Chapter 40, Section 5C.

Current Financial Context

- **FY25 Free Cash Available:** \$5.5MM
- **Stabilization Reserves:** \$7.7MM for emergencies
- **CIP Stabilization Fund:** \$4.5MM available for capital improvements
- **Average Free Cash (FY26-FY28):** Projected at \$5MM annually

Key Challenges

1. **Snow and Ice Deficit:**
 - Annual budget allocation: \$250K
 - Typical overrun: \$500K, requiring Free Cash supplementation

2. **Tri-County Vocational High School Construction:**
 - Town's FY25 obligation: \$2.2MM
3. **Rising Health Care Costs:**
 - Current budget: \$11.3MM (75/25 employer-employee contribution split)
 - Projected increase: 12.5%, equating to a \$1.3MM shortfall
4. **Pension Obligations:**
 - Required funding schedule approaching FY34/35 full obligation
 - Potential for a minimum of a 6.5%+ increase in contributions
5. **Future Revenue Growth:**
 - Anticipated new growth revenues from development projects within 36 months, totaling \$595K annually
 - Additional projected revenues: \$215K from rental income, lodging receipts, and excise taxes

Proposed FY25 Free Cash Allocations

Item	Allocation (\$)	Purpose
Snow and Ice Deficit	500,000	Covers potential overrun for FY25
Tri-County Vocational Project	2,200,000	Meets FY25 obligation without impacting operating budget
Health Care Reserve	1,300,000	Addresses projected shortfall due to rising costs
Pension Prepayment (Deferred)	500,000	Reserve for spring allocation based on snow costs
CIP Funding	500,000	Supports ongoing capital improvement projects
Stabilization Fund Contribution	300,000	Maintains financial flexibility for emergencies
TOTAL	\$5,500,000	

Strategic Considerations

1. Mitigating Snow and Ice Risk:

- Hold pension prepayment until April/May to reallocate funds if snow expenses exceed \$500K.

2. Leveraging Stabilization Funds:

- Use CIP stabilization fund for medium-term capital projects, preserving Free Cash for critical priorities.

3. Future Growth Revenue:

- Anticipate significant contributions from developments at Kelley Blvd, Draper Ave, and S. Washington St.
- Local receipts and excise taxes provide additional, albeit less predictable, revenues.

4. Health Care Cost Management:

- Proactively address the \$1.3MM shortfall to avoid operational strain in FY26.

5. Pension Prepayment Benefits:

- Reduce future obligations and relieve FY34/35 budget pressure with targeted prepayments.
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Risk Mitigation and Contingency Planning

- **Overcommitting Free Cash:** Maintain stabilization contributions and defer discretionary expenditures to balance flexibility with fiscal discipline.
 - **Revenue Timing Risks:** Ensure conservative assumptions for new growth timelines and rental income projections.
 - **Health Care Volatility:** Monitor claims-to-premium ratios and adjust reserves as required.
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Conclusion and Recommendations

The proposed FY25 Free Cash strategy balances short-term needs with long-term fiscal sustainability. The plan:

1. Addresses known liabilities (snow and ice, Tri-County project, health care costs).
2. Preserves financial flexibility through stabilization contributions and CIP fund utilization.
3. Positions the Town to benefit from anticipated new growth revenues.

The Town Council is encouraged to:

- Approve the proposed allocations.
- Monitor key financial metrics and revisit the strategy in spring 2025 based on actual snow and ice expenditures.