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FY20 Unreserved Fund Balance (Free Cash) Certification Announcement

Belmont's Free Cash is certified annually by the Massachusetts Department of Revenue. The amount certified as of July 1, 2020 is \$11,239,464. This is a record high level for Belmont.

The increase in Free Cash reflects the Town's conservative budgeting practices and our response to managing the financial impacts created by COVID-19, such as controlling spending, freezing hiring and maximizing available Federal and State reimbursements. This level of Free Cash gives the Town greater flexibility to reduce an operating override request, without reducing services.

The factors leading to this favorable result include:

- Proactive management of the Town and School hiring and spending at the end of Fiscal Year 2020 (FY20);
- COVID-19 slowdowns in spending, resulting in large turnbacks (underspent budgets) from departments;
- Federal Assistance for COVID-19 through the Coronavirus Aid, Relief, and Economic Security (CARES) Act Reimbursement for Town and School Expenses, of approximately \$1 million;
- Accounting adjustments for prepaid property taxes in prior Fiscal Year.

The line items contributing to the Free Cash balance are:

ITEM	AMOUNT
FY19 Rollover Unreserved Fund Balance (Free Cash)	\$425,165
Prior Year Reserve for Subsequent Taxes (Prepay that should have been reserved last year)	\$2,151,248
Reserve Prior year bond premium	\$18,000
Reverse prior year reserve for continued appropriations	\$1,711
Tax Deferral Redeemed	\$274,899
Tax Title Redeemed	\$489,099
Estimated Receipts Surplus (Revenue)	\$1,430,258
Turnbacks from Departments	\$6,405,517
Prior Year Fund Deficits/etc.	\$43,567
CERTIFIED FREE CASH as of July 1, 2020	\$11,239,464

Free Cash is recorded in the Town accounts as Unreserved Fund Balance, which is essentially cash reserves. Free Cash can change from year to year for two main reasons. The first reason is when the budget includes a planned drawdown or build-up of Free Cash. The second reason is when actual revenues differ from budgeted revenues and/or actual expenses differ from budgeted expenses. For example, if revenues came in as budgeted but expenses were \$1 million less than budgeted, Free Cash would increase by \$1 million.

The FY20 budget included a planned drawdown of Free Cash. For FY20 as a whole, actual revenues were higher than budgeted and actual expenses were lower than budgeted. In addition, the current Free Cash calculation includes one-time accounting adjustments to reclassify certain balances from FY19. The net effect of these factors is a substantial increase in Free Cash as of the end of FY20.

The line items in the table are explained in more detail as follows:

FY19 Rollover Unreserved Fund Balance (Free Cash)

The FY20 budget included a high use of Free Cash. This drawdown reduced the FY19 Unreserved Fund Balance (Free Cash) to \$2.4 million. A subsequent review of our accounting revealed the need for two additional adjustments related to classification of property tax and water and sewer revenues. These were one-time adjustments. The effect of the adjustments reduced the FY19 rollover to \$425,165.

Prior Year Reserve for Subsequent Taxes

Tax payments by residents sometimes cross over the fiscal year, which begins on July 1. \$2.1 million of FY20 Free Cash represents tax revenue that was prepaid and not estimated in the FY20 Fiscal Year. This \$2.1 million should have been part of the FY19 Certified Free Cash.

Tax Deferral Redeemed

The Town has tax deferral programs that delay the collection of taxes. Free Cash is credited for the taxes in the Fiscal Year they are actually paid. For FY20 \$274,898 of tax deferrals were collected.

Tax Title Redeemed

Free Cash is also increased when delinquent taxes are finally paid. The Town Treasurer works diligently to collect delinquent taxes.

Estimated Receipts Surplus (Revenue)

The Town budget estimates revenue receipts for the year. Actual FY20 revenue exceeded the estimate by \$1.4 million. Most of this excess can be attributed to investment income on amounts borrowed for the new middle and high school. The Town saw a reduction in some local receipts due to COVID-19, but the investment income resulted in a surplus.

Turnbacks from Departments

Turnbacks, underspent department budgets, returned to Free Cash, totaling \$6.4 million are the largest contributor to the increase in FY20 Free Cash. This amount almost doubled from the previous year. Turnbacks can be generated by vacancies in positions, and spending less on supplies and services. COVID-19 is the main explanation for the FY20 turnbacks. The Town realized in March that the pandemic would significantly impact revenues and wanted to make sure we capitalized on every dollar. The Town was also mindful of the budgetary challenges and the potential need for an operating override. We started to slow down spending beginning in March and April. The Select Board imposed a hiring and spending freeze for May and June. Also, the COVID-19 CARES Act reimbursement enabled Belmont to receive reimbursement of over \$1 million for Town expenses associated with COVID-19.

Prior Year Fund Deficits/etc.

\$43,567 remains of Prior Year Fund Deficits, which are created by not expending the entire amount of available funds.