



## CITY OF NORTHAMPTON

### SUSAN WRIGHT FINANCE DIRECTOR

Office of the Mayor  
210 Main Street Room 12  
Northampton, MA 01060-3199  
(413) 587-1255 Fax: (413) 587-1275  
swright@northamptonma.gov

---

### MEMORANDUM

TO: City Council  
FROM: Susan Wright, Finance Director  
DATE: August 29, 2011  
RE: Update to City Council for September 1, 2011

**Free Cash and Stabilization Reserves:** As part of my effort to become acquainted with the city's finances, I have prepared and updated historical data relating to Free Cash and Stabilization. Free cash is the term used for a community's unrestricted funds available for appropriation after certification by the Director of Accounts. Free cash is certified for the general fund and enterprise funds based on the balance sheet for the fiscal year that ended on June 30. Free cash is usually certified in the late fall in Northampton. It is generated when actual revenue collections exceed the estimates used for budgeting and when actual expenditures are less than what was appropriated. Other factors that affect free cash are: uncollected property tax receivables, illegal deficits, overdrawn grant accounts and deficits in other funds such as special revenue funds and agency funds.

Free cash can be used for any lawful municipal purpose and provides the community with the flexibility to fund additional appropriations after the tax rate has been set. A community can increase free cash by conservatively estimating local receipts and aggressively pursuing the collection of receivables. A community's free cash can affect its bond rating and provides a financial cushion to guard against economic downturn or to meet unforeseen expenses. Decreasing Northampton's reliance on free cash for use in the operating budget is a difficult task in the current economic climate. However, if and when the fiscal situation improves, building back up our free cash and other reserves, to the extent possible, would be prudent.

I have included three charts for your information:

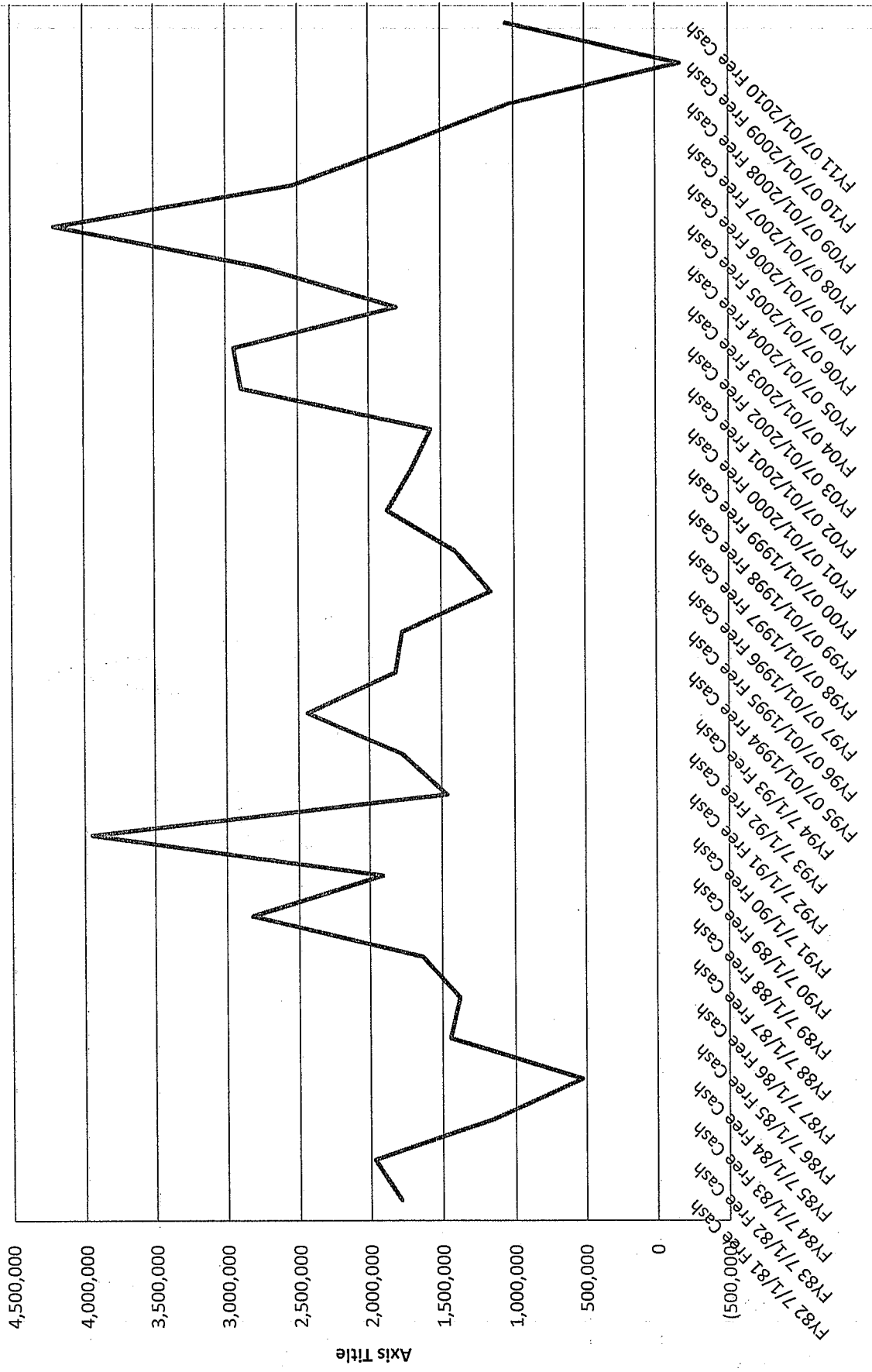
1. **Free Cash History FY1982 to FY2011:** This 30 year history of Northampton's free cash shows that the city experienced its highest balance of free cash in FY2006 and its lowest

balance of free cash in FY2010 – a span of five years. This illustrates the limitations and pressure on the city's finances during the past several years. It is also significant to note that the free cash in FY2011, while a substantial improvement from the negative free cash in FY2010, was still the second lowest amount the city has had in 30 years, second only to the low of FY1985 when it was \$527,546.

2. **Free Cash Summary FY1997 to FY2011:** This shows what free cash has been used for over the past 15 years by category: capital expenditures; to balance the operating budget; transfers to stabilization; transfers to capital stabilization; transfers to revolving funds and operating budget transfers. Ideally free cash would not be used to fund mid-year transfers for the operating budget, and would instead be reserved for capital projects and reserves. However, increasingly, free cash has been used to fund mid-year transfers to the operating budget. Many of those transfers involve the four accounts recently reviewed for historic underfunding – snow and ice, veterans, legal and fire department overtime. In FY2011, 99% of the free cash was used to fund mid-year transfers to operating budget. In FY2010 there was no free cash and in FY2009 and FY2008, the city used 94.2% and 69.2% respectively, to fund mid-year transfers for operating expenses.
3. **Free Cash and Fund Balances FY2001 to FY2011 :** This shows the free cash balances for the General Fund, Water Fund, Sewer Fund, and Landfill Fund for the past eleven years. It also shows the balances in the General Fund Stabilization Account and the Capital Stabilization. Collectively, the FY11 balances in the Stabilization and Capital Stabilization are at the lowest levels since FY2003.

# City of Northampton

General Fund Free Cash History FY1982 to FY2011  
30 Year History



**City of Northampton**  
**Free Cash Summary FY1997 to FY2011**  
**15 Year History**

	FY1997	FY1998	FY1999	FY2000	FY2001	FY2002	FY2003	FY2004	FY2005	FY2006	FY2007	FY2008	FY2009	FY2010	FY2011
Beginning Balance July 1	1,164,001	1,402,656	1,873,188	1,704,993	1,569,383	2,889,919	2,942,850	1,807,319	2,759,427	4,199,981	2,539,590	1,757,934	1,034,155	(165,930)	1,052,466
<b>Breakdown by Type of Expenditure:</b>															
Capital Expenditure	305,203	547,297	606,801	252,452	385,000	502,510	0	0	0	120,000	0	0	60,313	0	0
Balance Operating Budget	300,000	0	200,000	0	46,506	600,000	0	0	340,009	0	0	0	0	0	0
Transfer to Stabilization	0	0	0	0	0	0	2,400,000	0	600,000	1,300,000	26,418	171,000	0	0	0
Transfer to Capital Stabilization	0	0	0	0	0	0	0	0	0	1,180,000	10,000	0	0	0	0
Transfer to Revolving Funds	0	0	0	0	0	0	0	0	224,530	0	0	0	0	0	0
Operating Budget Transfers	401,923	350,336	729,372	833,841	1,125,651	305,360	417,049	659,556	470,034	1,088,264	1,215,940	1,215,940	973,842	0	1,042,347
<b>TOTAL FREE CASH TRANSFERS</b>	<b>1,007,126</b>	<b>897,633</b>	<b>1,536,173</b>	<b>1,086,293</b>	<b>1,557,157</b>	<b>1,407,870</b>	<b>2,817,049</b>	<b>659,556</b>	<b>1,634,573</b>	<b>3,688,264</b>	<b>1,252,358</b>	<b>1,386,940</b>	<b>1,034,155</b>	<b>0</b>	<b>1,042,347</b>
Ending Balance June 30	156,875	505,023	337,015	618,700	12,226	1,482,049	125,801	1,147,763	1,124,854	511,717	1,287,232	370,994	0	(165,930)	10,119

Operating Budget Transfers as a % of Available Free Cash	34.5%	25.0%	38.9%	48.9%	71.7%	10.6%	14.2%	36.5%	17.0%	25.9%	47.9%	69.2%	94.2%	0.0%	99.0%
--	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	------	-------

# City of Northampton

## Free Cash and Fund Balances FY2001 to FY2011

### 11 Year History

FISCAL YEAR	As of July 1 for the fiscal year				As of June 30 for the fiscal year			
	GENERAL FUND	WATER FUND	SEWER FUND	LANDFILL FUND	GENERAL FUND	GENERAL FUND	CAPITAL	
	FREE CASH	FREE CASH	FREE CASH	FREE CASH	STABILIZATION	STABILIZATION	STABILIZATION	
FY11	1,052,466	3,439,900	1,202,604	2,268,502	249,127	4,684		
FY10	(165,930)	4,253,870	1,093,099	1,289,610	66,423	646,119		
FY09	1,034,155	5,038,518	1,213,415	926,474	261,301	1,355,782		
FY08	1,757,934	4,701,308	852,441	991,107	847,118	1,322,499		
FY07	2,539,590	4,857,005	360,343	984,574	2,004,968	1,370,735		
FY06	4,199,981	4,345,642	662,436	1,329,188	1,978,773	1,180,833		
FY05	2,759,427	3,566,548	723,417	500,927	1,233,239			
FY04	1,807,319	2,413,421	513,107	374,931	1,220,384			
FY03	2,942,850	1,410,088	216,171	296,945	2,404,118			
FY02	2,889,919	1,109,507	721,435	0	-			
FY01	1,569,383	1,007,810	1,102,393	0	-			

Note: DOR Municipal Data Bank numbers for Northampton Stabilization include SVAHS stabilization, capital stabilization and general fund stabilization