

FREE CASH

City Council Meeting – Thursday, January 15, 2026

WHY FREE CASH IS NECESSARY

- Cautious budgeting of revenue projections minimizes the risk of deficits which would force abrupt cuts or depletion of reserves. It ensures that we can continue to absorb cost increases in future years. Revenues received over projections also help fund reserve accounts and support capital infrastructure improvements.
- Reserves such as stabilization funds are necessary in the event of emergencies, unexpected expenses (General Stabilization), capital projects (Capital and Climate Mitigation Stabilization), and to reduce the pressure of special educational expenses on the NPS budget (NPS Special Educational Stabilization).
- Generally, reserves should not be used for recurring expenses such as the yearly operational budget, except in the case of the Fiscal Stability Stabilization fund (FSSF) which is intentionally created for this purpose. When we use FSSF transfers to support recurring expenses - we have used \$5 M to support the operating budget over the last three years – we can only sustain those higher levels of spending if the voters agree to support periodic overrides.
- When revenue projections are pushed upwards you can produce more upfront revenue for the operating budget, but the trade off is less free cash to support reserves and capital projects. In FY26 we have significantly pushed revenues. And the risk is if you go too far with your estimates you can create a budget deficit.
- Pushing revenue projections and using reserves for operational needs (recurring expenses) will lead to a deficit.
- The City of Northampton follows best practices by using revenues for ongoing operations and reserves for one-time and emergency expenses.

DEPARTMENT OF REVENUE BEST PRACTICES

- The City of Northampton follows best practices by using revenues for ongoing operations and reserves for one-time and emergency expenses. And has financial policies following Massachusetts Department of Revenue (DOR) and the Massachusetts Government Finance Officers Association guidelines for municipal finance.
- Division of Local Services (DLS) (division of DOR) states that "As a nonrecurring revenue source, free cash should be restricted to paying one-time expenditures, funding capital projects, or replenishing other reserves." Though we generally get some amount of free cash every year, it's a byproduct of many fluctuating revenue sources. DLS defines free cash as a "nonrecurring" source whereas a "recurring" source "by its nature can be relied on, at some level, in future years."

GENERATION OF FREE CASH

Free Cash is generated from three sources:

- Unspent funds from the prior year certified Free Cash - \$247,581
- Revenues that come in above projections- \$5,857,182
- Unspent amounts in departmental budgets - \$735,500

This balance is offset by any liabilities or deficits the city may have, such as uncollected taxes, pending grant reimbursements.

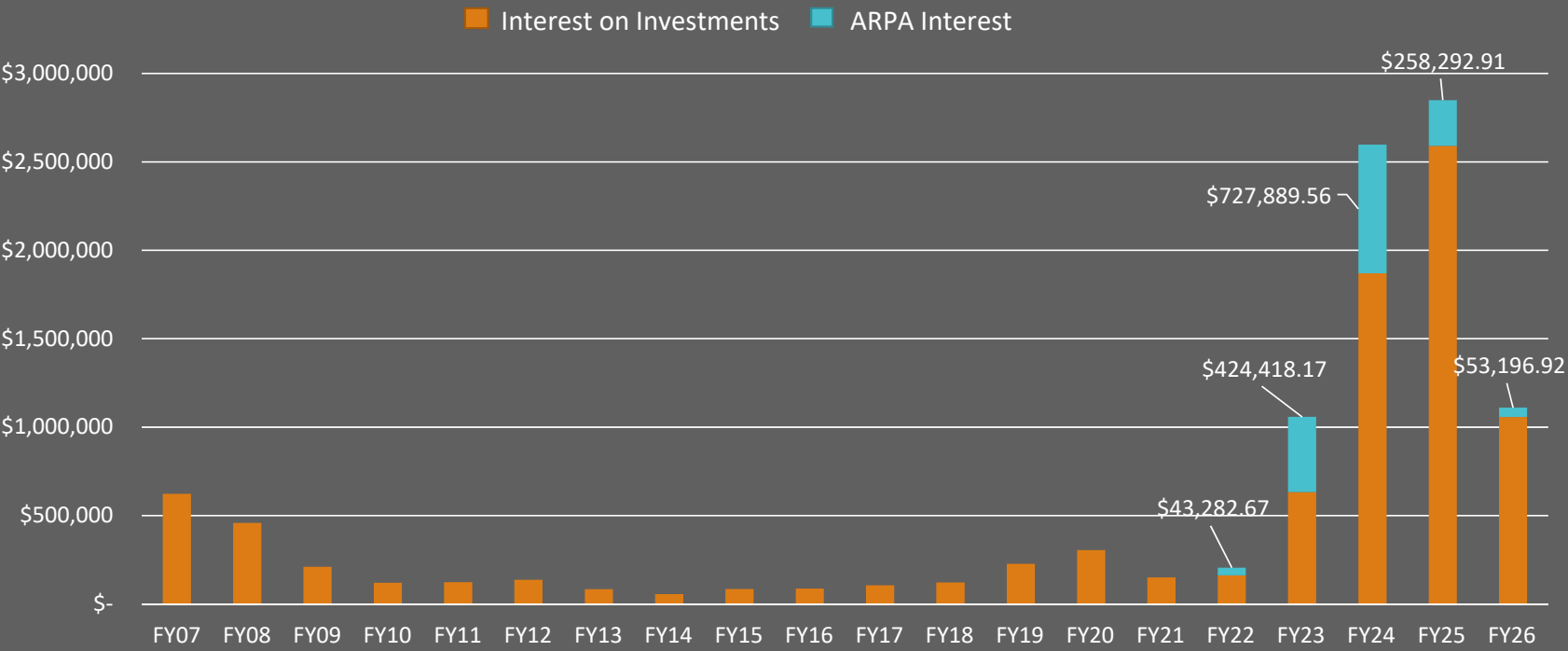
REVENUES CONTRIBUTING TO FREE CASH

- FY2025 Revenues over projections generated \$5.8 M, or 92.5% of the total certified Free Cash
- Revenues by Category:
 - Revenues, excluding Interest on Investments, represents \$3,186,090. Contributors to this are Motor Vehicle Excise, Hotel/Motel, Meals, Cannabis, and Ambulance. This amount is 54.4% of the excess revenue and 50.3% of total certified Free Cash. **In FY26, we are using an additional \$1 M of this revenue to support the Operating Budget.*
 - High interest on Investments represents \$2,671,092. This equals 45.6% of the excess revenue and 42.2% of the total certified Free Cash. **In FY26, we are using an additional \$1.9 M of this revenue to support the Operating Budget.*

WHY DID INTEREST ON INVESTMENTS INCREASE AND WHAT ARE THE RISKS?

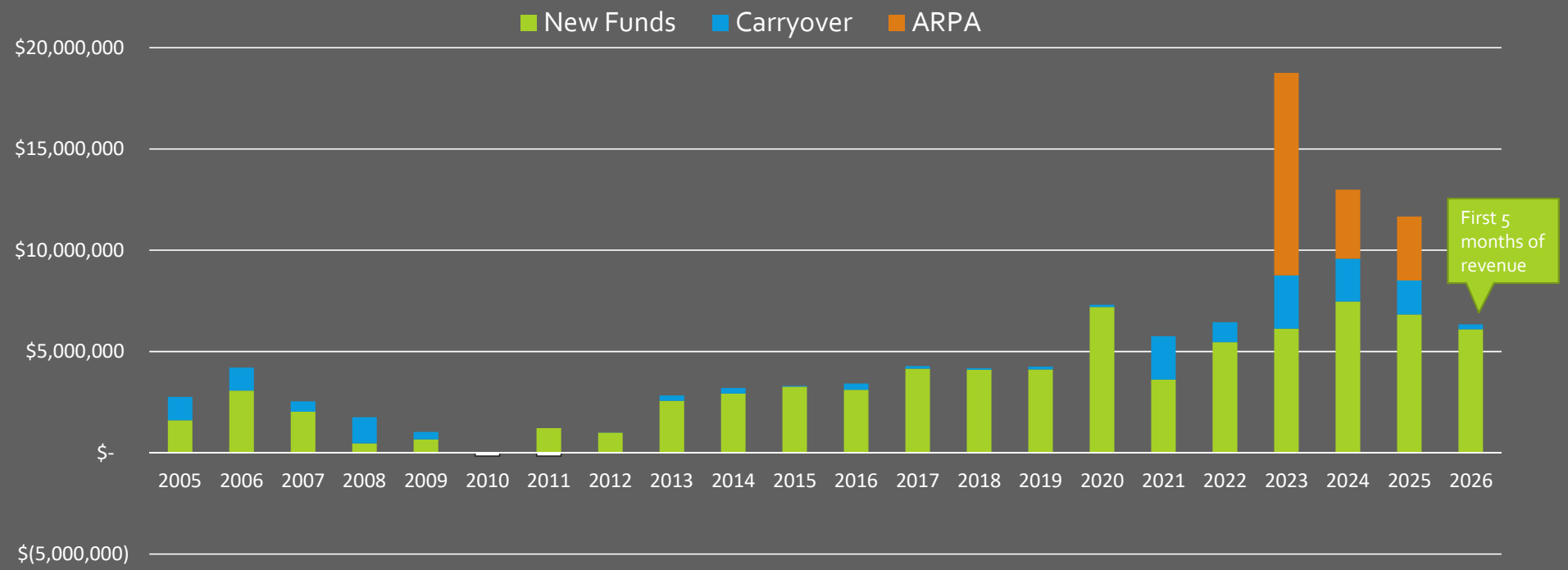
- In mid FY23, in an effort to take advantage of increased rates, the Treasurer identified a higher-interest banking vehicle for municipal and commercial entities.
- Provides 90% of the Secured Overnight Financial Rate (SOFR), which resulted in an average interest rate of 4.85% in FY24, 4.23% in FY25, and 3.79% in FY26 (July to Dec).
- The city has not relied on this revenue source for the operating budget in the past as interest revenues are unpredictable. They are dependent on variable factors such as the amount in the account and the current interest rate.
- The Federal Reserve has cut interest rates six times since September 2024.
- The interest rate in the SOFR account dropped from 4.92% to 3.73% from June 2024 to present.

INVESTMENT INCOME – 20 YEAR HISTORY

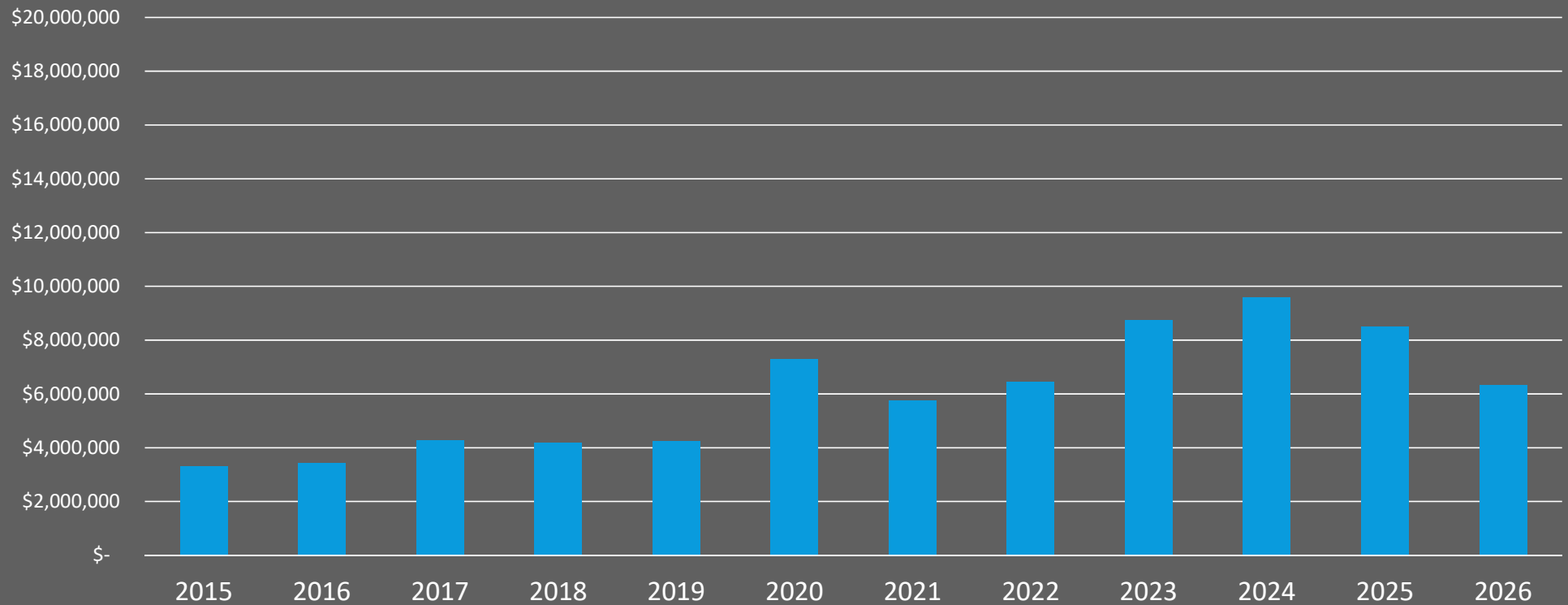


First 5 months of FY26

FREE CASH COMPOSITION: NEW FUNDS, CARRYOVER, AND ARPA

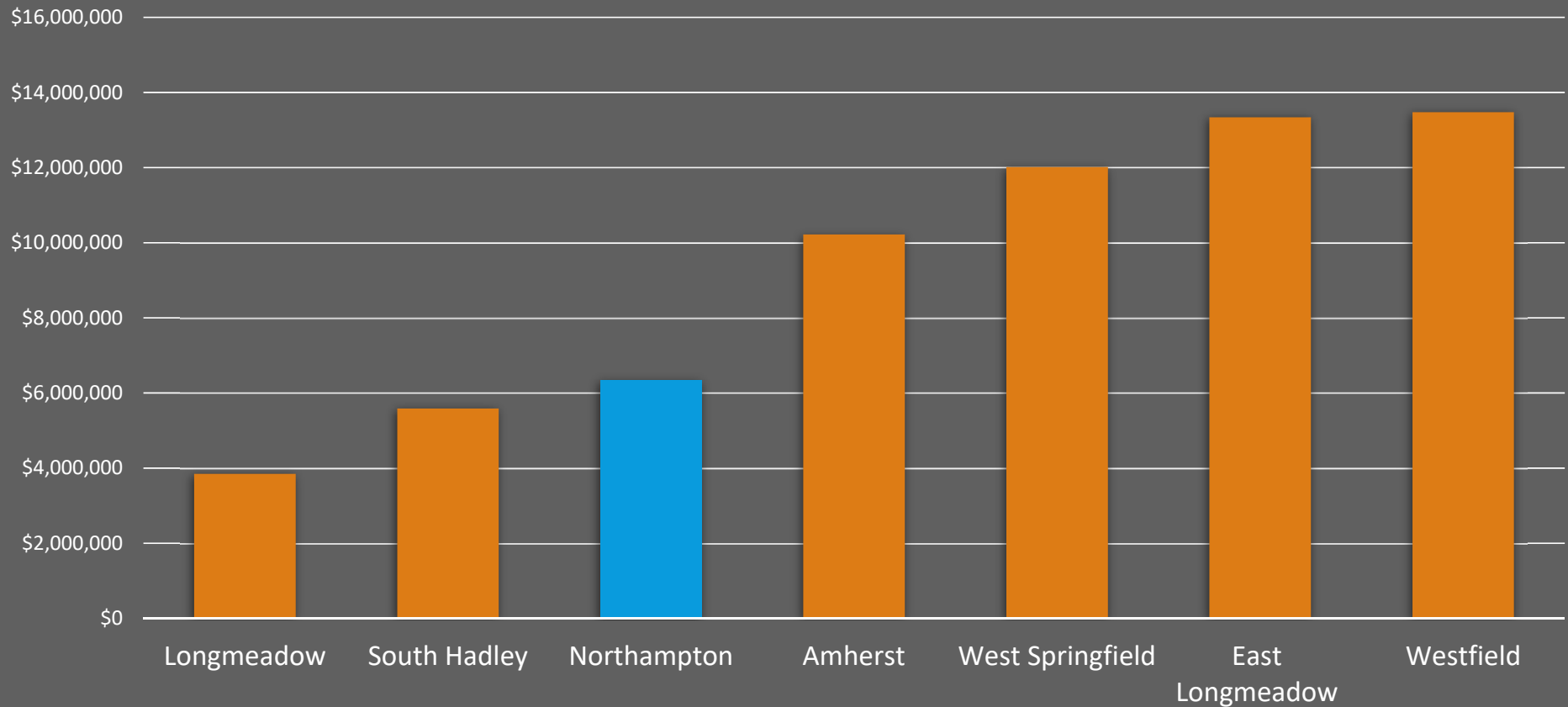


FREE CASH WITHOUT ARPA



CERTIFIED FREE CASH COMPARISON COMMUNITIES

*COMMUNITIES NOT LISTED (AGAWAM, CHICOPEE, EASTHAMPTON, GREENFIELD, HOLYOKE) HAVE NOT CERTIFIED FREE CASH



CERTIFIED FREE CASH AS A % OF THE GENERAL FUND BUDGET (PER DOR)

* COMMUNITIES NOT LISTED (AGAWAM, CHICOPEE, EASTHAMPTON, GREENFIELD, HOLYOKE) HAVE NOT CERTIFIED FREE CASH

