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Statement on the December 17, 2024, Free Cash Certification

NORTHAMPTON - Tonight, Mayor Gina-Louise Sciarra made the following statement at the December 19, 2024 City Council meeting:

Free cash is generated from three sources: funds remaining and unspent from the prior year's fund balance, revenues that come in above projections, and any unspent amounts in departmental budgets.

The Massachusetts Department of Revenue certifies each municipality's free cash annually in the late fall. Once the certification is made, the city can spend free cash in the current fiscal year on any legal purpose, though according to the [best practices guidance from the state's Technical Assistance Bureau](#): "As a nonrecurring revenue source, free cash should be restricted to paying one-time expenditures, funding capital projects, or replenishing other reserves." The state also [recommends](#) keeping "a targeted year-end unappropriated free cash balance to fund the next certification."

The unspent money from the prior year's fund balance still, but atypically, includes \$3.15 million in federal "loss revenue" funds from the American Rescue Plan Act pandemic relief program. While this money is certified as part of free cash, as ARPA loss revenue funds, it has been identified as an appropriate use for necessary Main Street underground infrastructure upgrades.

The other money carried over is \$1.68 million in unspent Fiscal Year 2024 free cash. In the Capital Improvement Program document you [city councilors] received tonight, it is proposed that this be used for the road safety improvements at Northampton High School. Because of the urgency of this project and advocacy from the community, this project's funding began off the

CIP cycle. The council appropriated funding for the design of this work in January 2023, and it is now ready to be moved to the construction phase, which includes appropriating funds. Therefore, the project has been included in the FY26-30 Capital Improvement Program.

On December 17, 2024, the state certified that the City of Northampton in Fiscal Year 2024 generated \$6.83 million in new free cash, of which \$5.55 million is from revenues and \$1.28 million from unspent budget lines. Combined with the money carried over from the prior year, the total free cash certification came to \$11.66 million.

Of the additional \$5.55M in revenues, \$2.4 million was from investment income. The city has seen a significant increase in its investment income line in FY2023 and FY2024 as interest rates increased. The city took advantage by using an investment vehicle with a Secured Overnight Financing Rate (SOFR). Before FY2023, the five-year average of this budget line was \$201,924. This is not a budget line the city has relied on for recurring revenues because interest rates are volatile, and the amount in the fund can fluctuate significantly. While going forward into FY2026 the city will increase this revenue projection, it is important to note that the Federal Reserve just cut the interest rates again by an additional quarter percent yesterday for a total cut of 1% just since September.

At the special City Council meeting on August 5, 2024, these above-average revenues were cited as a primary reason for postponing the Proposition 2 ½ override previously planned for this past November 5th, allowing us to keep assessing our revenues before taking the step of asking voters to increase the property tax levy to maintain city services.

According to the state's [best practices guidance](#), "Under sound financial policies, a community strives to generate free cash in an amount equal to three to five percent of its annual budget."

The \$6.83 million newly generated free cash in Fiscal Year 2024 was 5.85% of Fiscal Year 2024's general fund budget of \$116.7 million. The state also recommends "defining a target balance for free cash certification as a percentage of the general fund budget, such as five to seven percent." The total amount of locally generated free cash available for use in Fiscal Year 2025--including the newly generated \$6.83 million and the carryover of \$1.68 million, but not counting the \$3.15 million in federal ARPA money--totals \$8.51 million. This amounts to 6.93% of the Fiscal Year 2025 general fund budget of \$122.8 million.

During the peak of the pandemic and its aftermath, budget estimating has been challenging since economic projections could not be easily based on prior year's performance. For the last several years, Northampton, like many municipalities in our Commonwealth, has used very cautious estimates, leading to unusually high amounts of free cash. In the Fiscal Year 2025

budget, the city has adopted a more aggressive strategy for its budget estimates, while still aiming to meet the 3% to 5% best practice target.

For more information, contact the Mayor's Office at 413-587-1249 or mayor@northamptonma.gov.