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To: Select Board, Finance Committee, SPS & LS School Committee & FY2028 Budget Working Group

Cc: Andrew Sheehan, Town Manager

Annette Doyle, SPS Superintendent and Andrew Stephens LS Superintendent

Department Heads

Re: Free Cash Certification

This memorandum summarizes the Town's FY2027 Free Cash certification and process, explains the factors that contributed to the Free Cash number, and identifies the one-time and variable items that should be considered when evaluating future Free Cash levels.

Massachusetts Free Cash Certification Process

Under the Massachusetts Department of Revenue's Division of Local Services (DLS), Free Cash is the portion of a municipality's General Fund balance that is available for appropriation after year-end financial activity and the required balance-sheet adjustments. DLS certifies Free Cash as of July 1, based on the municipality's June 30th balance sheet and supporting schedules submitted by the Town. It is not simply the amount of money left over in the General Fund bank account, nor is it simply the difference between budgeted revenues and expenditures.

In basic terms, DLS calculates Free Cash as follows:

Undesignated General Fund balance as of June 30
less: uncollected real and personal property taxes
less: overdrawn accounts and deficit balances
less: other amounts that must be reserved or are unavailable for appropriation
Adjusted by Deferred Revenue (Credit Balance+, Debit Balance-)
= Certified Free Cash

The undesignated General Fund balance is the result of the Town's actual financial activity at the end of the fiscal year. It increases when the Town receives more revenue than expected, spends less than budgeted, or has money returned from completed projects or appropriations. DLS then subtracts amounts that are not available to spend, such as unpaid property taxes, account deficits, and funds that must be set aside for future obligations. The remaining amount is Certified Free Cash.

The final FY2027 Free Cash certification is $9,985,147. This is $589,270, or approximately 6.3%, higher than the prior certified Free Cash balance of $9,395,877. The Town began FY2026 with $9,395,877 in certified Free Cash. At the 2026 Annual Town Meeting, the Town appropriated $7,039,379 of that balance for the purposes listed below, leaving $2,356,498 available from the prior certification.

Use of Certified Free Cash at 2026 ATM

2026 Town Meeting Appropriations	Amount
Snow deficit	$750,000
Capital articles	$4,789,379
Stabilization and Capital Stabilization Fund	$575,000
Other articles (Transportation and SHA)	$600,000
OPEB	$325,000
Total 2026 Town Meeting use	**$7,039,379**
Balance remaining from prior certified Free Cash	**$2,356,498**

The remaining Free Cash balance of $2,356,498 from the prior certification, together with the FY2026 year-end additions shown below, resulted in the final FY2027 Free Cash certification of $9,985,147.

FY2026 Year-End Financial Results

Free Cash Additions	Amount
Excess revenues FY2026	$4,530,632
Expenditure reversions FY2026	$1,384,147
Snow deficit adjustment	$169,713
Closed capital articles & appropriations & transfers in	$858,426
Deficit balance change from prior free cash certification	$449,224
Deferred Revenue Adjustment (from use of Overlay Balance)/Receivables	$236,507
Total Additions	**$7,628,649**
Final FY2027 Free Cash Certification	**$9,985,147**

Why Free Cash Was Higher Than Last Year

The increase in Free Cash reflects higher than expected general fund revenues, savings from unspent general funds expenditures, and money returned from completed capital projects and other appropriations, along with other year-end adjustments. Several of these items were one-time or unusually favorable and are not expected to occur at the same level every year.

The $1,384,147 in expenditure reversions reflects year-end savings across the FY2026 operating budget. Excluding the Reserve Fund, the Town expended approximately 99.1% of its operating budget, leaving a variance of less than 1%. This level of budget utilization demonstrates that actual expenditures were closely aligned with appropriations and that the Town's operating budget was developed and managed with a high degree of accuracy. Year-end expenditure variances are a normal component of municipal budgeting and can result from vacancies, operating efficiencies, benefit costs, and other expenditures that ultimately come in below budget.

The table below summarizes the FY2026 expenditure reversions. Most savings resulted from partial-year vacancies and related employee benefit savings, along with unused reserve and lower-than-budgeted insurance and assessment costs.

Category	Amount	Primary Source
Sudbury Public Schools	$1,223	Unspent appropriated funds at year-end.
Lincoln Sudbury Regional High School	$58,429	FY2026 assessment variance.
Vocational Schools	$270	Minimal year-end variance; a $48,000 Reserve Fund transfer addressed higher enrollment and transportation costs.
General Government	$53,183	Partial-year vacancies in the Town Manager and Planning offices.
Public Safety	$142,113	Partial-year Fire and Police vacancies.
Public Works	$170,346	Partial-year vacancies
Snow and Ice	($169,713)	Remaining FY2026 deficit carried forward for FY2027 tax-rate treatment.
Human Services	$50,656	Veterans' benefits below budget and partial-year vacancies.
Culture and Recreation	$57,265	Partial-year vacancies.
Reserve Fund	$252,000	Unused balance after a $48,000 transfer to vocational education.
Employee Benefits and Property Liability Insurance	$527,911	Vacancies and lower workers compensation premiums.
Town Wide Operating	$44	Unspent funds.
State and County Charges	$31,581	Lower-than-expected charter school assessment.
Debt	$208,839	Atkinson Pool: Debt service savings due to delayed borrowing associated with the phased project schedule.
Total Expenditure Reversions	**$1,384,147**	

Public Safety: In May 2025, the Fire Department had eight vacancies. Over the last year the Town has filled all eight positions, strengthening staffing and reducing the overtime associated with prolonged vacancies. One position has since become vacant through normal attrition and recruitment is underway.

Employee Benefits and Insurance: Vacancies reduce salary-related benefit costs, including health insurance, Medicare, dental, life insurance and other fringe benefits. Because Town budgets carry employee benefits for both Town and SPS School employees, SPS vacancies also produce savings in the Town benefit accounts. Workers' compensation premiums were also lower than budgeted because of favorable claims experience and a stronger Experience Modification Factor.

The Free Cash calculation also includes a $169,713 snow and ice deficit adjustment. The Town's total FY2026 snow and ice deficit was $919,713. At the 2026 Annual Town Meeting, the Town appropriated $750,000 to fund a portion of this deficit, leaving a remaining balance of $169,713. Under Massachusetts General Laws, Chapter 44, Section 31D, a municipality may incur expenditures above its snow and ice appropriation and raise any remaining deficit in the following year's tax rate. Accordingly, the remaining $169,713 will be raised on the FY2027 tax rate and is reflected as an adjustment against the Town's undesignated general fund balance as part of the Free Cash calculation.

There was $747,381 returned from closed capital articles and prior appropriations which also increased Free Cash. These balances were no longer needed because the related projects or purposes had been completed. Over the past two years, the Town has closed approximately $1.6 million in open appropriations and capital articles that were no longer required. This has been a valuable fiscal management effort, returning unneeded balances to the Town's available funds. However, these are one-time funds: once an article is closed and its remaining balance is returned, that amount will not be available again in future Free Cash calculations.

Excess Revenues and One-Time Items

FY2026 revenues performed above budget overall, with several local receipt categories exceeding projections. Actual revenues totaled $131.6 million compared with a final budget of $127.1 million, an overall favorable variance of approximately $4.53 million, or 3.6%. The most significant favorable variances were in Earnings on Investments, Motor Vehicle Excise Tax, Tax Liens and Deferrals, Penalties and Interest, and Licenses and Permits.

FY2026 General Fund Revenue Performance

Revenue Source	Budget FY2026	Actual Revenue	Over / (Under)	% of Budget
Real Estate & Personal Property	$112,699,454	$112,086,149	($613,305)	99.50%
Tax Liens & Deferrals	$0	$768,831	$768,831	—
Intergovernmental (State Aid)	$8,089,560	$8,071,734	($17,826)	99.80%
Motor Vehicle Excise Tax	$3,858,000	$5,293,015	$1,435,015	137.20%
Meals and Room Tax	$368,000	$522,962	$154,962	142.10%

Revenue Source	Budget FY2026	Actual Revenue	Over / (Under)	% of Budget
In Lieu of Taxes	$41,000	$43,891	$2,891	107.10%
MEDICAID Reimbursements	$98,251	$180,882	$82,631	184.10%
Penalties and Interest	$250,000	$854,117	$604,117	341.60%
Licenses and Permits	$801,000	$1,170,057	$369,057	146.10%
Fines and Forfeitures	$8,000	$19,411	$11,411	242.60%
Other Departmental Revenue	$595,000	$749,614	$154,614	126.00%
Earnings on Investments	$255,334	$1,833,567	$1,578,233	718.10%
TOTAL REVENUES	**$127,063,599**	**$131,594,231**	**$4,530,632**	**103.60%**

The FY2026 Budget to actual memorandum to the Select Board and Finance Committee dated August 5, 2026 reported a favorable revenue variance of $4,530,632. The table below separates the revenue sources that were specifically identified as one-time or non-recurring from those that may represent recurring revenue growth.

One-Time Sources Affecting Free Cash	Amount
Tax Title and Deferred Taxes principal collections	$768,831
Tax Title and Deferred Taxes interest collections (Penalties & Interest)	$537,368
Total specifically identified one-time revenue	**$1,306,199**
Closed capital articles & prior appropriations	$747,381
Reduction in Deferred Revenue/Receivables	$236,507
Deficit balance change prior certification	$449,224
Total one-time sources affecting Free Cash	**$2,739,311**

Within the $4,530,632 favorable revenue variance, $1,306,199 was specifically identified as one-time or non-recurring revenue. This consisted of $768,831 in Tax Title and Deferred Tax principal collections and $537,368 in related penalty and interest collections, including $488,868 from Tax Title interest and $48,500 from Deferred Tax interest. These collections were unusually high because several older Tax Title and Deferred Tax accounts were resolved during FY2026. The $768,831 in principal collections included the payoff of six Deferred Tax accounts and four Tax Title accounts dating back to 2008 and 2010.

Other One-Time Factors Affecting Free Cash

Other items affecting the FY2027 Free Cash calculation should also be viewed as nonrecurring or variable. The Town has carried a significant overlay balance and is committed to reducing it over the coming years.

The $236,507 reduction in Deferred Revenue/Receivables represent the use of this overlay balance in FY2026, which increased Free Cash in FY2026, but it is not a recurring source.

The adjustment for year-end deficit balances decreased from $737,062 in the prior Free Cash certification to $287,838 in the FY2027 certification. This favorable change of $449,224 reflects better year-end management of deficit balances, including timely reimbursement requests for special revenue accounts such as federal and state grants. While this is a positive result, deficit-balance adjustments can vary each year and should not be viewed as a recurring source of Free Cash.

Other Favorable Revenues

Several revenue categories performed above budget in FY2026. While these revenues are not considered entirely one-time, they may or may not continue at the same level in future years. The largest favorable variances included Motor Vehicle Excise Tax of $1,435,015, investment income of $1,578,233, licenses and permits of $369,057, meals and room taxes of $154,962, Medicaid reimbursements of $82,631, and other departmental revenue of $154,614.

The Town has made, and will continue to make, deliberate efforts to identify recurring local receipt growth and incorporate it responsibly into budget forecasts. Investment income benefited from favorable interest rates and the amount of General Fund cash available for investment. Motor Vehicle Excise Tax benefited from strong vehicle sales and higher vehicle values, while licenses and permits were supported by fee adjustments and continued building activity. Although these revenues may remain strong, they can change based on interest rates, economic conditions, development activity, vehicle values, and consumer behavior.

Revenue Capacity and FY2028 Planning

The analysis below separates one-time FY2026 revenues from recurring revenue growth already included in the FY2027 budget. It identifies the remaining revenue capacity that may be considered during the FY2028 budget process. This analysis is intended to support prudent revenue forecasting and does not recommend using all available capacity.

Revenue Category	Excess FY26 Revenue	FY26 One-Time	Increase FY27 Revenue	Available Revenue	Proposed Increase FY28	Revenue Remaining
Real Estate & Personal Property Taxes	($613,305)	-	-	($613,305)	-	($613,305)
Tax Liens & Deferrals	$768,831	$768,831	-	$0	-	$0
Intergovernmental (State Aid)	($17,826)	-	-	($17,826)	-	($17,826)
Motor Vehicle Excise Tax	$1,435,015	-	$642,000	$793,015	$350,000	$443,015
Meals and Room Tax	$154,962	-	$32,000	$122,962	$50,000	$72,962
In Lieu of Taxes	$2,891	-	-	$2,891	-	$2,891

Revenue Category	Excess FY26 Revenue	FY26 One-Time	Increase FY27 Revenue	Available Revenue	Proposed Increase FY28	Revenue Remaining
Medicaid Reimbursements	$82,631	-	$21,749	$60,882	-	$60,882
Penalties and Interest	$604,117	$537,368	$25,000	$41,749	-	$41,749
Licenses and Permits	$369,057	-	$13,000	$356,057	-	$356,057
Fines and Forfeitures	$11,411	-	-	$11,411	-	$11,411
Other Departmental Revenue	$154,614	-	($13,000)	$167,614	-	$167,614
Earnings on Investments	$1,578,233	-	$144,676	$1,433,557	$350,000	$1,083,557
Total	**$4,530,632**	**$1,306,199**	**$865,425**	**$2,359,008**	**$750,000**	**$1,609,008**

Approximately $1.31 million of the FY2026 favorable revenue variance resulted from one-time or non-recurring sources and should not be relied upon to support future operating budgets. The Town incorporated approximately $865,425 of recurring revenue growth into the FY2027 budget. After these adjustments, approximately $2.36 million of favorable revenue capacity remains, assuming FY2026 collection performance is sustained.

For FY2028 planning purposes, we are increasing recurring revenue estimates by $750,000. If adopted, approximately $1.61 million of favorable revenue capacity would remain. The proposed FY2028 increase is concentrated in Motor Vehicle Excise Tax, Meals and Room Tax, and earnings on investments, where collection trends support a measured adjustment.

This analysis assumes that revenues remain consistent with FY2026 levels. Changes in economic conditions, interest rates, development activity, vehicle values and sales, or other revenue sources could materially affect these projections. The remaining capacity should therefore not be viewed as available for full use in the operating budget.

The FY2027 and potential FY2028 revenue estimate increases will reduce the amount of excess revenue realized at year-end. Accordingly, the Town should not expect FY2026-level excess revenues to recur in future Free Cash calculations. As the Town more fully recognizes sustainable local receipts in its operating budget, the year-end revenue variance and the Free Cash generated from those revenues will naturally decline.

Financial Policy Considerations and Outlook

The Town's Financial Policies establish a target of maintaining a Free Cash balance equal to 3% to 5% of the annual operating budget. Based on the Town's current budget, this target equates to approximately $6.5 million. The FY2027 certified Free Cash balance of $9,985,147 is therefore approximately $3.4 million above the upper end of the policy target range.

This result should be viewed in the context of the factors that contributed to it. The one-time revenues identified in this memorandum, together with the local receipt growth incorporated into the FY2027 budget and proposed for FY2028, total approximately $4.35 million. As the Town includes more sustainable local receipts in its operating budget, there will be less excess revenue available to contribute to Free Cash at year-end. Future Free Cash levels will also depend on actual year-end operating results, unspent appropriations, and other year-end adjustments that cannot be predicted with certainty.

Accordingly, while the current certification is strong, the Town could fall below its Free Cash target range in future years as these favorable and one-time factors are reduced or no longer available. This is particularly important because the Town continues to rely on Free Cash to support capital projects, address snow and ice deficits, and make contributions to financial reserves. Although reserve balances are currently at, or slightly above, their policy targets, the Town's reliance on Free Cash for capital projects has not declined and has, in fact, increased. Maintaining a disciplined approach to the use of Free Cash will remain important to protect the Town's long-term financial position.