MEMORANDUM

To: School Committee, Select Board, Town Administrator, Department Heads

From: Stephen Callahan, Chair, Warrant Committee

Date: January 8, 2026

Subject: Rationale for Using Free Cash for One-Time Expenditures

Purpose

This memo outlines the financial rationale behind the Town of Medfield's financial policy—jointly endorsed by the Warrant Committee and the Select Board—that Free Cash should be used for one-time expenditures and not to balance the operating budget. This policy is a cornerstone of Medfield's fiscal discipline, long-term stability, and commitment to transparent financial management.

Summary of Position

Free Cash is an inherently volatile, non-recurring revenue source. Using it to support recurring operating expenses creates structural deficits, erodes financial flexibility, and exposes the Town to unnecessary risk. Conversely, using Free Cash for one-time, non-recurring purposes strengthens the Town's financial position, supports capital needs, and preserves long-term budgetary stability.

Why Free Cash Should Not Be Used to Balance the Operating Budget

1. Free Cash Is Not Predictable or Guaranteed

- Free Cash fluctuates year to year based on factors outside the Town's control—turnbacks, revenue variances, and timing issues.
- Because it is not a stable revenue stream, relying on it to fund recurring operating costs creates built-in uncertainty in future budgets.
- A single year of lower Free Cash could force mid-year cuts, emergency overrides, or reductions in essential services.

2. Using Free Cash for Operations Creates Structural Deficits

- Operating budgets require recurring, sustainable revenue.
- When Free Cash is used to plug operating gaps, ***the Town must replace that funding every subsequent year—effectively creating a permanent hole in the budget***.
- This practice shifts the Town toward a cycle of short-term fixes rather than long-term planning.

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3. **It Undermines the Town's Financial Credibility**

- Bond rating agencies explicitly warn against using one-time revenues for recurring expenses.
- Such practices are viewed as signs of fiscal stress and can negatively affect the Town's credit rating, increasing borrowing costs for years.
- Maintaining disciplined use of Free Cash signals strong governance and financial stewardship.

4. **It Reduces Transparency and Public Trust**

- Residents expect the operating budget to reflect the true, recurring cost of services.
- Using Free Cash to balance operations obscures the actual cost structure and can mask underlying budget pressures.
- Transparent budgeting builds confidence and supports informed decision-making.

Why Free Cash Should Be Used for One-Time Expenditures

5. **Aligns with Best Practices in Municipal Finance**

- The Massachusetts Department of Revenue and the Government Finance Officers Association (GFOA) both recommend using one-time revenues for one-time purposes.
- This approach avoids structural deficits and supports long-term financial health.

6. **Supports Capital Investments Without Increasing Debt**

- Free Cash is well-suited for capital purchases, infrastructure maintenance, and equipment replacement.
- Using Free Cash for these purposes reduces the need for borrowing, lowers interest costs, and preserves debt capacity for major future projects.

7. **Strengthens Reserves and Financial Flexibility**

- Free Cash can be used to bolster the Town's stabilization funds, OPEB trust, capital items, and other reserves.
- Strong reserves protect the Town during economic downturns, emergencies, or unexpected revenue shortfalls.

8. **Allows Strategic, Planned Investments**

- One-time funds can be directed toward initiatives that improve efficiency, reduce long-term costs, or address deferred maintenance.
- This supports responsible stewardship of Town assets and infrastructure.

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Conclusion

The Town's policy of prohibiting the use of Free Cash to balance the operating budget is a prudent, disciplined, and fiscally responsible practice. It protects Medfield from structural deficits, preserves financial stability, and aligns with state and national best practices. At the same time, using Free Cash for one-time, non-recurring expenditures allows the Town to invest strategically in capital needs, maintain strong reserves, and support long-term financial sustainability.

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Discussion of Operating Budget Override Article

Warrant Committee

January 13, 2026