

Closing the “Free Cash Loophole” with Fiscal Transparency

Imagine this scenario: Every time you buy groceries in Truro, the cashier adds a \$7 “convenience fee”—only to hand you a \$7 gift card for that new candy display by the register. You didn’t win anything; you were simply overcharged, and now you’re subtly pressured to spend your own money separate from your normal budgeting process. Imagine if this happened so often that you had to increase your budget to account for it—especially if it ended up being 7% of your actual spending. For a \$100,000 household budget, that is \$7,000 of unanticipated spending. If the grocery store stopped this process, your household budget would be \$93,000.

This is, in essence, the cycle of Truro’s so-called “Free Cash.”

What is Free Cash?

Free cash represents the unexpended funds and actual revenue collected in excess of estimates from the previous fiscal year. Essentially, it is the "surplus" left over after all town departments have closed their books and the state’s Department of Revenue has certified the amount. Because these funds are one-time in nature and not a recurring revenue source, they are typically used to fund capital projects, replenish reserve funds, or reduce the tax rate, rather than covering the Town's daily operating expenses.

The Gold Standard vs. The Truro Standard

The Massachusetts Division of Local Services (DLS) recommends a Free Cash balance of 5% to 7%. In Truro’s January 2024 Financial Management Review, the state was clear:

“Our general policy recommendation is that the town maintain between three to eight percent... Truro’s certified free cash has averaged about 13%... over the last 10 years.”

While neighboring towns like Provincetown (3 to 5%) and Wellfleet (4.5% minimum) align with state guidelines, Truro operates under a 16-year-old Select Board Policy 42. This policy commits the Town to a so-called "conservative approach," intentionally targeting a massive 10% to 15% certified Free Cash balance. In other words, our Select Board has an x-large piggy bank filled with money from taxpayers in the year or two before. That piggy bank is twice the size the state recommends.

According to our Finance Director, at the 4/17/2026 FinCom meeting, this year we have accumulated \$5.2 million in certified Free Cash.¹

Free Cash at 18.8% is too much! The piggy bank is now triple in size!

¹ \$5.2 million = unused from last year \$1.4 million + unspent expense budgets \$2.2 million + extra Local Receipts \$1.1 million + improvements in Receivable processing \$0.5 million (my estimate).

Opinion: A Policy-Driven Surplus, Not a Fiscal Accident

It is important to be clear: The Town is not acting outside the law. Every financial move is strictly aligned with the language of **Policy 42** and the limits of Massachusetts General Law. Furthermore, the resulting expenditures have been approved by voters at the Annual Town Meeting. The Town is simply following the roadmap the Select Board created.

However, we must distinguish between a **Bylaw** and a **Policy**. While a Bylaw is a law voted on by the citizens, a Policy is a set of "managerial house rules" adopted by the Select Board. Because the Board controls the policy, they have the power to change or retire it at any time without a town-wide vote.

The \$16.6 Million Result

The extraordinary levels of Free Cash we see today are a deliberate outcome, not a mathematical error, or "conservative" budgeting. Between FY2009 and FY2026, this specific strategy generated **\$16.6 million** in certifications over and above the standard 8% upper limit recommended by many financial experts. These balances are not a "windfall" or a lucky break, they are the direct, mechanical result of a choice made nearly two decades ago. (See Appendix A for the data). And we are now averaging over \$2 million above the upper 8% standard limit.

A Policy for a Different Era

To understand our current budget, we must look back to 2009. At that time, Truro was in a defensive crouch. The world was reeling from the Great Recession, state aid was being slashed, and property values were plummeting. Building a "fiscal fortress" was a necessary emergency measure, and the Select Board and Finance Committee of that era deserve credit for their foresight.

The Need to Return to Neutral

The problem is that while the world has moved on, our now obsolete policy has not. We are no longer in the crisis of 2009, yet we are still operating under emergency protocols.

A state of emergency does not last forever. This one in 2009 was over in a few years. Now 15 or so years after the crisis was over, it's way past time to return to a "neutral" position and operate Truro according to best practices and state guidelines.

The "Fortress" vs. The "Shadow Budget"

What was once a prudent safety net has evolved into a *Shadow Budget* (I call this a *Shadow Budget* not because it is hidden—it is public record—but because it functions parallel to our operating budget with far less procedural friction). By continuing to use 2009-emergency-era budgeting in 2026, the Town creates a secondary pot of money—Free Cash—that is played under looser rules. It is these loose rules that are my focus.

In a normal operating budget, every dollar is debated line-by-line, and expenditures are prioritized to achieve the best results. However, because Free Cash *feels* like "found money," it allows the Town to fund non-priority items with less scrutiny and a simple majority vote. This cycle effectively keeps our property taxes at the Maximum Levy Limit (as high as they can be legally) indefinitely, even when the Town is flush with our cash.

This Theory of Human Behavior toward found money is not my theory. Nobel Prize-winning economist Richard Thaler and Eric Johnson (1990) describe the "House Money Effect," which shows that people become significantly more willing to take risks or spend money when they perceive it as "found" or unearned (such as casino winnings, or "house money"). For example, people spend tax refunds quickly while saving the same amount of earned income.

The Path Forward: Restoring the Balance

Recognizing that a policy has outlived its usefulness is not an attack on the people who wrote it; it is a sign of a healthy government. But, we must move from "Crisis Mode" to "Transparency Mode":

1. Modernize Policy 42: We should honor the spirit of 2009 by keeping a healthy 8% reserve for emergencies, but we must stop intentional over-collection beyond that. The 10% to 15% levels are excessive, given the taxpayer is already at the Levy Limit and significant Debt Overrides that will have an impact for the next 20 to 30 years are on our horizon.

2. Move the Surplus to the "Vault": Adopt a more restrictive use of the Free Cash. The Town should not, unless under extreme financial duress, utilize certified Free Cash to fund anything other than the following:

- Non-Recurring **Emergency** Expenses
- Stabilization Funds
- OPEB (Other Post-Employment Benefits) Liability Reduction
- Adopted Capital Improvement Projects: A REAL capital plan needs to drive this. This 5-year rolling capital plan must include financial planning of this Fund. Living within an agreed-upon budget is key.
- Reducing the Next Year Tax Levy

3. Excess Reserve Management: Post-FY2028, any Certified Free Cash exceeding the 8% threshold must be restricted to two specific purposes: **Tax Rate Stabilization** or **Debt Retirement**. Prioritizing an aggressive pay-down of existing debt is the preferred use of these funds, as it provides the greatest long-term relief to Truro taxpayers.

By returning Policy 42 to its "neutral" position, we aren't making Truro less safe; we are making it more honest and transparent. We are ensuring that the tax rate reflects the actual cost of running Truro today, not the fears of 2009. The Taxpayer may end up paying the same, but it will be more transparent.

- Mike Forgione

Appendix A – Table of Free Cash vs Budget by Year for Past 18 Years

Fiscal Year	(A) Certified Free Cash	Prior Year Budget	Actual %	(B) DLS (8% Best in Class)	Difference (A-B)
2026	\$5,215,591	\$32,720,693	15.94%	\$2,617,655	\$2,597,936
2025	\$4,061,343	\$29,908,458	13.58%	\$2,392,677	\$1,668,666
2024	\$3,847,838	\$26,563,253	14.49%	\$2,125,060	\$1,722,778
2023	\$4,435,890	\$23,977,696	18.50%	\$1,918,216	\$2,517,674
2022	\$4,154,573	\$22,160,522	18.75%	\$1,772,842	\$2,381,731
2021	\$2,777,644	\$21,847,675	12.71%	\$1,747,814	\$1,029,830
2020	\$2,065,389	\$21,464,529	9.62%	\$1,717,162	\$348,227
2019	\$2,235,090	\$20,433,030	10.94%	\$1,634,642	\$600,448
2018	\$2,230,946	\$20,040,232	11.13%	\$1,603,219	\$627,727
2017	\$1,889,846	\$19,102,232	9.89%	\$1,528,179	\$361,667
2016	\$2,287,758	\$18,803,661	12.17%	\$1,504,293	\$783,465
2015	\$2,279,775	\$17,620,411	12.94%	\$1,409,633	\$870,142
2014	\$2,497,547	\$16,511,825	15.13%	\$1,320,946	\$1,176,601
2013	\$1,693,870	\$16,326,677	10.37%	\$1,306,134	\$387,736
2012	\$1,022,932	\$16,334,523	6.26%	\$1,306,762	(\$283,830)
2011	\$1,204,560	\$16,162,075	7.45%	\$1,292,966	(\$88,406)
2010	\$1,260,679	\$15,344,220	8.22%	\$1,227,538	\$33,141
2009	\$997,736	\$14,213,841	7.02%	\$1,137,107	(\$139,371)
				Total	\$16,596,163

18 Years totaling \$16,596,163 = \$922,009 per year average.

In first 5 years it totaled -\$90,730 = -\$18,146 per year average.

In last 5 years it totaled \$10,888,785 = \$2,177,757 per year average.