

## Appendix E

### Unused Levy Capacity

Excess levy capacity is a potential municipal reserve that arises out of the operation of Proposition 2 1/2. It is the difference between the maximum tax revenue a municipality is permitted to raise under Proposition 2 1/2 rules (levy limit) and the tax revenue actually raised (levy). If a city or town creates excess levy capacity, it can in subsequent years build the reserve by again taxing less than the levy limit or tap into this taxing capacity to finance municipal spending without restriction.

	2016	2017	2018	2019	2020
Unused Levy Capacity	\$2,793,322	\$845,439	\$1,554,720	\$2,507,903	\$3,118,857

### Free Cash

Free cash is a revenue source that results from the calculation, as of July 1, of a municipality's remaining, unrestricted funds from operations of the previous fiscal year, based on the balance sheet as of June 30. It typically includes actual receipts in excess of revenue estimates and unspent amounts in departmental budget line-items for the year just ending, plus unexpended free cash from the previous year. Free cash is offset by property tax receivables and certain deficits; as result, it can be a negative number. Free cash plays a role in sustaining a strong credit rating, and the DOR encourages the adoption of policies on its use. Under sound financial policies, a community would strive to generate free cash in an amount equal to 3% to 5% of its annual budget. As a non-recurring revenue source, a prudent use of free cash is to fund one-time expenditures, capital expenditures, or replenish other reserves, according to DOR. Free cash is not available for use until a balance sheet for the prior year is submitted by the accountant, auditor or comptroller and free cash is certified by the Department of Revenue. The use of free cash requires an appropriation approved by the city council on recommendation of the mayor, or the town council or town meeting, but only after it is certified by the DOR. Free cash is "a necessary component of sound fiscal management" and "one indicator of fiscal health" that can positively affect bond ratings and reduce borrowing costs, according to the Division of Local Services.

	2016	2017	2018	2019	2020
Certified Free Cash	\$6,642,219	\$6,215,883	\$9,593,671	\$10,334,761	\$9,655,001