CITY OF SPRINGFIELD, MASSACHUSETTS MULTI-YEAR FINANCIAL PLAN

FISCAL YEARS
2019-2022

PREPARED BY:
CITY OF SPRINGFIELD, MASSACHUSETTS
OFFICE OF MANAGEMENT AND BUDGET

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March 30, 2018

Honorable Mayor Domenic J. Sarno, Members of the City Council, and Springfield Residents:

I am pleased to present to you Springfield's Multi-Year Financial Plan (MYFP) for Fiscal Years 2019-2022. In compliance with City ordinance, the MYFP is meant to highlight projected revenue and expenditures for the next four years using conservative assumptions. This plan serves as a vital tool that allows the City to see the long term impact of its financial decisions and avoid future fiscal stress.

As the City's Chief Administrative and Financial Officer, it is critical for me that we make strategic and appropriate budgetary decisions that provide core services to our residents while maintaining fiscal sustainability. I am proud of the fact that through strategic planning, the City has successfully balanced the budget each year since the disbandment of the Financial Control Board in 2009, and notably, for the past three years, the City has balanced the budget without using any stabilization reserves. Currently, our reserves equal $44.5 million with a goal to grow this further by transferring free cash to reserves.

We continue to manage both our revenue and expense budgets to generate free cash. This is highlighted by the fact that we by ended FY17 with a $6.4 million surplus. Furthermore, we continue to maintain the discipline that is essential to the City's overall fiscal health and which has prompted Standard and Poor's to maintain our AA- bond rating and encouraged Moody's to reaffirm our A2 rating.

Multi-Year Financial Summary

Based on conservative assumptions, the City is projecting to have budgetary deficits ranging from $12.8 million in FY19 and growing to $41.8 million in FY22.

	FISCAL 2017 ACTUALS	FISCAL 2018 ADOPTED	FISCAL 2019 PROJECTED	FISCAL 2020 PROJECTED	FISCAL 2021 PROJECTED	FISCAL 2022 PROJECTED
Expense	610,752,479	628,819,202	661,289,366	684,646,220	708,594,073	734,081,161
Revenue	617,536,597	628,819,202	648,512,669	662,541,179	677,025,329	692,279,829
SURPLUS / (GAP)	**6,784,119**	**0**	**(12,776,696)**	**(22,105,041)**	**(31,568,744)**	**(41,801,332)**

Even with anticipated MGM revenue starting in FY19, spending growth is projected to outpace revenue growth by an average of 4% each year. This forces the City to continue making difficult decisions and tough compromises in upcoming fiscal years.

Fiscal Challenges

Meeting the demands of an urban City with limited revenue is always a challenge; specifically when over 54% of the City's budget is a direct pass-through of State Aid to the School Department. The remaining City budget relies heavily on property tax revenue, however, Proposition 2 ½ sets strict limitations to the amount that we can levy each year. In 2009, Springfield's property values declined $1 billion which severely dropped our levy ceiling; which is the maximum amount that we can levy in property taxes. Despite property values having increased, Springfield remains at its levy ceiling resulting in a loss of millions of dollars in new growth revenue. From FY12-FY18 alone, the City lost approximately $40 million in property tax revenue due to these levy limitations. We will continue seeking a legislative solution to grab new growth revenue in upcoming fiscal years.

Another challenge the City faces is a continual rise in operating costs. Non-discretionary spending totals 80% of the City's overall budget and includes school spending, debt service, health insurance, and contribution retirement pension. We are committed to addressing Springfield's low pension fund ratio by adhering to an aggressive payment schedule which increased the FY18 appropriation by 14% and will increase by another 14% in FY19, with annual increases of 8% starting in FY20. As long as this payment schedule is maintained, Springfield's pension fund will be fully funded by FY34. We are currently updating our actuarial evaluation which may change the current funding schedule.

Regardless of these fiscal challenges, the City is dedicated to maintaining core services for our residents by using a balanced approach that relies heavily on spending reductions and revenue maximization with the intention of providing vital programs and services to the City without implementing any layoffs.

Budget Priorities

The City will continue making strategic investments in public safety to combat the public perception of crime. In FY18, Springfield anticipates thirty (30) Police recruits to enter the academy in spring to stay ahead of attrition. In an effort to maintain a healthy balance of veteran and newly trained officers, the City is strategic in planning more frequent police academies. The City also plans to continue funding the successful North End Initiative, four C-3 Policing Units, Ordinance Squad, and the new Metro Policing Unit in Downtown Springfield. These initiatives are highly effective in crime reduction, as evidenced by FBI crime statistics which demonstrate a 45% decline in violent crime over the past 5 years. Investing in the Springfield Police Department will ensure it is operating at its full capacity, in order to improve residents' and visitors' perceptions of safety in downtown areas, while continuing the concentration on quality neighborhood policing.

Additional investments will be made on improving the quality of life in our neighborhoods. We will continue funding for the care and maintenance of all City parks, traffic islands and terraces. Funding will also be provided to maintain the three additional Code Inspectors added in FY17 and the increased hours for all inspectors to accommodate the demands of large-scale commercial projects. In FY18, solid waste vehicles were purchased to replace aging vehicles which will help to maintain our curbside trash pickup services. Free single-stream recycling and yard waste pickup will still be available along with low-cost bulk pickup, and free hazardous waste drop-off. The City is also reviewing budget requests for a Downtown Cleaning Crew in anticipation of MGM's opening and a new sidewalk crew to address the long list of much needed sidewalk repairs and replacements.

Conclusion

This plan is meant to provide an honest outlook of the City's finances and the struggles we are facing. Despite the projected deficits summarized in this plan, the City has faced similar budget gaps in the past and has been able to successfully balance the budget each year with little to no use in reserves. It is important to all of us that we do what is necessary so that tax payer dollars are spent in a manner that is most efficient, effective, and legal and I take my role in this very seriously.

I look forward to working with you on the FY19 budget planning process and I am open to all ideas that will positively benefit our City.

Sincerely,

Timothy J. Plante,
Chief Administrative and Financial Officer

Financial Forecast (FY19-FY22)

	FISCAL 2017 ACTUALS	FISCAL 2018 ADOPTED	FISCAL 2019 PROJECTED	FISCAL 2020 PROJECTED	FISCAL 2021 PROJECTED	FISCAL 2022 PROJECTED
SPENDING ASSUMPTIONS						
Administration and Finance Division	10,545,489	11,908,301	16,094,500	16,416,390	16,744,717	17,853,127
Development Division	3,514,947	3,885,720	3,963,434	4,042,703	4,123,557	4,206,028
General Government Division	4,522,966	3,447,470	3,766,419	3,591,748	3,663,583	3,736,854
Non-Mayoral Division	1,388,662	1,499,114	1,529,096	1,559,678	1,590,871	1,622,689
Health and Human Services Division	9,302,030	10,332,035	10,538,676	10,749,450	10,964,439	11,183,727
Public Safety Division	64,754,674	68,148,440	71,801,428	73,237,456	74,702,205	76,196,249
Public Works Division	10,189,517	14,007,735	14,287,890	14,573,648	14,865,121	15,162,423
Parks & Facilities Division	10,717,404	11,442,123	11,670,965	11,904,385	12,142,472	12,385,322
School Department*	397,921,621	406,045,030	418,952,327	435,085,129	451,900,137	469,430,632
Debt	33,540,753	27,984,872	29,069,827	28,100,390	26,261,702	23,914,490
Health Insurance & Fringe	26,144,263	28,356,682	30,613,231	33,062,851	35,722,279	38,609,704
Pensions**	30,303,852	34,599,740	39,424,199	42,566,990	45,961,204	49,626,955
Other Spending	7,906,300	7,161,940	9,577,373	9,755,404	9,951,786	10,152,961
Total	**610,752,479**	**628,819,202**	**661,289,366**	**684,646,220**	**708,594,073**	**734,081,161**
REVENUE ASSUMPTIONS						
Property Taxes	184,929,137	196,720,757	200,789,681	205,871,923	211,081,221	216,420,753
Local Receipts	49,484,750	45,123,748	42,154,296	42,154,296	42,154,296	42,154,297
State Aid	374,392,096	378,974,697	389,539,858	398,076,126	407,350,977	417,265,945
Reserves	1,730,615	-	-	-	-	-
Other Financing Sources	-	-	-	-	-	-
Casino Revenue	7,000,000	8,000,000	16,028,834	16,438,834	16,438,834	16,438,834
Total	**617,536,597**	**628,819,202**	**648,512,669**	**662,541,179**	**677,025,329**	**692,279,829**
SURPLUS / (GAP)	**6,784,119**	**0**	**(12,776,696)**	**(22,105,041)**	**(31,568,744)**	**(41,801,332)**

**Includes School Department admin pension appropriation.*
***Pension appropration for City non-school retirement.*

Summary

The City of Springfield is governed by strict financial policies adopted as ordinances in September 2009 which dictate the Chief Administrative Financial Officer (CAFO) produce and issue a four-year financial plan by March 30th of each year. The purpose of this plan is to provide reasonable revenue and expenditure estimates that the City will experience in upcoming fiscal years (FY). This serves as a vital tool for the City as a way to see the long term impact of its financial decisions while maintaining fiscal sustainability.

This Multi-Year Financial Plan (MYFP) shows the actual expenses and revenues for FY17, the adopted budget for FY18, and the projected budgets for FY19 through FY22. The projected budgets were created by using appropriate and conservative assumptions for revenues and expenses including:

- 14% increase in FY19 scheduled pension payment and 8% from FY20-FY22.
- 8.7% increase in health insurance and adherence to the City's debt schedule.
- 3% increase in Chapter 70 and level Non-School State Aid.
- 2.5% increase in property tax revenue.
- No use of one-time resources / reserves.
- Departmental spending growth ranging up to 2%.
- Level local receipts with reduction in one-time revenue built into the FY18 budget.

As demonstrated in this plan, Springfield's operating costs are projected to outpace revenue by an average of 4% each fiscal year. Operational costs include legal and contractual obligations, employee salaries and benefits including our pension obligation, and city-wide fixed expenses. With limited amounts in State Aid and property taxes, the City is unable to generate all of the revenue needed to fully support the operational costs desired. Even with the introduction of MGM Casino revenue in FY19, as outlined in the Host Community Agreement, the City still faces projected deficits ranging from $12.8 million in FY19 and growing to $41.8 million in FY22.

With growing expenses and limited revenue sources, the City is faced with making difficult budgetary decisions to maintain City operations. It is important to note that over 80% of the City budget is non-discretionary, meaning the costs are mandated by law or ordinance. This means that approximately 20% of the entire City budget must assume all of the reductions required to balance the budget. This forces the City to develop creative solutions in an effort to cut costs in an efficient manner.

Revenue Assumptions

The State Aid projections used in this plan are based on Governor Baker's FY19 proposed budget which was released on January 24, 2018.

Chapter 70

The City's largest source revenue is State Aid from Chapter 70 funds, which is devoted exclusively to education. Created from the Education Reform Act of 1993, the Commonwealth determines every municipality's required local contribution. A municipality's local contribution, combined with its Chapter 70 Aid, equals the school district's net school spending requirement, the minimum the district must spend on education each fiscal year. The projection assumes a 2.7% increase in FY19 consistent with the Governor's budget and a 3% increase in the remaining years of the plan based on pupil estimates.

Charter School Tuition Reimbursements

The Commonwealth has committed to providing assistance to municipalities whose resident students attend charter schools. Sending districts shall be reimbursed a portion of the costs associated with students attending charter schools; 100% of the tuition for the first year, and 25% for each of the next five years. Unfortunately, the Commonwealth has not fully lived up to its commitment causing the City to assume a large portion of the actual cost. The projection assumes a $252.8 thousand reduction in Charter School reimbursements based on enrollment information for FY19. The remaining years of the projection assume an annual 25% decrease.

Unrestricted General Government Aid (UGGA)

Unrestricted General Government Aid is undedicated revenue provided by the State for municipal services. The Governor's budget includes an allocation of $39.1 million, an increase of 3.5%, and future years are projected to be level.

Other State Aid

The following are the assumptions for the other State Aid categories Springfield receives:

- Veterans' Benefits - The City receives a 75% reimbursement on all eligible spending towards veterans' financial, medical and burial benefits. The projection assumes the Governor's FY19 budget recommendation for Veterans' Benefits.
- Tax Exemptions - Chapter 59 of Massachusetts General Laws set a series of exemptions for Veterans and their surviving spouses, persons over 70 years old and legally blind persons. Those who meet the requirements as stated by Chapter 59 receive exemptions from their property taxes, ranging from $175 to $500. The State reimburses municipalities for these exemptions. The projection assumes the Governor's FY19 budget recommendation for tax exemptions.
- The State reimburses municipalities for a portion of the taxes lost on state owned land. The projection assumes the Governor's FY19 budget recommendation for PILOT payments.

Property Taxes

The Commonwealth of Massachusetts is unique in that it limits property tax assessments levied by its municipalities. Under Proposition 2 ½, Springfield cannot tax higher than 2.5% of the total and full cash value of all taxable property. This is known as the levy ceiling. Under the statute, the maximum amount that a municipality can levy in property taxes each year is referred to as the levy limit. The levy limit can only be increased in three ways; 2.5% increase over the prior year levy limit, new growth in the tax base, or a voter override. The levy limit must always be below or the same as the levy ceiling.

A side effect of Proposition 2 ½ is it severely limits the revenue a municipality can collect when property values decline. Since FY09, Springfield experienced over $1.0 billion in declining property values which drastically reduced our levy ceiling. Although estimates from the City's Board of Assessors indicate property values are finally increasing, the levy ceiling remains significantly low causing the City to not fully capture its levy capacity. From FY12 through FY18, the City of Springfield lost over $39.5 million in property tax revenue due to these levy limitations.

Springfield, for some time, was the only community in the Commonwealth that was having this experience; however other communities have hit, or are close to hitting their ceiling and will soon face the same issues. Without being able to grow local revenues and without increases in State Aid, non-discretionary costs are crowding out all other budgetary needs and impacting the City's ability to provide core services. Although some new growth is anticipated in coming years, this MYFP takes a conservative measure by not building it into the revenue projections. The City will continue seeking legislative solutions to help capture new growth revenue in future fiscal years.

Local Receipts

In general, the forecast for Local Receipts does not substantially change on an annual basis unless it is affected by a legal change such as a fee or fine increase. This includes motor vehicle excise, rooms occupancy tax, fees and fines, interest income and license and permit revenue among others.

PILOT

The Payments in Lieu of Taxes (PILOT) revenue assumes a gradual decline based on the agreements in place and their expiration dates. Some agreements may be renewed which would positively impact revenue collections. As these PILOT agreements expire, the City should see the tax revenue proportionally increase as these entities cycle back onto the tax rolls.

Reserves

For the purposes of the initial forecast, it is assumed that no funding from one-time revenues (reserves and overlay) will be used. The City will be strategic when deciding to use reserves or one time revenue to balance the budget and wants to avoid jeopardizing its bond rating.

Spending Assumptions

Overall, the projection represents level service funding for the entire forecast period. Even with this assumption, there are still areas of the budget that continue to grow and must be accommodated with the revenue available. The following are the assumptions for spending in the large categories of the City's budget:

City Departments

The projection assumes a 0-2% increase for all City Departments which encompasses cost of living increases for non-bargaining employees, settled collective bargaining contracts, and those currently being negotiated.

School Department

The School Department projection is based on a projected enrollment increase and the required funding rate per student, set out by the Commonwealth's calculation for "Net School Spending (NSS)". This is the required amount of annual spending on schools that the Chapter 70 formula dictates, and is a combination of state aid for schools and the district's required contribution.

The current projection assumes a 2.8% increase for FY19 and 3.5% thereafter, with approximately 80% of the School Department spending increase being offset by State Aid. The difference will be a direct cost to the city. In addition to the City's contribution to meet NSS, it also is responsible for non-NSS costs such as transportation, leases and adult basic education (ABE), and must be funded by the City without any support from State Aid. Transportation costs alone are projected to increase 8% in FY19, and the costs are highly dependent on the amount and operation of local charter schools.

Debt Service

The City's debt service projection uses the current debt schedule, which accounts for the City's most recent sale of Bonds and BANs. The current schedule is designed to have the debt service decline over the next several years. However, it is hoped that by maintaining a level debt service payment, the City can make some investment in its capital needs, as spelled out in the Capital Improvement Plan.

Health Insurance

The City has annually saved millions by receiving its health insurance through the Group Insurance Commission (GIC). Nonetheless, in FY16 the Commission estimated a deficit between $165 million and $190 million and a 7% increase in the average premium for FY17. This financial forecast assumes an overall increase of expenditures of 8.7% associated with this projection. Despite these projected increases, the Governor's FY19 proposed budget level funds health insurance which, if passed, will be reflected on the City's finalized budget. The City's contract with the GIC does not allow the City to opt out until the following October, therefore the City must bear these increases this fiscal year. Depending on the size of the increases in both premiums and deductibles, the City will look at all its options for health insurance next year.

Retirement

The City's municipal pension remains one of the lowest funded in the Commonwealth; with a funding ratio of 26.2% and an unfunded liability totaling $827.4 million. Poor market and economic conditions are contributing factors that led to Springfield's low pension fund. Pension funds heavily rely on growth of approximately 7.5% a year from investments, any return lower than this would have adverse effects on the unfunded liability amount. In 2008, the fund reported losing 28% of its value due to the stock market crash of that year. Although the market has since rebounded, limited revenue sources have made it challenging to contend with higher pension payments.

To address this issue, the City deliberately lowered its rate of return to reflect market rates and assumed an aggressive payment schedule with the goal to be fully funded by FY34. The payment projections on this plan are based on the City's most recent pension funding schedule which accounts for a 14% increase over the FY18 payment for FY19. Beginning in FY20, the payment increases will be adjusted to 8% and will remain that way until FY34. Developing this aggressive payment schedule certainly addresses the City's low pension problem; however, it comes with concerning fiscal challenges.

The FY19 pension appropriation is $65.7 million which is divided amongst three separate entities; the City of Springfield, Springfield Housing Authority, and the Springfield Water and Sewer Commission. Given that pension is currently the third largest expense in the City, significant increases in annual payments will likely have an impact on City services if alternative revenue sources are not actualized. To avoid future risk, the City will continue to reevaluate its pension funding schedule every two years when the actuarial evaluation is updated.

Conclusion

Based on these assumptions, it is clear that spending growth will continue to outpace revenue growth for the coming years forcing the City to develop creative solutions. It is important to keep in mind that the revenue assumptions in this document are conservative and will be updated as more information becomes available concerning property values or other revenue opportunities. In future years, we look towards the spin off effect of all the City's economic development projects, as this will continue to grow our tax base and generate new growth, allowing the City more financial flexibility.

Despite the projected budget gaps in coming fiscal years, the City has overcome similar deficits in the past. We have successfully balanced and maintained the City's annual budget by making strategic and compassionate decisions that align with the City's top policy priorities. This approach will not change, and we will continue to make thoughtful, sustainable financial decisions that are in the best interest of the City's taxpayers.