CITY OF SPRINGFIELD, MASSACHUSETTS
MULTI-YEAR FINANCIAL PLAN

FISCAL YEARS

2020-2023

PREPARED BY:

CITY OF SPRINGFIELD, MASSACHUSETTS

OFFICE OF MANAGEMENT AND BUDGET

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February 5, 2019

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

I am pleased to present to you the City of Springfield's Multi-Year Financial Plan ("MYFP") for Fiscal Years 2020-2023. 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 four years, the City has balanced the budget without using any stabilization reserves. Currently, our reserves equal $47.8M with a goal to grow this number by transferring free cash to reserves each fiscal year.

We continue to manage both our revenue and expense budgets to generate free cash. This is highlighted by the fact that we ended FY18 with a $7.4M surplus. Furthermore, we continue to maintain the discipline that is essential to the City's overall fiscal health, 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 $18.4M in FY20 and growing to $52.8M in FY23.

	FISCAL 2019 ADOPTED	FISCAL 2020 PROJECTED	FISCAL 2021 PROJECTED	FISCAL 2022 PROJECTED	FISCAL 2023 PROJECTED
Expense	656,191,375	699,271,847	723,819,138	752,245,087	779,866,568
Revenue	656,191,375	680,839,523	694,667,420	709,532,258	727,106,406
SURPLUS / (GAP)	**0**	**(18,432,325)**	**(29,151,718)**	**(42,712,830)**	**(52,760,162)**

Even with annual MGM revenue that the City began receiving in FY19, spending growth is projected to outpace revenue growth during the four year period highlighted in this plan. This forces the City to continue making difficult decisions and tough compromises in upcoming fiscal years in order to strategically manage our spending growth while still maintaining core services for our residents.

Fiscal Challenges
Meeting the demands of an urban City with limited revenue is always a challenge; specifically when nearly 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 $1B 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-FY19 alone, the City lost approximately $43M in property tax revenue due to these levy limitations. We will continue seeking a legislative solution to capture new growth revenue in upcoming fiscal years.

Another challenge the City faces is a continual rise in operating costs. Non-discretionary spending amounts to 80% of the City's overall budget and includes net 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 and FY19 appropriation by 14% each, and will see annual increases of 9% beginning in FY20. As long as this payment schedule is maintained, Springfield's pension fund will be fully funded by FY34. A recent actuarial valuation, which was performed in 2018, helped the City assess the best strategy for proactively addressing its pension liability.

Regardless of these fiscal challenges, the City's administration is dedicated to maintaining core services for our residents by using a balanced approach that relies heavily on managing our annual budget growth, accomplished through expenditure 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 FY19, Springfield anticipates twenty-five (25) Police recruits to enter the academy in February 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, the 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 have also been made to help improve the quality of life in our neighborhoods. In FY19, funding was added for a Downtown Cleaning Crew to coincide with the opening of MGM, along with a new Sidewalk Crew to address the extensive list of much needed sidewalk repairs and replacements throughout Springfield. These two crews, which never previously existed, are crucial to ensuring healthy neighborhoods that are inviting to all those who live, visit, and work in the City of Springfield.

In addition to the exciting initiatives introduced for FY19, we will maintain funding for other critical services as well. We will continue to fund 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, along with increased hours for all Inspectors to accommodate the demands of large-scale commercial projects throughout Springfield.

Furthermore, the City will continue to maintain its curbside trash pickup services. In FY18, we invested in new solid waste vehicles in a proactive effort to replace an aging fleet of existing trucks. This helps to reduce costly vehicle repair and maintenance expenses and, more importantly, ensure that our residents' trash continues to be picked up in a timely and efficient manner. Free single-stream recycling and yard waste pickup are also still available along with low-cost bulk pickup, and free hazardous waste drop-off.

In addition to the investments highlighted in the preceding paragraphs, the City continues to strategically invest in other crucial services such as education, new and improved school facilities, enhanced technology for our libraries, and many others. Moving forward, we will carefully evaluate the most critical needs of each

City and School department to ensure key operations are maintained and that the residents, businesses, and visitors of Springfield receive the quality services they deserve.

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 FY20 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 (FY20-FY23)

	FISCAL 2019 ADOPTED	FISCAL 2020 PROJECTED	FISCAL 2021 PROJECTED	FISCAL 2022 PROJECTED	FISCAL 2023 PROJECTED
SPENDING ASSUMPTIONS					
Administration and Finance Division	14,098,039	14,632,530	14,925,180	15,997,199	17,090,658
Development Division	4,126,643	4,209,176	4,293,359	4,379,227	4,466,811
General Government Division	3,581,186	3,652,810	3,725,866	3,800,383	3,876,391
Non-Mayoral Division	1,541,496	1,572,326	1,603,773	1,635,848	1,668,565
Health and Human Services Division	10,542,526	11,153,377	11,376,444	11,603,973	11,836,053
Public Safety Division	70,932,906	77,374,871	78,922,368	80,500,815	82,110,832
Public Works Division	14,616,922	14,909,261	15,207,446	15,511,595	15,821,827
Parks & Facilities Division	12,338,635	12,585,407	12,837,116	13,093,858	13,355,735
School Department*	420,749,687	446,639,454	463,829,473	481,745,755	500,423,686
Debt	27,870,576	29,615,887	27,765,198	27,765,198	25,445,744
Health Insurance & Fringe	27,401,291	29,556,044	31,894,641	34,433,010	37,188,457
Pensions**	39,622,588	43,175,175	47,047,494	51,268,323	55,869,025
Other Spending	8,768,880	10,195,531	10,390,779	10,509,904	10,712,784
Total	**656,191,375**	**699,271,847**	**723,819,138**	**752,245,087**	**779,866,568**
REVENUE ASSUMPTIONS					
Property Taxes	202,789,681	207,949,075	213,210,302	218,603,061	224,130,638
Local Receipts	60,330,657	58,497,444	58,497,444	58,497,444	60,301,467
State Aid	391,850,224	414,393,003	422,959,673	432,431,753	442,674,301
Reserves	-	-	-	-	-
Net School Spending	-	-	-	-	-
Other Financing Sources	-	-	-	-	-
Casino Revenue	1,220,813	-	-	-	-
Total	**656,191,375**	**680,839,523**	**694,667,420**	**709,532,258**	**727,106,406**
SURPLUS / (GAP)	**0**	**(18,432,325)**	**(29,151,718)**	**(42,712,830)**	**(52,760,162)**

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

Summary

The City of Springfield is governed by strict financial policies adopted as ordinances in September of 2009, which dictate that the Chief Administrative and Financial Officer 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 both now and in the future.

This Multi-Year Financial Plan shows the adopted budget for the current fiscal year (FY19), along with the projected budgets from FY20 through FY23. The projected budgets were created by using appropriate and conservative assumptions for revenues and expenses, including:

- 9% increase in the scheduled pension payment from FY20-FY23.
- 8.7% increase in projected health insurance costs.
- Adherence to the City's debt schedule, which includes a new issuance of debt in March of FY19.

- 5.6% increase in Chapter 70 Aid, and a 2.7% increase for Unrestricted General Government Aid ("UGGA").
- 2.5% increase in property tax revenue.
- No use of one-time revenue resources / reserves.
- Departmental spending growth ranging up to 2%.
- Level-funded local receipts with a reduction in one-time revenue built into the FY19 budget for building permits.

As demonstrated in this plan, Springfield's operating costs are projected to outpace revenue during each of the next four fiscal years. 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 $18.4M in FY20 and growing to $52.8M in FY23.

A new challenge the City faces for FY20 is the impact of the Municipal Revenue Growth Factor ("MRGF") on the projected budget deficit. The MRGF is a calculation which determines the percentage of revenue growth a municipality has recognized when compared to the previous fiscal year, and includes the following revenue sources:

- Local Receipts (Motor Vehicle/Other Excise Tax, Payments In-Lieu of Taxes, Fines and Forfeitures, etc.)
- General Revenue Sharing (UGGA & State-Owned Land Reimbursements)
- Property Tax Levy Limit and Estimated New Growth

Once this percentage is determined, it is then used to help to calculate the municipality's "Required Local Contribution" in funding to be allocated towards education. Largely driven by the annual revenue payment the City began receiving from MGM, Springfield's Local Receipts revenue increased by $15.0M from FY18 to FY19. As a result, this increased our MRGF, which in turn increased our Required Local Contribution. To quantify, our required contribution to the School Department rose from $38.2M in FY19 to $40.8M in FY20.

To better understand how the MRGF will negatively impact our projected deficit, it is most beneficial to view the numbers from a high level. The table below shows the amount of Unrestricted General Government Aid received by the City in FY19 and FY20, and compares it against our Required Local Contribution.

Municipal Revenue Growth Factor - FY18-FY19 Comparison				
Category		**FY18**		**FY19**
Unrestricted GG Aid	$	39,142,890	$	40,199,748
Required Local Contribution	$	(38,246,693)	$	(40,832,170)
Total	**$**	**896,197**	**$**	**(632,422)**

Based on the calculations shown above, the amount of UGGA we are projecting to receive in FY20 falls short of our Required Local Contribution, unlike FY19. Because UGGA is directly "passed through" to the School

Department to fund this contribution, any shortfall will result in the City having to identify additional funding within our operating budget in order to meet the requirement. As illustrated in the table above, the City will need to identify an additional $632K from an already limited pool of discretionary funding.

As illustrated in the preceding paragraphs, growing expenses and limited revenue sources force the City to make difficult budgetary decisions in order to maintain operations. It is important to note that over 80% of the City budget is non-discretionary, meaning that 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's administration to develop creative solutions in an effort to reduce costs in an effective and efficient manner.

Revenue Assumptions

The State Aid projections illustrated in this plan are based on Governor Baker's FY20 proposed budget, which was released on January 23, 2019.

Chapter 70

The City's largest source of 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, which is the minimum the district must spend on education each fiscal year. The projection assumes a 5.6% increase in FY20 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. The projection assumes a $1.4M increase in Charter School reimbursements for FY20, based on the Governor's proposed budget. 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 $40.2M, an increase of 2.7%, and future years are projected to be level-funded. As mentioned earlier in this document, this revenue is directly passed through to the School Department to ensure Springfield meets it's required local contribution, despite being "unrestricted" in how it can be spent.

Other State Aid

Listed below 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 FY20 budget recommendation for Veterans' Benefits.
- Tax Exemptions - Chapter 59 of Massachusetts General Laws sets 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 FY20 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 FY20 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. There are only three avenues through which the levy limit can be increased; a 2.5% increase over the prior year levy limit, new growth recognized 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 that it severely limits the revenue a municipality can collect when property values decline. Since FY09, Springfield experienced over $1B 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, which prohibits the City from fully capturing its levy capacity. From FY12 through FY19, the City of Springfield lost over $42.8M in property tax revenue due to these levy limitations.

Springfield, for some time, was the only community in the Commonwealth experiencing this; 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. Listed below are the assumptions for spending within the largest categories of the City's budget:

City Departments

The projection assumes a 2% increase for nearly 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 6% increase for FY20 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"), all of which must be funded through the City's operating budget without any support from State Aid. Transportation costs alone are projected to increase 8% in FY20, and these 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 Bond Anticipation Notes ("BANs"). The current schedule is designed to have the debt service number decline over the next several years. However, it is hoped that by maintaining a level debt service payment, the City can make strategic investments in its capital needs, as spelled out in the Capital Improvement Plan.

Health Insurance

The City of Springfield has annually saved millions of dollars by receiving its health insurance through the Group Insurance Commission ("GIC"). The GIC, which provides and administers health insurance for approximately 425,000 members throughout the Commonwealth, seeks to identify low cost plans that are affordable for not only for its members, but also the municipal agencies in which they work for. The City has seen a direct benefit from its collaboration with the GIC, recognizing over $3.8M of combined savings in FY18 and FY19 when compared to initial budgetary estimates (see table below).

Health Insurance Budgetary Detail - FY18 & FY19			
Fiscal Year	**Projected Cost**	**Adopted Budget**	**Variance (+/-)**
FY18	$ 25,761,110	$ 25,383,533	$ 377,576
FY19	$ 27,591,901	$ 24,147,257	$ 3,444,644
Total	**$ 53,353,010**	**$ 49,530,790**	**$ 3,822,220**

Despite the decrease in projected costs during the past two fiscal years, this financial forecast conservatively assumes an overall increase of 8.7% for health insurance expenditures from FY20 to FY23. This a strategic effort to ensure that the City is accounting for a large increase in insurance rates, should this occur during any given year. It is important to note that the City's contract with the GIC will expire this October, at which time we will evaluate all possible options to ensure that we receive the best rates available. Due to the large budgetary cost associated with our health insurance benefit, it is vital that we identify a fiscally responsible solution in order to preserve our limited financial resources.

Retirement

The City's municipal pension remains one of the lowest funded in the Commonwealth, with a current funding ratio of 27.0% and an unfunded liability totaling $883.2M. Poor market and economic conditions are contributing factors that led to Springfield's low pension fund. Pension funds rely heavily 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, six years earlier than the state-mandated deadline. In a strategic effort to reduce this liability, the FY19 pension appropriation was increased by more than 14% over the previous year's payment. This represents a significant increase when compared to years' past, as illustrated in the table below.

Pension Increase Detail					
Fiscal Year		**Amount**		**Variance (+/-)**	**% Increase**
FY14	$	25,291,875			
FY15	$	26,749,744	$	1,457,869	6%
FY16	$	28,187,561	$	1,437,817	5%
FY17	$	30,187,477	$	1,999,916	7%
FY18	$	34,419,778	$	4,232,301	14%
FY19	$	39,473,185	$	5,053,407	15%
Average % Increase - FY14 to FY18					**8%**

To further bolster our efforts towards addressing this liability, the City transferred in an additional $2M from its Pension Stabilization Reserve Fund this past October. This is a testament to the administration's commitment to developing creative solutions that will continue to reduce the liability and thus improve the City's overall financial position.

Looking ahead, the payment projections for the upcoming fiscal years shown on this plan are based on the City's most recent pension funding schedule, which was evaluated and finalized last year. Beginning in FY20, payment increases will be adjusted to 9% over the previous year's amount, and will remain that way until the liability is fully funded in FY34. Developing this aggressive payment schedule certainly addresses the City's low pension problem; however, it also comes with concerning fiscal challenges.

The FY20 pension appropriation amounts to $71.6M, which is divided amongst three separate entities; the City of Springfield, the Springfield Housing Authority, and the Springfield Water and Sewer Commission. Given that pension is currently the third largest expense in the City's operating budget, 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 reassess its pension funding schedule every two years when the actuarial valuation 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 the coming fiscal years, the City has overcome similar deficits in the past. We have successfully balanced and maintained the City's annual operating budget by making strategic and compassionate decisions that align with the administration'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.