



## **THE CITY OF SPRINGFIELD, MASSACHUSETTS**

**MAYOR DOMENIC J. SARNO**

### *HOME OF THE BASKETBALL HALL OF FAME*

May 19, 2014

To the City of Springfield and Springfield City Council:

Today, we respectfully submit to you the Fiscal Year 2015 budget recommendation, which totals \$581.9 million, which represents a 1.8% increase over the FY14 Adopted Budget. We are happy to announce that we have addressed a \$21.8 million projected deficit that not only avoids layoffs and preserves core services, but provides targeted investments in public safety, education and economic development. This spending plan not only meets the needs of our community, but positions the City for the future.

Maintaining financial discipline through the great recession and multiple natural and man-made disasters led to a January 2014 double bond upgrade from Standard and Poor's (grade A to grade AA-); the highest bond rating in the City's history. Through hard work and resilience the City has positioned itself for a burgeoning renaissance. As cited in the March 2014 report by the Office of Planning and Economic Development, \$2.48 billion of private and public investments has happened or is planned to happen in Springfield. This is a direct result of the consistency, stability and well-rounded approach Springfield has taken to how it conducts its business.

The challenge of balancing the FY2015 budget was met using a three-pronged approach: maximizing revenues, expenditure reductions, and strategic use of reserve funds. First, the City looked to its rising property values and economic development as a way to raise the levy ceiling. This resulted in over \$4.3 million in increased recurring revenue. The City's revenue stream is greatly influenced by overall economic conditions and the housing market. Recent, positive market trends are reflected by the increased levy capacity along with \$1 billion in economic development projects going on throughout the City. Likewise, the City was fortunate enough to receive an additional \$908,976 in State Aid. This marks the second consecutive year that the Governor and Legislature have increased distributions to municipalities following five years of declining or flat-lined revenue distributions.

Our second approach to balancing the budget was to reduce expenses by analyzing the details and expenditures of City departments to find substantial savings. In total, over \$8.3 million in requested funding was eliminated without layoffs. Staffing levels will remain intact for FY15 and, in certain cases, be strategically increased to better serve city residents and the business community. Where appropriate,

general fund costs are being offset onto grants and other revenue sources.

Finally, to balance the budget we strategically used reserves. We are proud to say that the budget is balanced using only \$2.8 million, roughly 0.5% of the total budget, from reserves, maintaining a balance of \$30 million in our Stabilization Fund. This is a major accomplishment due to the fact that during the recent economic downturn, the City dipped into its “rainy day” fund to cover over \$23.6 million in programs over the past three years. This year however, marks a milestone where our reserves are actually being maintained from the previous fiscal year. This will send a strong message to the rating agencies, the business community and our residents that we are in control of our finances.

Despite reductions made to balance the budget, funding is provided for major investments in public safety. In fact, this budget includes funding for an academy of 26 recruits which started in May of 2014, with an anticipated graduation date in late October 2014. In addition, the budget calls for a mini-academy for 6-12 recruits offered through our local Springfield Technical Community College. This will finally allow the Department to start addressing the increasing attrition rate occurring recently and grow the compliment of officers by 8 and the total number of sworn officers to 462.

The FY15 budget also starts to address the attrition rates in the Fire Department by funding 20 additional firefighters. This will be accomplished through two separate academies: a class of 10 in the fall and another recruit class of 10 in the spring. The additional positions will raise the number of firefighters to 261. This is necessary because the average age of our firefighters is 46 and classes have not been offered as frequently as we would like due to funding constraints. In addition, computer hardware and software upgrades have been funded for greater efficiency along with a turnout/safety gear replacement schedule. The department was also chosen as the sole recipient of a national grant award that will fund a multi-lingual fire safety education program.

Education is another key City priority and the School Department has been a great partner in identifying and funding services that we mutually agree on as necessary for the education and safety of our children. On top of the State required education budget of \$337 million, the City additionally supports education expenses for non-net school spending for items like transportation (\$23.6 million), building leases (\$731,768), and adult education (\$268,356). Realizing the impact this has on municipal operations, the Superintendent and School Committee have partnered with the City to successfully implement cost-saving strategies such as consolidating services, positions and processes.

Economic Development is also a priority in this budget. The FY 2015 budget includes capital funding which provides the financial resources necessary to enhance the City’s economic outlook. By combining current debt capacity with disaster-recovery funding, the City will be progressing on a number of initiatives. The former Arthur McCarthy Army Reserve Center at 50 East Street will be converted to the Police Department’s Juvenile Detention Center, providing secure evidence storage and offering enhanced training facilities. The renovation of Union Station and re-paving of the Boston Road corridor projects will continue through FY15. Available debt capacity will allow plans for a new senior center in Blunt Park and a new South End Community Center at Emerson Wight Park to progress. It will also fund improvements to the Environmental Center for Our Schools (ECOS) project.

In addition to these strategically funded programs in FY 2015 budget, City departments will be able to provide the following services:

- Department of Capital Asset Construction - Project management has been brought in-house with the addition of 2 new project managers, ensuring lowered costs and tighter controls on contract compliance;

- Planning & Economic Development – Is fully staffed to manage projects such as the renovation of Union Station and potential casino investment by MGM;
- Department of Public Works - Will continue to provide free single-stream recycling and yard waste pickup; low-cost bulk pickup and free hazardous waste drop-off dates; will enter into a 5-year lease for the purchase of four (4) new trash collection trucks;
- Parks and Recreation – All City buildings and grounds, parks, and terraces will be fully maintained throughout the year; all pools and splash pads, including 5-Mile Pond, will remain open during the summer months, and summer recreation programs remain active; golf courses are fully-staffed and capital funding has been provided to replace aging maintenance equipment;
- Health & Human Services – Nursing , Community Health Advocate, Public Health Educator, and Mediator positions are all filled;
- Libraries - 2 re-purposed City library branches (Liberty Street and Pine Point) will continue to host neighborhood programs like adult literacy and a drop-by center for seniors and all extended hours at the Main Library and all branch locations will remain intact;

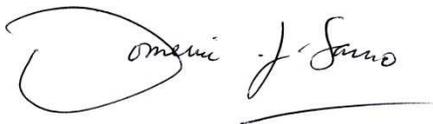
This budget assumes economic conditions will not weaken and accounts for marginal increases to economic activity during this period. The FY 2015 budget makes strategic investments in key operations while not reaching beyond our means. Critical services remain intact with the goal of improving the quality of life of Springfield’s residents. However, it is important to note that there is the potential to see over \$800 million in economic benefits through casino spin-off businesses: hotels, restaurants, entertainment, etc., which could contribute to the City’s assessed value and provide substantial fiscal benefits in the near future. Payments from the City’s Host Community Agreement with MGM Springfield are not built into the FY 2015 budget.

As Mayor, I will continue to work tirelessly to ensure that our City receives its fair share of resources, and that these resources are utilized in the most efficient and effective manner possible. I am proud of the efforts of my entire team: Superintendent Warwick, Cabinet Heads, Department Heads, and City Staff that work hard for Springfield every day.

We ask that these FY 2015 budget recommendations be reviewed by the Committee of the Whole, so that the entire body can hear from our departments in a manner that is both timely and efficient.

Thank you for your consideration of these recommendations and we look forward to your input as we finalize the budget for the start of Fiscal Year 2015.

Respectfully,



Domenic J. Sarno  
Mayor



Timothy J. Plante  
Chief Administrative & Financial Office

## Executive Summary

The Recommended Budget for Fiscal Year 2015 is \$581,922,838. This represents a 1.8% increase over the FY14 Adopted Budget and a 1.7% increase from the FY14 Revised Budget.

Fiscal 2012 Actual General Fund	Fiscal 2013 Actual General Fund	Fiscal 2014 Adopted General Fund	Fiscal 2014 Revised General Fund	Fiscal 2015 Recommended General Fund	% Change from FY14 Adopted	% Change from FY14 Revised
558,861,403	551,776,343	571,878,838	572,284,015	581,922,838	1.8%	1.7%

Fiscal Year 2015 marks an upswing for the City's finances with a second consecutive year of increases to the City's assessed property valuations, budgeted State Aid, local receipt estimates, and reduced reliance on reserves. Expenses, however, continue to increase with the need to support legal and contractual obligations, employee salaries and benefits, and other city-wide fixed costs.

The gap created between requested spending and estimated revenue has been carefully evaluated and closed using a three-pronged approach: revenue increases, expenditure reductions, and strategic use of reserve funds. In addition, budgets have been analyzed and presented based on departmental programs. This is the first time the City has budgeted on a programmatic basis, allowing for more data-driven decision making. By analyzing and presenting departmental funding in this manner, programs are clarified improving expenditure prioritization. The City's resources are allocated to the programs that deliver the greatest benefits to the community.

### Fiscal Year 2014 Budget Update

Based on the latest Monthly Financial Statements published for April 2014, a surplus is estimated for year-end. This projected surplus is very similar to the past three years because the City has budgeted more closely to projections and anticipated outcomes. Overall, the City is working to maintain a realistic and balanced budget throughout the fiscal year, to encourage cost savings where ever possible, and to scrutinize all expenses and revenue to ensure the budget remains balanced. In FY14, the City conducted monthly reviews of spending and revenue in an effort to estimate our position at year-end to ensure that the budget could sustain its trajectory.

It is important to note that the year-end surplus estimate is based on a projection made at the end of April and is subject to change as the fiscal year is closed by the City Comptroller and surpluses are verified by the State Department of Revenue (DOR). Departments are responsible for living within appropriated amounts and spending funds as responsibly as possible. A surplus projection should not be considered a reason to spend more or spend faster. All surplus funds are reviewed by the DOR for certification of "Free Cash." Once the DOR completes their certification, the funds are available to the City to spend (subject to appropriation) or for transfer to the Stabilization reserve to replenish some of what were used in FY14. "Free Cash" is defined as remaining unrestricted funds from operations from the previous fiscal year. The City has had positive free cash at year-end since FY05.

### Fiscal Year 2015 Budget Challenges

The budget process for a given fiscal year begins in January when departments submit their budget requests. Budget requests are meant to first build up costs to provide the same level of programs and services and then add any program or policy expansion that is requested. In addition, departments were asked to submit proposals that reduced their budget by 5% below their FY 2014 Adopted budgets and to provide impacts of those reductions. This allows the Mayor and his finance team to review requests and understand how departments would suggest living within lesser amounts.

While departments build their budget requests, the Office of Management and Budget reviews revenue projections using the Governor's proposal for State Aid, the City's Board of Assessors projection for property taxes, and internal projections for other local receipts. All of this planning combined creates an estimate for the amount of

projected spending, available revenue, and the gap between the two.

For FY15, the projected gap after budget submission totaled \$21.8 million driven by the following spending and revenue assumptions:

- ◆ State Aid - Assumed level funding to FY14 levels for Unrestricted General Government Aid
- ◆ Other Local Receipts - Original estimates were level to FY14 budgeted
- ◆ Reserves - Original budget assumed using \$1 million in reserves
- ◆ Departmental Growth - Budget requests were 3.8% greater than the FY14 Adopted budget
- ◆ Scheduled growth for pensions and debt service

## Budget Solutions

A balanced approach was used to solve the projected budget gap. This approach relied upon spending reductions, revenue increases, and a use of stabilization reserves. All of these things were considered in the context of providing vital programs and services to the City with the intention of minimizing layoffs that would impact vital services. The FY 2015 budget solutions include:

<b>Balancing FY15 Budget</b>	
FY 15 Initial Gap (based on departmental budget submissions)	(21,787,991)
<b><u>Revenue Increases</u></b>	
Levy Ceiling/Reduction in Overlay	6,323,924
Dept Fees/Fines	1,090,000
Additional State Aid	908,976
<b><u>Expense Decreases</u></b>	
Departments	2,486,698
Debt Schedule	2,668,864
School Transportation	1,058,164
Health Insurance/Unemployment	851,675
<b><u>One Time Revenue</u></b>	
Reserves	2,865,130
Building Sales	2,200,000
WMECO Settlement	1,334,560
<b>FY15 Gap as of 5-19-14</b>	<b>-</b>

## Revenue Increases

### *Additional Levy*

The City's Assessors Office is continually working to update the levy through the budget planning process. This process begins during the budget season, usually in January and continuing through May, and concludes in late November or December when the tax rate is set. The Budget Department requests levy projections from the Assessor's Office during the budget season. These projections are included in the budget. The exact tax levy is not known until half way through the budgeted fiscal year once the tax rate is set and properties are levied.

### *Local Source Revenue*

The City is projected to collect an additional \$1.09 million in local receipts in FY15. The Treasurer's Office has been aggressive in its tax title/foreclosure program and is projecting to collect an additional \$581,680 in tax title interest and fees. In addition, the Building Commissioner is projecting an increase in building permits based upon upcoming projects around the community. These increases are expected to generate an additional \$500,000 in FY15.

### *Building Sales*

As part of the proposed downtown casino development project, MGM Springfield has agreed to purchase two tornado-damaged properties from the City: the Zanetti School and Armory. The proceeds from this sale, \$2.2 million, will be used to fund the FY15 budget.

### *WMECO Settlement*

The City is engaged in ongoing negotiations with Western Massachusetts Electric Company (WMECO) with regards to over-billing of electricity charges for the City's street lights. Payment by WMECO in the amount of \$1.3 million will be appropriated in FY15 for use in balancing the budget.

### *Additional State Aid*

The State, as agreed upon in a consensus revenue figure, increased Unrestricted General Governmental Aid (UGGA) to the City by \$908,976 in FY15. In addition, the State will provide an increase of more than \$6 million for educational purposes in its Chapter 70 allocation.

## **Expenditure Reductions**

### *Departmental Spending Reductions*

Due to favorable revenue projections, not all departments were impacted by budget reductions in the Fiscal Year 2015 budget planning process. In total, only \$2.5 million in funding was cut from departmental budget requests. Many of the reductions were based on historical spending trends and all departmental programs remain intact for Fiscal Year 2015.

The General Fund FTE complement is at one of its lowest to date at 1,289.4 FTEs. That is a reduction of 292.1 FTEs (-18.5%) since Fiscal Year 2008.

Some specific departmental reductions include:

- ◆ Police Department - Elimination \$252,408 of increased capital funding requests by allowing the use of FY14 surplus funds to purchase new computers and bullet-proof vests
- ◆ Police Department - Quebec Team funding of \$1.66 million, including Educational Incentive payments, was offset to the School Department
- ◆ Facilities - Natural Gas accounts reduced by \$146,740 due to energy-efficiency measures
- ◆ Health Insurance - Health insurance costs of \$851,675 offset to the Solid Waste Enterprise Fund and grant funds where appropriate
- ◆ Treasurer - Reduction of \$2.7 million in debt service due to expiring bonds
- ◆ Citywide - Offset \$1.2 million in eligible costs to grants
- ◆ Citywide - Departmental budget reduced by \$1.99 million by level-funding line items with requested increases or cutting budgets to historical spending levels

### *Debt Schedule*

The City is able to reduce its required debt payments in FY15 due to the payoff of prior bond issuances in FY14.

### *School Transportation & Leases*

The City is responsible for funding 100% of School Transportation costs, which totals \$23.6 million in Fiscal Year 2015. This is a reduction of \$1.06 million from the original budget estimate. The City is also responsible for leasing buildings (Central Office, Holy Name, and Immaculate Conception) for educational purposes which total \$731,768.

### *Health Insurance & Unemployment*

In Fiscal Year 2015, the City has reduced its appropriations for Health Insurance and Unemployment by \$851,675. Unemployment costs have been reduced as a result of the City's avoidance of layoffs in the FY14 and FY15 budgets. Health Insurance costs were able to be reduced after actual rates from the Government Insurance Commission released its final FY15 plan costs in March. The budgeted cost for Health Insurance has decreased by 4.1% from FY14 inclusive of additional charges as required by the Affordable Care Act.

## **City of Springfield – General Fund Revenue and Expenditures**

### **FY15 Revenue**

#### *State Aid*

State aid is the largest source of revenue for the City of Springfield, historically comprising approximately 62% of the City's total revenue. All State Aid is disclosed via the Cherry Sheet, the official notification from the Massachusetts Department of Revenue (DOR) regarding the next Fiscal Year's state aid to municipalities. The Cherry Sheet is updated throughout the State budget process, first in January based on the Governor's budget, then again for each of the House and Senate budgets. It is finalized based on the final State budget known as the General Appropriations Act (GAA) by July 1<sup>st</sup> of each year.

#### *Property Tax*

Property tax is the largest and most dependable local source revenue, but is also highly regulated. A property tax levy is the amount a community can raise from taxing real property, including land, buildings and improvements, and personal property such as inventories, machinery, and furniture. The Board of Assessors determines the value of taxable property, which is revalued every three years and updated annually. Proposition 2 ½ fundamentally changed property taxes for Massachusetts municipalities after its passage in 1980, creating two levy limits: the levy ceiling and the levy limit. First, a community cannot levy more than 2.5% of the total full and fair cash value of all taxable real and personal property in the community. This is known as the levy ceiling. Second, a community's levy is also constrained in that it cannot increase more than 2.5% over the prior year's levy limit. The levy limit will always be below, or at most, equal to the levy ceiling. A municipality's levy limit is only increased in three ways: 2.5% increase over the previous year's levy limit, new growth in the tax base, and a voter override. If the voters approve an override, the amount approved can permanently increase the municipality's levy limit. Estimates on the tax rate for the FY15 budget are still being reviewed and will be part of the tax rate setting process this fall.

	FY12	FY13	FY14	FY15
	Levy Calculation	Levy Calculation	Levy Calculation	Recommended
Tax Levy	169,389,217	167,403,337	168,217,700	172,956,972
Increase Levy 2.5%	-	-	4,205,443	4,323,924
<b>Subtotal</b>	<b>169,389,217</b>	<b>167,403,337</b>	<b>172,423,143</b>	<b>177,280,896</b>
New Growth	-	-	6,129,689	-
<b>Subtotal of Gross Tax Levy</b>	<b>169,389,217</b>	<b>167,403,337</b>	<b>178,552,832</b>	<b>177,280,896</b>
<i>Actual Levy Billed</i>	<i>169,389,217</i>	<i>162,131,310</i>		177,280,896
Less Overlay	(5,144,964)	(8,081,745)	(5,593,003)	(3,000,000)
<b>Subtotal of Net Tax Levy</b>	<b>164,244,253</b>	<b>154,049,565</b>	<b>172,959,829</b>	<b>174,280,896</b>

### *Local Receipts*

Local receipts include vehicle excise tax, building permits, parking ticket fines, and hotel/motel tax. Local receipts are projected to increase based on historical collection trends and an uptick in the housing market. The City has also made great strides in recent years to improve its collection of local receipts.

### *Reserves*

At the end of every fiscal year, actual receipts in excess of revenue estimates and unspent amounts in budget line items result in free cash. In prior years, the City experienced negative Free Cash meaning that spending exceeded revenues for a given fiscal year. Through strict controls and monitoring, the City has made great strides in controlling spending and certified positive free cash for the last six consecutive years, which will help to continue to build the City's Stabilization Fund.

## **FY15 Spending**

The City's revenue is spent across 12 major areas of the budget that focus on varying aspects of maintaining City programs and services.

*Non-Mayoral Division* - This division consists of three departments: the City Council, the City Clerk, and the Internal Auditor. The City Council is elected by the residents of Springfield, with the City Clerk and the City Auditor reporting to the Council.

*General Government Division* - These departments provide a variety of functions for the city, including administrative support, legal services, expertise, and oversight that support the vision of the Mayor.

*Administration and Finance Division* - These departments are responsible for the overall financial management of the City of Springfield, which includes providing information technology support, centralized procurement, human resources, data analysis, and collection of taxes.

*Development Services* - the Developmental Services Division facilitates growth and development, revitalization of neighborhoods, and enforcement of regulatory standards within the city. The renovation of Union Station and re-paving the Boston Road corridor will continue throughout FY 2015.

*Public Safety Division* - These departments provide emergency response, prevention, and outreach to the City and its residents to ensure their safety. In FY 2015, twenty (20) fire fighter vacancies will be filled and twenty-six (26) police officer positions will be filled once recruits have completed the academy.

*Public Works Division* - The department maintains and preserves the City's public way infrastructure, including streets, sidewalks, street signs and traffic signals, administers the solid waste, recycling, and yard waste programs, and maintains the City's inventory of vehicles and equipment, Public Safety assets excepted.

*Health & Human Services Division* - This division includes support for the elderly and veterans, provides public health and animal control services to the community, and maintains the City's library system.

*Parks, Buildings, and Recreation Management Division* - the Parks, Buildings, and Recreation Management division maintains the City's parks and open space, provides recreation programs, and maintains all municipal buildings, including the schools.

*School Department* - The City's School Department operates the second largest school district in the Commonwealth and is comprised of thirty-eight (38) elementary schools, six (6) middle schools, six (6) high schools, and seven (7) specialized schools. The District serves over 28,000 students or about 17% of the total city population with a staff of 4,708.7 employees. The Springfield Public Schools system is governed by an elected school committee which creates policy and appoints a superintendent to manage the day-to-day operations of the District. The Superintendent has a cabinet of eight (8) chiefs who are each in charge of various segments of the

organization.

*Benefits* – This includes benefits for all active and retired City employees including health, dental and life insurance and contributions to the City’s retirement board.

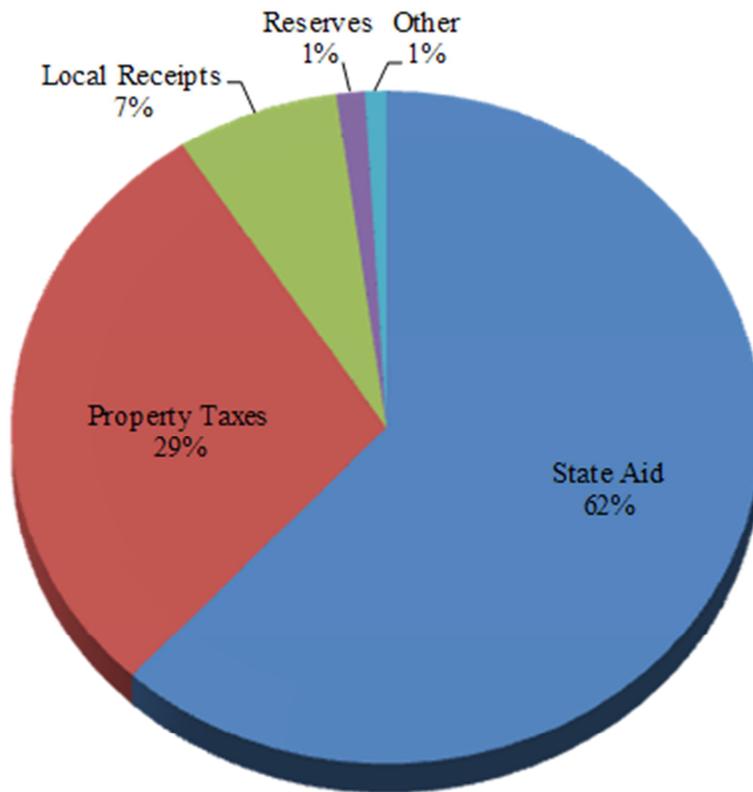
*Debt Service* - Municipalities issue debt to finance capital improvements because the costs are too expensive to finance through the operating budget. Spreading the cost of a project over time creates a manageable annual expense for a Massachusetts community that is limited by Proposition 2 ½ in raising additional property tax revenue. Debt occurs when a city or town borrows money from lenders. The lender charges interest on the borrowed amount and the municipality repays the debt over a number of years. Debt service is the cost of repaying a government’s debt, including both principal and interest payments.

*Other*– This category includes other payments made on behalf of the City to varying entities including the payment to the Springfield Museums Association, the contract with the Springfield Parking Authority, and the City’s reserve for emergency expenses that may come up throughout the year.

## City Revenue – Where does it come from?

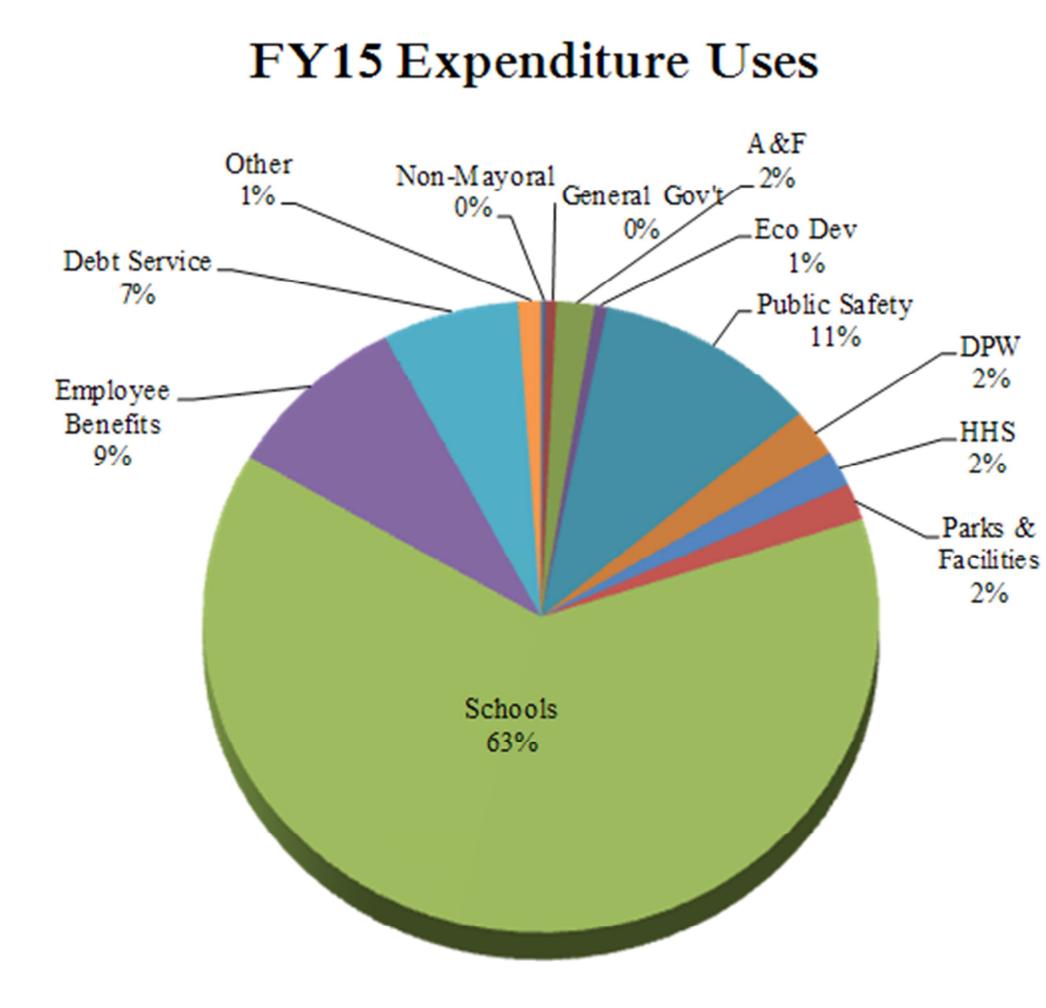
In determining the amount of revenue available to spend for each Fiscal Year, there are five major categories. For Fiscal Year 2015, the chart below shows the percent of revenue coming from each of the major categories. It is important to note that State Aid represents 62% of the City's revenue. Much of this aid is dedicated to specific purposes such as Education, Veterans Benefits, and Tax Exemptions. The remaining revenue, generated locally, must be used to meet all other City needs.

### FY15 Revenue Sources



## City Spending – How is City Revenue Spent?

The City spends money within its Divisions and Departments based on the needs of City residents and priorities of the Mayor. For Fiscal Year 2015, the chart below shows how the \$581.9 million of City revenue is spent across City divisions. It is important to note that much of the spending within the City is driven by the costs associated with operating our School Department. Expenses within the remaining Divisions are driven by the costs of employees. Salaries and benefits of City employees (exclusive of the School Department) represent 60% of the City's operating budget.



## Conclusion

The FY 2015 Adopted Budget for the City is balanced and responsible. It addresses the priorities of its residents and aggressively looks for savings and efficiencies. It continues to require all City Departments to maximize resources and do more with less. It also provides programs and services that cannot be found through any other private entity. While this budget is full of difficult decisions that will require hard work and creativity from the departments, the City will work to maintain core programs and services to its residents, business and visitors.