The City of Springfield
Department of Administration and Finance
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February 24, 2010

Mayor Domenic Sarno and Members of the City Council:

As the City's Chief Administrative and Financial Officer, I am pleased to present the City's draft four year financial plan for your review and consideration.

As dictated by Chapter 468 of the Acts of 2008, the CAFO is required to submit a four year financial plan and a five year capital plan to the Mayor and City Council no later than March thirtieth of each fiscal year. By releasing this draft early, it is my hope that the feedback received from the City's elected leadership, department heads, union presidents, state senators and representatives, neighborhoods organizations, the business community and the public can be used to enhance and strengthen the final plan.

This draft plan provides you with a detailed projection of the City's expenses and revenues for the next four fiscal years, based on conservative assumptions. This document should be considered a planning tool which will allow the City to shape its future direction. While the figures presented are subject to change, they are representative of the City's current financial situation. Policy decisions designed to offset major cost drivers and future liabilities are discussed in detail. These cost drivers are, as detailed in the report, health care, pension liabilities, enterprise fund supplement, debt service, capital liabilities, and salaries.

This draft financial plan should serve as a diagnosis of a problem: the City's revenues cannot support the City's services as they are currently provided. After receiving state aid reductions in Fiscal Year 2009 and using $10 million in reserves to balance the Fiscal Year 2010 budget, departmental budget requests add up to a $35.6 million budget gap for Fiscal Year 2011. This gap is due to a combination of constrained revenue growth, programmatic restorations, and escalating mandatory costs.

The City's two largest revenue sources are projected to have limited to no growth in the next few years. By law, the City is limited to 2.5 percent growth in property tax revenue. In addition, the City is at risk of reaching its levy ceiling, which would prevent future increases in the property tax levy until assessed values increase. State aid, which comprises almost 60 percent of the City's budget, is projected to have limited to no growth in the near future due to the Commonwealth's lower revenue collections. At worst, state aid may be reduced again during the next fiscal year.

At the same time, mandatory expenses continue to increase. The cost of retirement continues to grow each year, as the Springfield Retirement System has a $402 million unfunded liability. Retiree health insurance costs are expected to double in fifteen years. The City also has a $500 million Capital Improvement Plan as a result of deferred maintenance from the years leading to the Springfield Finance Control Board.

In light of these realities, the City's leadership and the public must acknowledge that City-provided services, as they are currently delivered, cannot be supported by recurring revenue and should work to answer the following questions:

1. What are the core services that the City should provide?

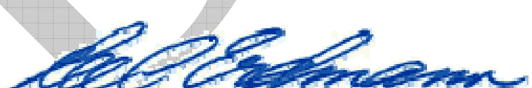
2. What is the most cost effective way to deliver these services and still be sustained solely by recurring revenue?

The projected constraints in financial resources should initiate a public discussion about what are the most important services the City provides to the public. Some of the City's services may need to be delivered through another method that allows the City to remain within recurring revenues. Once these services are identified, the City's executive leadership must identify the most effective and cost efficient methods to deliver these services.

Unlike many other municipalities, Springfield has the internal capacity to identify these areas for improvement. The City's Finance Division and CitiStat Department have worked diligently to provide relevant financial and statistical information that identifies areas for improvement or efficiency. The City's political and administrative leadership should use this information as they develop strategies to improve service delivery.

By developing strategies to deliver services within revenue constraints, the City can avoid having to face major budget gaps every fiscal year.

Sincerely,



Lee C. Erdmann
Chief Administrative and Financial Officer

City of Springfield, MA
DRAFT **Multi-year Financial Plan**
Fiscal Years 2011 – 2014

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EXECUTIVE SUMMARY

As stipulated in Chapter 468 of the Acts of 2008, the Springfield Chief Administrative and Financial Officer shall annually submit to the mayor and the City Council a four-year financial plan and a five-year capital plan no later than March 30 of each fiscal year.

The following draft financial forecast and plan show the actual costs for Fiscal Years 2006 through 2009, the adopted Fiscal Year 2010 budget, and projected budgets for Fiscal Year 2011 through FY2014. The projected Fiscal Year 2011 through FY2014 budgets were created by using appropriate, conservative assumptions for revenues and expenses, beginning with a projected budget gap of $35.6 million in FY11 and growing to $95.9 million in FY14. While this projection is based on departmental level-service funding, the major contributing factors of debt service (increased by $3.4 million in FY11), health insurance ($2.2 million increase in FY11), retirement assessment ($10 million increase in FY11), education ($16 million increase in FY11), enterprise fund ($1.5 million increase in FY11), guaranteed salary increases (salaries increases of $3.4 million city wide in FY11), and property tax limitations are forcing the City to explore policy decisions that will reduce expenditures and increase revenue collections. Each of these assumptions is explained in the appendix and assumes no use of reserves.

The first section of this document details the City's past four fiscal years of actual expenditures and revenues, the Fiscal Year 2010 adopted budget, and a four-year financial forecast and plan. These graphs show that the City, despite a strong cash position, is facing major budget gaps from FY11 – FY14 without a proactive approach to budgeting and policy decision-making. The draft plan illustrates the constraints that would have to be placed on expenditure growth to stay within the conservative revenue assumptions. The final plan presented in March will end up somewhere in between these two extremes.

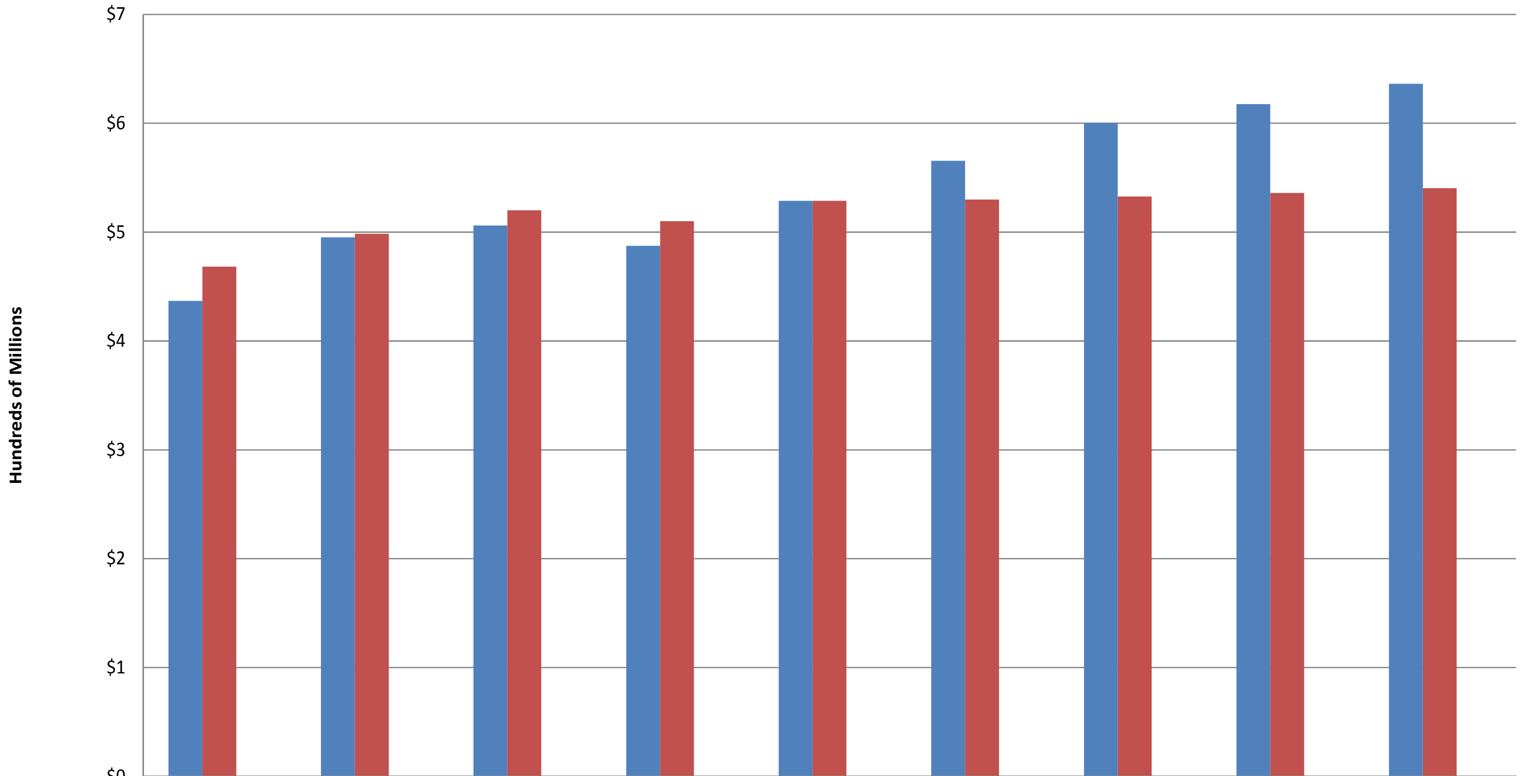
The second section details four-year performance measures for the City based on the five strategic priorities outlined in the Mayor's second inaugural address. These priorities include public safety, job creation, education, neighborhood revitalization, and financial management. The history presented and the targets to be developed as part of our strategic planning process will allow City officials to gauge the effectiveness of their funding strategies and policy decisions. Our financial plan has limited meaning and usefulness unless it is reviewed within the context of the results we seek to achieve with the resources available for investment in the future of Springfield.

The third section of the financial plan discusses the overall policy themes and options that will govern the decision making process. Additionally, divisional highlights and selected targeted policy measures are included. The policy decisions presented could help minimize the forecasted budget gaps; however, the options available will require difficult decision-making by the elected leadership. It is these policy themes and options and targeted policy measures that we seek input and feedback on.

Finally, this document presents several appendices discussing assumptions, the outlook for Massachusetts, policy and operating changes, a discussion of reserves, long-term liabilities, bond rating improvement strategies, and the City's adopted financial policies. These background pieces provide important information and context for this draft four year financial plan.

Draft Four Year Financial Forecast A

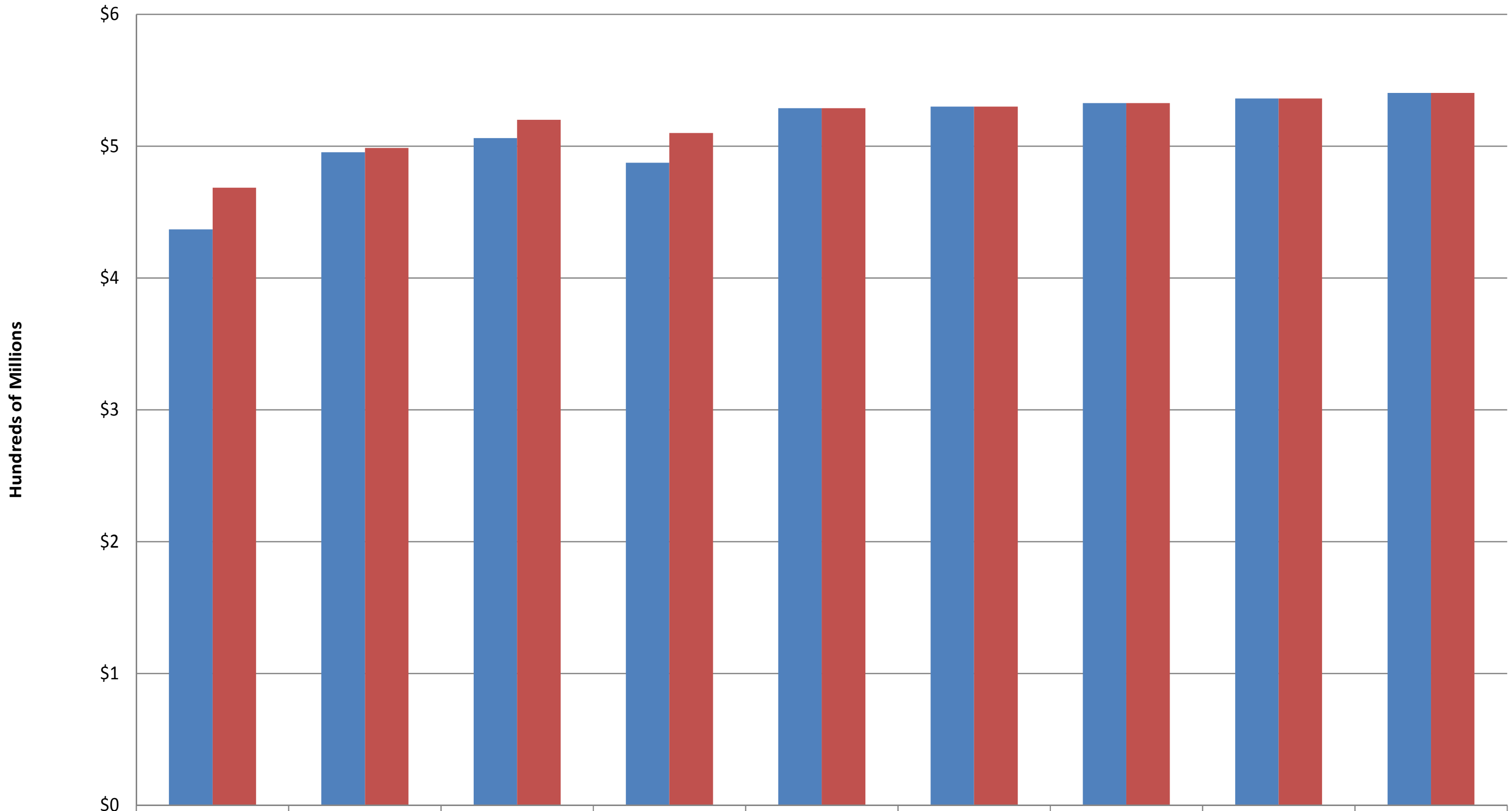
*** based on FY11 departmental requests**



	2006	2007	2008	2009	2010	2011	2012	2013	2014
Expenditures	436,928,949	495,296,122	506,085,679	487,475,779	528,657,502	565,536,902	600,346,709	617,684,413	636,165,004
Revenues	468,408,478	498,548,530	520,041,502	510,046,226	528,657,502	529,917,890	532,631,198	536,009,760	540,299,649
Surplus/(Gap)	31,479,529	3,252,408	13,955,823	22,570,447	0	(35,619,012)	(67,715,512)	(81,674,654)	(95,865,355)

Draft Four Year Financial Forecast B

*** based on current revenue projections**



	2006	2007	2008	2009	2010	2011	2012	2013	2014
Expenditures	436,928,949	495,296,122	506,085,679	487,475,779	528,657,502	529,917,890	532,631,198	536,009,760	540,299,649
Revenues	468,408,478	498,548,530	520,041,502	510,046,226	528,657,502	529,917,890	532,631,198	536,009,760	540,299,649

City of Springfield
Four-Year Performance Targets

	FY2006 Actual	FY2007 Actual	FY2008 Actual	FY2009 Actual	FY2010 Year-to-Date	FY2010 Projected	FY2011 Target	FY2012 Target	FY2013 Target	FY2014 Target
	Historical Actuals					Current Year	Future Targets			
Public Safety										
Violent crime rate										
Property crime rate										
Response time to priority 1 calls										
Percent of incidents initiated by SPD										
Number of structure fires	N/A	212	194	154	89	147				
Response time to all fire department incidents	N/A	4.8	3.6	3.4	3.5	3.5				
Percent of property value preserved in structure fires	N/A	77.5%	75.5%	76.3%	79.0%	79.0%				
Job Creation										
Real estate new growth added to the tax levy	$ 3,775,509	$ 3,592,680	$ 4,016,102	$ 5,735,227	N/A	$ 3,590,038				
Total private employment in Springfield	63,687	64,082	63,881	63,279						
Percent change in personal property tax valuation	1.9%	1.5%	6.3%	-0.9%	4.7%					
Unemployment rate	7.4%	7.2%	7.0%	10.0%						
Value of erect and add to building permits per $1,000 of total assessed value	N/A	$ 11.67	$ 6.20	$ 28.18	$ 6.48	$ 10.70				
New jobs created through proactive economic development activity										
Education										
Student attendance rate	90.2%	89.9%	89.4%							
Teacher attendance rate										
Percent of students scoring as Proficient or Advanced on Math MCAS (all grades)			26.0%	26.0%						
Percent of students scoring as Proficient or Advanced on ELA MCAS (all grades)			34.0%	38.0%						
Percent of 8th graders passing Algebra I										
Graduation rate	51.2%	53.8%	54.4%							
Number of suspensions per 100 students	22.1	23.4	23.2							
Assault/battery incidents per 100 students										
Percent of teachers in core academic subjects highly qualified in the subject they teach				90.4%						
Non-fiction print library circulation per capita										
Neighborhood Revitalization										
Number of formerly tax title properties returned to the tax rolls										
Percent of suspected vacant and foreclosing properties registered										
Number of code complaints (housing and zoning)	N/A	4,758	4,280	4,996	2,816	4,700				
Percent of code complaints received from citizens, neighbors, and civic groups	N/A	35.9%	29.6%	28.1%	26.2%	28.0%				
Average days to close code complaints										
Value of erect, repair, alter, and add to building permits on residential property per $1,000 of total assessed value		$ 3.49	$ 5.15	$ 5.60	$ 6.30					
Housing vacancy rate (calendar year)										
Number of properties purchased through Buy Springfield Now										
Number of City trees pruned										
Number of foreclosure deeds filed										
Financial Management										
Total dollars in grants received as a percent of General Fund expenditures										
City bond rating										
Stabilization fund balance										
Debt service as a percent of general fund expenditures										
Recycling as a percent of solid waste collected										
Savings and efficiencies realized through program changes and improvements										
Collection rate on fees and fines										
Collection rate on taxes										

Four-Year Performance Targets

The City of Springfield's four-year performance targets present historical data and targets for the next four fiscal years on a series of strategic performance measures tied to the Mayor's five strategic priorities. While these measures are not all-encompassing, together they provide a brief overview of the City's recent progress and future goals. The City consistently measures more than 200 operational performance measures on a monthly basis through the CitiStat program. The measures included in the four-year performance targets are strategic measures that reflect the overall progress of the City rather than the day-to-day performance of municipal operations.

Historical data is provided for the previous four fiscal years as well as year-to-date numbers for the current fiscal year, when available. A projected current year final number is also included. The four-year performance targets are set by the Mayor in consultation with the Cabinet and Department Heads. The targets are intended to be lofty, but achievable. In addition, the four-year performance targets are set in the context of the overall four-year financial plan and what is realistic from a fiscal perspective.

It is important to understand that strategic measures in the four-year performance targets are designed to reflect the overall progress of the City of Springfield. In many cases these measures are not directly controlled by municipal government, but they are influenced by the actions and performance of government. For example, the City of Springfield cannot directly control the City's unemployment rate; however, the economic development activities of the City of Springfield should, over the long-term, have an impact on the unemployment rate. Similarly, the City cannot control the violent crime rate (in that we cannot dictate how often a violent crime will be committed), but we can influence the amount of violent crime through effective policing.

As the City continues its strategic planning efforts, it is anticipated that Departments will set goals and action steps that advance the Mayor's strategic priorities and ultimately enable the City to achieve its four-year performance targets.

POLICY THEMES and OPTIONS

Based on departmental requests, the City of Springfield is facing a $35.6 million budget gap for Fiscal Year 2011. Within the constraints of Proposition 2 ½, it is difficult to forecast significantly increased property tax revenue in Fiscal Year 2011. Increasing local source revenue will be equally challenging at this time. In light of these constraints, the City will need to look to make significant cuts from the operating budget requests, increasing local source revenue, and also strongly considering the use of reserves.

Revenue Policy Decisions:

- According to State statute, the City may increase the local hotel-motel tax by 2.75%, which is a 68% increase for revenue for fiscal year 2011. This could equate to an increase of up to $578,000 in Fiscal Year 2011.
- A way to increase the collection of taxes is to offer a satellite office or kiosk in other parts of the City. This would be able to handle all taxes and fees levied by the City.
- Attach all unpaid tickets to the property tax bill, particularly work with the legislative delegation to either get special legislation or universal legislation that would allow the attachment of unpaid fees and fines to tax bills as an additional charge without requiring that a lien be filed with the registry of deeds (Somerville already has such a special act). This could result in additional revenue collection of up to $110,000.
- The City should continue to seek alternative ways of processing paperwork and payments. If the City processed more payments online, additional convenience would be provided to the taxpayer and the City could capitalize on revenue that might otherwise go uncollected. By delaying this decision, the City could incur additional expenses while pursuing outstanding revenue.
- An analysis of services should be considered in order to determine how many non-residents are benefiting from City-funded programs. Out-of-town residents could be charged a fee (or a greater fee, depending on the program) for participation. This should be marketed as a “reduced rate for residents” rather than an “increased rate for out-of-towners.”
- By statute, the CAFO is required to review local fees no less than every two years to ensure the cost of services is being adequately recovered. By changing to an annual review, the City could better adapt to changing economic conditions and implement reasonable cost adjustments and avoid larger, less-frequent increases. The amount of the fee should consider costs such as utilities, building and grounds maintenance, and administrative overhead.

Grant Policy Decisions:

- Many City departments are not offsetting general fund dollars with expenses that should be charged to a grant or charging the grants after the general funds have been fully expended. Departments should charge grants before the general fund to ensure that the grant dollars are used before the expiration period and not turned back. Further, departments must begin charging back grants for employee benefits and indirect costs.

- Development of a Cost Allocation Plan will allow the City to charge grants for overhead and administrative costs. A preliminary investigation of this option is currently underway by the City's Grants Director.
- Employees whose salary is partially or fully grant-funded should not be transferred to vacant positions in the General Fund without prior approval by the Personnel Review Committee.
- Grant funded positions should be classified as temporary positions that terminate upon the expiration of the grant's term.
- Stipends funded by grants should only be paid when employees perform additional work beyond their normal working schedule.
- Grant applications should be targeted toward awards that enhance the core services of the City and support Mayoral priorities, not necessarily grants that add new, non-essential programs or services.
- The City should consider having departmental grant personnel report equally to the City's Grants Director and their respective Department Head.

<u>Financial Reserve Policy Decisions:</u>

- The City is required by its financial policies to have between 5-15% of General Fund Revenues, less debt exclusion, maintained in a stabilization reserve. This limits the amount of reserves available for appropriation and the use of reserves must therefore be the last option considered when balancing the City's annual operating budget.
- Any future use of reserves should target non-recurring costs that support essential services of the City.

<u>Operational Policy Decisions:</u>

- The City Council could consider voting to eliminate the city ordinance requiring City contracts for goods and services over $5,000 but less than $25,000. State law only requires contracts for value over $25,000. This measure would be a significant cost and time savings, allowing the Office of Procurement more time to focus on strategic purchasing issues, such as Citywide RFPs.
- The use of Enterprise Funds, as allowable by MGL Chapter 44, § 53F½, should be considered for all eligible activities currently funded in a departmental operating budget. By utilizing enterprise funds, fees charged for services would need to be raised to an appropriate level to ensure fiscal autonomy.
- A revolving fund, as allowable by MGL Chapter 44, § 53D, should be investigated for implementation in the Recreation Division. This accounting mechanism would allow the City's recreational services geared toward youth to be self-sufficient.

- A CitiStat study has shown if each employee enrolled in the top tier of health drops one (1) level in their health insurance package, the City would realize recurring savings in this area. This can be accomplished by increased education about the services provided by each health care provider.
- The City could investigate entering into a bi-weekly payroll process, but this would require contract negotiations with all unions. The costs savings from producing weekly payroll checks could be targeted towards the educational materials regarding the various health insurance plans, as mentioned in the item above.
- Investigate the cost of offering a cash stipend to employees who opt out of the City's health insurance plan.
- All City departments should be considered for inclusion in the Accela system. Currently the Building, Housing, Fire, Health, DPW and Planning are part of the project, but inclusion of the City Clerk and Police Department would increase the amount of collectible revenue.
- The City should consider larger flat pay increases in lieu of incidentals such as time off on Fridays to cash checks, shopping time at Christmas, "show up to work" bonus, workers paid for a full day but allowed to punch out before the end of a shift, etc. A comprehensive contract review should be completed in Fiscal Year 2011 in preparation for renewing collective bargaining agreements in FY2012.
- Requests for mid-contract concessions by collective bargaining units could be formulated and presented.
- Overtime policies that allow City employees to work additional hours on weekends and throughout the week, netting overtime, and then call-in sick on the other days should be investigated for possible elimination.
- School Department financial administration, under Ch 468 of the Acts of 2009, now reports to the CAFO. Other functions such as information technology, human resources, purchasing, and payroll should also be consolidated.
- Consultant studies for Special Education and School Transportation would generate savings if current policies are updated and new policies are adopted.
- Cross-training of City employees and the creation of an Inspectional Services Division incorporating the Housing, Building, Fire, and Health Departments would increase efficiency and the workforce could eventually be reduced by attrition.
- Programmatic cuts can be considered, but weighed in light of several factors: whether the service provided is a core service of local government, the ability of residents to find comparable services offered by private vendors, and the cost of the service in comparison to the value of the provided benefit.
- The City could explore the option of early retirement for staff similar to the plan Governor Patrick has proposed. By implementing this strategy the City can integrate a comprehensive look at positions, concluding with the option of back-filling a position.
- The City should consider cutting all less-essential vacant positions.
- Another policy that could be considered is a round of divisional and departmental reorganization studies. These reorganizations could eliminate duplication of services and transfer those resources to other high-priority departmental functions.

Capital Policy Decisions:

- It has become clear that the City will need to address its rising debt service cost due to the current capital liability. The City can explore voter approval to raise taxes over its current levy limit and levy ceiling by debt exclusion. By doing this, the City could raise the taxes necessary to cover the debt service increase. This would be in effect for the life of the debt only. Reimbursements such as state reimbursements for school building construction are subtracted from the amount of the exclusion.
- The City is required to budget 1.5% of the prior year's property tax levy as a capital reserve. This amount is currently used to offset the City's debt service payments. In future years when the debt schedule is reduced, this funding source should be applied to reducing the City's $500 million outstanding capital liability.
- The City's Budget staff must be vigilant in finding capital projects in the operating budget. If the capital projects are identified, these can possibly be funded by bonds, debt exclusion, or free cash.
- The City could increase the annual appropriation for Pay As You Go capital funding in order to reduce the outstanding capital liability.

DEPARTMENTAL BUDGET and POLICY DECISIONS

General Government Division

The mission of the General Government Division is to provide core services to support the City departments, as well as, the City's constituents. During his second inaugural address, Mayor Sarno announced his Strategic Plan outlining his five near-term priorities: Public safety, job creation, public education, neighborhood revitalization, and effective fiscal management.

CitiStat Department Policy Decisions

- The CitiStat Department can be expanded to include Schools and all quasi-public entities including the Springfield Water and Sewer Commission, Springfield Contributory Retirement Board, Springfield Parking Authority, MA Career Development Institute, and the Springfield Museums Association.

3-1-1 Citizen Service Center Policy Decisions

- The Service Center currently receives phone calls for eleven (11) City departments and has the capacity to accept calls from additional departments. This department can be expanded to incorporate all City departments.

Administration and Finance Division

The Division of Administration and Finance is responsible for the overall financial, human capital, and technology management of the City of Springfield. The Finance Division, as it currently exists, continues to ensure the fiscal stewardship established by the Springfield Finance Control Board.

Finance Department Policy Decisions

- Currently the City's financial services are spread throughout the City under the CAFO umbrella. While this has been effective, it will be beneficial to provide proper training in all financial matters to cut waste from OTPS budgets at the beginning of the budget process.
- The combination of the CitiStat and Finance departments could have great benefits for the City. The CitiStat process would become more comprehensive by integrating finance in the process, as greater communications between the two staffs has been proven to produce greater savings. This became evident during the 9C process in FY09.
- The Grants Unit should be expanded to provide better support to departments and provide additional means to pursue outside funding. In an effort to capture as much new revenue as possible for the City of Springfield, the City should also partner with grants management firms.

- Moving the Springfield Municipal Retirement System's offices out of the Tapley Street facility and into City Hall would centralize all payroll and personnel related functions under one roof.

Office of Procurement Policy Decisions:

- The Office of Procurement could be expanded to include all aspects of School Department purchasing and procurement. Additional staffing will provide a dedicated resource for the School Department's procurement questions and provide significant savings by ensuring that goods and services are purchased from the lowest, responsible vendors.

City Collector Policy Decisions:

- In order to increase the collection rate of taxes and fees, satellite offices or kiosks in other parts of the City could be established.
- The City could contract with a Deputy Collector (collection agency) to pursue the collection of past due personal property tax bills.

City Treasurer Policy Decisions:

- The City could more actively invest it's available cash resources within the constraints of City cash management policies and Massachusetts General Law. Any investment vehicles would be considered based on safety, liquidity, and yield.

Information Technology Policy Decisions:

- A consolidation of technology functions should take place between the City, Police Department, Fire Department, and Libraries. This consolidation will reduce duplication of efforts and eliminate redundant positions through attrition.
- MUNIS, the City's financial software, was vital to the City's financial revival under the Finance Control Board. Additional modules within MUNIS, such as contract management, general billing, and grants management, have been implemented citywide, but continual training is required to maximize employee productivity.
- Efforts To Outcomes software could be implemented to give a clear picture of which efforts are having the greatest impact on the social issues that the City strives to address. This software should be implemented within the CitiStat Department, and will serve as another tool to show which social programs are functioning as intended, which are in need of improvement, and which programs should be eliminated.

Parks, Recreation and Building Maintenance Division

The Parks, Recreation and Building Maintenance Division's (PRBM) mission is to improve residents' quality of life by maintaining and improving the City's parks and open space while offering a diverse range of recreation programs and maintaining and improving City-owned facilities including schools.

PRBM Policy Decisions:

- Bond, general fund and grant funding must be continually used for updating old heating and lighting units, as well as, new technologies that will allow the department to better control energy usage. Funding and implementation of Phase II of the ESCO Project is vital to the City's future.
- Funding for the City's two golf courses, as well as, pools could be done through enterprise funds. Budgeting in enterprise funds would allow the golf courses and pools to become self-sufficient operations.

Development Division

The Development Services Division integrates the resources of each department to enhance the quality of life in our City, to facilitate growth and development, to ensure appropriate planning and enforcement of regulatory standards, and to oversee and facilitate the revitalization of each neighborhood of the City.

Development Division Policy Decisions:

- The City's Development subdivisions, Community Development and Economic Development, are currently housed in City Hall and Tapley Street, respectively, even though they are under the direction of a single director. Moving the various subdivisions into one location will provide the Director with greater access to his personnel, increase communication, and provide increased productivity.
- The City of Springfield could offer additional Tax Incremental Financing (TIF) agreements with emerging industries (i.e. green technology, brownfield redevelopment) in order to expand the City's economic base. While revenue would be reduced in the early years, the City's taxable base would increase in future years.

Health and Human Services Division

The Health and Human Services ("HHS") Division serves to provide awareness of contemporary health issues, as well as, advocate for and provide health services to the citizens of Springfield.

Health Department Policy Decisions:

- The City should consider partnering with neighboring communities to provide regionalized health services such as flu clinics and cancer screenings. This measure

would reduce the per capita expenditure within Springfield while providing greater opportunities for State-supplied grant funding.
- The Health Department could be relocated to a city-owned building upon expiration of their current lease if space allows.

Animal Control Policy Decisions:

- The Thomas J. O'Connor Animal Control function could be realigned in one of the following ways:
  - The Animal Care function could be privatized (divested) while the Animal Control function could be placed under the management of the Springfield Police Department, or
  - the entire Animal Control department could provide services to only the City of Springfield, or
  - the City could re-negotiate the per-capita rate charged to the current partner communities in order to reduce the burden on Springfield's tax base.

Public Libraries Policy Decisions:

- The number of branch libraries in the City could be examined to determine if the potential cost savings from closing branches outweigh the benefits provided by keeping the branches open.
- The Springfield Library Foundation has offered to fund the increased operating costs of the Mason Square branch for three years, contingent on a successful eminent domain taking of the property. The City Council should be cautious when proceeding with this claim unless this additional cost can be absorbed into the operating budget at the end of those three years.

Department of Public Works

The mission of the Department of Public Works (DPW) is to maintain, preserve and improve the City of Springfield's public way infrastructure. The DPW also manages the Solid Waste Enterprise Fund.

Solid Waste Policy Decisions:

- The City's Trash Fee Enterprise Fund (EF) should incorporate all solid waste activities: solid waste, recycling, yard waste, bulk disposal, and household hazardous waste.
- The City should budget for the position of Solid Waste Enforcement Coordinator in the operating budget of the Enterprise Fund.
- The City's trash fee could be charged based on the number of dwelling units, not the number of bins. Bin-sharing reduces the amount of revenue brought into the City while the expense of solid waste disposal remains the same.

- A graduated bin system should be investigated to determine whether the current flat fee system is more advantageous.
- The collective bargaining unit that governs solid waste employees allows them to leave early once the Solid Waste Manager is certain that all daily routes will be completed. The next collective bargaining agreement could increase productivity by reinstating a 5-day work week, with solid waste collection remaining on a 4-days-per-week schedule, and employees assigned to other duties within the DPW on Mondays.
- At the earliest possible time, the City could issue a Request For Proposals to determine if a private contractor could provide solid waste collection to the City at a reduced cost.

<u>Fleet Maintenance Policy Decisions:</u>

- The maintenance of all vehicles could be consolidated under the Fleet Maintenance subdivision. The Police and Fire Departments each employ a fleet manager and several maintenance technicians. Consolidation of this function would allow the City to re-establish the 2nd shift without incurring any additional cost.
- An indoor vehicle storage facility is a priority for Fleet. Storing vehicles outside increases weather-related damage and shortens the lifespan of the asset. An analysis should be performed to determine how the cost compare to any potential benefits.
- The City should issue a Request For Proposals to determine if outsourcing part of all of the Fleet Maintenance subdivision is financially advantageous to the City.
- A thorough review of each position with access to overnight vehicle privileges should be conducted.
- The job description for any position that requires the privilege of an overnight, take-home vehicle should state the same.
- Leasing portions of the City's fleet, or car-sharing (through a company like ZipCar, for example) could be explored for financial benefits to the City.

<u>Street Maintenance Policy Decisions:</u>

- The DPW's internal milling and paving operation could be reinstated on a permanent basis. Routine maintenance of City streets can extend their useful life, thus deferring capital maintenance costs without detriment to the quality of roadway surfaces.
- Sidewalk maintenance could be funded on an annual basis. Well-maintained sidewalks, crosswalks, and streets reduces the need for additional education-related busing and reduces the City's liability in slip-and-fall cases.
- A comprehensive study of the City's storm drains could be performed (perhaps by an outside firm), with the end result being a Master Plan related to sewer, storm drain, and outfall repair and maintenance.

<u>Snow & Ice Policy Decisions:</u>

- The Snow and Ice budget should be level-funded on an annual basis, not increased. Increasing this line item locks the City into funding at the higher amount every year thereafter or else losing its ability to receive State funding for snow-related states of emergency.
- A comprehensive list of City employees with CDL licensure could be compiled and employed during the winter months in order to reduce the strain on DPW employees who drive both solid waste collection vehicles and winter street sanders.

Public Safety Division

The Public Safety division's mission is to keep the citizens of Springfield safe, establish partnerships between the public and the police in order to enhance the quality of life, law enforcement, preservation of public peace, and providing the highest quality emergency response and fire prevention services.

General Public Safety Policy Decisions:

- The Business Offices of the Police, Fire, and Dispatch Departments should be re-organized. With the promotion of the Public Safety Budget Director to a position that is Police-specific, several financial functions (budgeting, payroll, grants, capital planning, etc) in the Public Safety Division need to be realigned.

Police Department Policy Decisions:

- The SPD's fleet maintenance function could be transferred to the Fleet Maintenance subdivision of the DPW. This transfer would allow the SPD to place one (1) additional sworn officer into active patrol duty.
- The SPD's current vehicle purchase line item is not sufficient to replace patrol cars each year on a 1:1 basis. In FY10, the SPD cut $140,000 from this line item in order to absorb budget reductions and, in FY11, the SPD will lose Community Policing Grant funding that was also used to purchase police cruisers. Total budgeted funding for this cost should never be allowed to be funded below the amount required to replace twenty percent (20%) of the SPD's patrol cars on an annual basis.
- The number of sworn personnel in administrative positions is negatively impacting the ability of the Police Commissioner to deploy officers on active patrols. Job functions that can be performed by civilian employees (or retired police officers) should not be filled with sworn personnel.

Fire Department Policy Decisions:

- The use of overtime to keep apparatus in service could be reviewed.

- Currently, the Fire Commissioner cannot deny a request to use vacation time unless the number of employees out on leave exceeds 16. This number is based on the compliment of trained firefighters in 2006. Adoption of MA General Law Ch 41 § 111K would override the collective bargaining agreement and give the Commissioner more flexibility in staffing.
- The Public Information Officer (PIO) position, required by NFPA 1035, is currently a stand-alone position. The PIO job function could be assigned to the on-scene commander at any incident, with the firefighter currently in this position reassigned to an apparatus. This change would save annual overtime costs and supply additional firefighters to emergency response vehicles.
- The Fire Stop program for juvenile fire-starter intervention, currently manages cases for all surrounding cities in towns in Western MA. The Fire Stop program could begin charging a fee for out-of-town referrals.
- The Training Division lost three (3) lieutenants (two to retirement, one to reassignment to an apparatus) within the past two years. An annual amount could be budgeted for an outside entity to assist the SFD in writing and implementing training courses.
- New emergency first-responder vehicles (i.e. a Chevy Tahoe) could be purchased and placed into service. These vehicles can be used to respond to incidents such as car crashes and medical calls for service instead of using fire engines or ladders. This practice would extend the usable life of fire apparatus and reduce annual vehicle maintenance costs.

<u>Centralized Dispatch Department Policy Decisions:</u>

- Hiring a Dispatch Director will enable employees of the Police and Fire Departments to be cross-trained to answer all types of calls, thus reducing the need for two different sets of staff to answer emergency calls. This measure would allow the City to reduce the number of FTEs by attrition as well as reduce the need for dispatch overtime.
- Moving Public Safety Dispatch functions to a single, dedicated facility would provide better oversight for the Director and set the stage to implement a Regionalized Public Safety Dispatch Center.
- Grant funding for Centralized, and eventually Regionalized, Dispatch should be pursued as a top priority.

APPENDIX A:

FY2011 – FY2014 Assumptions

DRAFT Four Year Financial Forecast

Department	FY08 Actual	FY09 Actual	FY10 Adopted	FY11 Projected	FY12 Projected	FY13 Projected	FY14 Projected
Expenditures							
City-Wide Departments	**101,231,612**	**99,859,553**	**122,095,995**	**125,857,961**	**128,180,229**	**131,879,767**	**136,179,643**
Personal Services	73,097,215	73,001,875	82,665,084	86,019,326	87,399,785	90,009,308	92,660,306
OTPS	26,281,899	25,807,422	38,811,206	38,958,733	39,893,244	40,967,835	42,610,161
Capital	1,852,497	1,050,255	619,705	879,902	887,200	902,624	909,176
Education	**291,411,221**	**277,315,343**	**305,026,945**	**321,074,965**	**343,605,430**	**351,406,228**	**359,386,260**
Personal Services	174,324,978	150,690,593	163,864,166	181,207,803	185,737,998	190,381,448	195,140,984
OTPS	116,547,789	126,390,294	140,920,793	154,328,892	157,415,470	160,563,779	163,775,054
Capital	538,454	234,457	241,986	443,100	451,962	461,001	470,221
Debt Service	**39,245,412**	**39,005,185**	**38,556,818**	**41,917,914**	**42,756,273**	**43,611,398**	**44,483,626**
Health Insurance	**23,819,830**	**24,084,282**	**23,961,561**	**26,118,101**	**30,035,817**	**32,739,040**	**35,685,554**
Contribution Retirement Pension	**21,194,541**	**20,654,860**	**22,191,730**	**32,191,730**	**33,801,317**	**35,491,382**	**37,265,951**
Non-Contributory Pensions	**490,918**	**540,000**	**340,000**	**340,000**	**346,800**	**353,736**	**360,811**
Enterprise Fund Supplement	**2,688,359**	**2,754,000**	**3,260,789**	**4,800,000**	**8,300,000**	**8,632,000**	**8,977,280**
Other	**6,407,909**	**11,301,217**	**13,223,664**	**13,225,730**	**13,320,845**	**13,570,861**	**13,825,879**
Expenditure Total	**486,489,802**	**475,514,440**	**528,657,502**	**565,526,402**	**600,346,709**	**617,684,413**	**636,165,004**
% Change		-2.3%	11.2%	7.0%	6.2%	2.9%	3.0%
Revenues							
Real estate and personal property taxes	**144,389,339**	**158,092,645**	**162,138,123**	**162,997,551**	**165,442,515**	**168,751,365**	**172,970,149**
Tax liens	**4,472,030**	**3,309,149**	-	-	-	-	-
Motor vehicle and other excise taxes	**8,921,591**	**8,340,690**	**7,750,000**	**7,750,000**	**7,750,000**	**7,750,000**	**7,750,000**
Hotel/motel tax	**960,544**	**876,507**	**900,000**	**850,000**	**850,000**	**850,000**	**850,000**
Charges for services	**151,699**	**34,971**	**111,000**	**219,000**	**223,380**	**227,848**	**232,405**
Penalties and interest on taxes	**2,185,178**	**2,342,311**	**1,030,000**	**1,030,000**	**1,030,000**	**1,030,000**	**1,030,000**
Payments of lieu of taxes	**6,936,565**	**5,820,090**	**6,033,036**	**5,000,000**	**5,000,000**	**5,000,000**	**5,000,000**
Licenses and permits	**2,556,063**	**608,894**	**1,096,000**	**2,675,170**	**2,728,673**	**2,783,247**	**2,838,912**
Fines and forfeitures	**724,686**	**151,615**	**408,910**	**523,060**	**533,521**	**544,192**	**555,075**
Intergovernmental	**330,392,058**	**306,700,349**	**317,642,157**	**330,819,972**	**330,819,972**	**330,819,972**	**330,819,972**
Departmental and other	**13,760,708**	**21,467,425**	**18,798,276**	**16,253,137**	**16,253,137**	**16,253,137**	**16,253,137**
Investment income	**4,591,041**	**2,301,580**	**2,750,000**	**1,800,000**	**2,000,000**	**2,000,000**	**2,000,000**
Reserves	-	**2,350,000**	**10,000,000**	-	-	-	-
Miscellaneous	-	-	-	-	-	-	-
Revenue Total	**520,041,502**	**512,396,226**	**528,657,502**	**529,917,890**	**532,631,198**	**536,009,760**	**540,299,649**
% Change		-1.5%	3.2%	0.2%	0.5%	0.6%	0.8%
Surplus/(Gap)	**33,551,700**	**36,881,786**	-	**(35,608,512)**	**(67,715,512)**	**(81,674,654)**	**(95,865,355)**

Note: This document if for planning purposes only.

DRAFT Four Year Financial Forecast

Department	FY08 Actual	FY09 Actual	FY10 Adopted	FY11 Projected	FY12 Projected	FY13 Projected	FY14 Projected
Expenditures							
Finance Division	15,449,982	14,989,708	17,259,583	17,299,028	17,680,098	18,069,667	19,205,558
Personal Services	5,507,596	5,285,566	6,335,697	6,815,563	6,982,126	7,152,777	7,341,880
OTPS	9,942,386	9,331,272	10,780,740	10,168,563	10,376,772	10,589,267	11,529,502
Capital	-	372,870	143,146	314,902	321,200	327,624	334,176
Development Division	2,484,568	2,830,414	3,114,378	3,285,637	3,430,636	3,647,433	3,724,452
Personal Services	2,117,935	2,232,141	2,550,978	2,699,687	2,817,501	2,929,258	3,046,686
OTPS	353,772	598,273	563,400	585,950	613,135	718,175	677,766
Capital	12,861	-	-	-	-	-	-
General Government Division	3,114,261	3,674,824	3,452,680	3,497,958	3,571,339	3,646,563	3,723,387
Personal Services	1,998,735	2,559,168	2,751,497	2,826,462	2,897,123	2,958,863	3,021,932
OTPS	1,114,306	1,093,287	701,183	660,996	674,216	687,700	701,454
Capital	1,220	22,369	-	10,500	-	-	-
Non-Mayoral Division	765,140	807,559	1,340,241	1,402,930	1,425,922	1,460,134	1,495,174
Personal Services	728,900	764,355	1,014,753	1,111,007	1,138,874	1,167,345	1,196,529
OTPS	36,239	43,204	325,488	291,923	287,048	292,789	298,645
Capital	-	-	-	-	-	-	-
Health and Human Services Division	8,299,357	8,487,742	8,348,392	8,659,713	9,163,193	9,584,293	9,976,842
Personal Services	4,502,413	4,656,005	4,558,462	4,710,586	4,866,508	5,027,990	5,194,943
OTPS	3,712,950	3,787,112	3,749,930	3,909,127	4,255,685	4,506,303	4,731,899
Capital	83,994	44,625	40,000	40,000	41,000	50,000	50,000
Public Safety Division	57,211,759	56,230,235	57,847,873	60,183,215	61,407,810	63,199,844	65,044,949
Personal Services	52,588,177	52,149,361	54,140,567	56,160,458	57,437,728	59,160,859	60,935,685
OTPS	3,763,062	3,455,114	3,311,306	3,497,757	3,445,083	3,513,984	3,584,264
Capital	860,519	625,760	396,000	525,000	525,000	525,000	525,000
Public Works Division	13,907,766	12,861,440	9,623,147	10,507,009	10,755,095	11,009,280	11,269,722
Personal Services	5,653,459	5,355,279	4,235,357	3,794,556	3,908,393	4,025,645	4,146,414
OTPS	7,359,184	7,499,161	5,387,790	6,712,453	6,846,702	6,983,636	7,123,309
Capital	895,123	7,000	-	-	-	-	-
Education	291,411,221	277,315,343	305,026,945	321,074,965	343,605,430	351,406,228	359,386,260
Parks, Recreation, and Facilities	-	-	21,109,701	21,032,971	20,746,137	21,262,552	21,739,559
Personal Services	-	-	7,077,773	7,901,007	7,351,533	7,586,571	7,776,236
OTPS	-	-	13,991,369	13,131,964	13,394,604	13,675,981	13,963,323
Capital	-	-	40,559	-	-	-	-
Debt Service	39,245,412	39,005,185	38,556,818	41,917,914	42,756,273	43,611,398	44,483,626
Health Insurance	23,819,830	24,084,282	23,961,561	26,118,101	30,035,817	32,739,040	35,685,554
Other	30,781,727	35,250,077	39,016,183	50,557,460	55,768,961	58,047,980	60,429,921
State Assessments	2,591,642	3,326,049	3,212,359	3,212,359	3,276,606	3,342,138	3,408,981
Pay Go Capital	-	-	3,005,406	3,128,628	3,191,201	3,255,025	3,320,125
Contribution Retirement Pension	21,194,541	20,654,860	22,191,730	32,191,730	33,801,317	35,491,382	37,265,951
Unemployment	110,656	105,000	668,703	668,703	682,077	695,719	709,633
Museums	1,320,000	1,320,000	1,320,000	1,320,000	1,320,000	1,320,000	1,320,000
Non-Contributory Pensions	490,918	540,000	340,000	340,000	346,800	353,736	360,811
Enterprise Fund Supplement	2,688,359	2,754,000	3,260,789	4,800,000	8,300,000	8,632,000	8,977,280
Capital Reserve Fund	-	2,187,997	2,545,124	2,596,026	2,647,947	2,700,906	2,754,924
MCDI Contract	-	1,019,475	1,025,000	825,000	841,500	858,330	875,497
Reserve for Contingencies	-	392,696	400,000	400,000	408,000	416,160	424,483
Parking Contract	285,611	850,000	1,397,072	1,425,013	1,453,514	1,482,584	1,512,236
Chapter 169 Loan Repayment	2,600,000	2,600,000	-	-	-	-	-
Homeless Intiative	-	-	150,000	150,000			
Provision for uncompensated Absences	(500,000)	(500,000)	(500,000)	(500,000)	(500,000)	(500,000)	(500,000)
Expenditure Total	**454,958,401**	**443,992,076**	**528,657,502**	**565,536,902**	**600,346,709**	**617,684,413**	**636,165,004**
% Change		-2.4%	19.1%	7.0%	6.2%	2.9%	3.0%
Revenues							
Real estate and personal property taxes	144,389,339	158,092,645	162,138,123	162,997,551	165,442,515	168,751,365	172,970,149
Tax liens	4,472,030	3,309,149	-	-	-	-	-
Motor vehicle and other excise taxes	8,921,591	8,340,690	7,750,000	7,750,000	7,750,000	7,750,000	7,750,000
Hotel/motel tax	960,544	876,507	900,000	850,000	850,000	850,000	850,000
Charges for services	151,699	34,971	111,000	219,000	223,380	227,848	232,405
Penalties and interest on taxes	2,185,178	2,342,311	1,030,000	1,030,000	1,030,000	1,030,000	1,030,000
Payments of lieu of taxes	6,936,565	5,820,090	6,033,036	5,000,000	5,000,000	5,000,000	5,000,000
Licenses and permits	2,556,063	608,894	1,096,000	2,675,170	2,728,673	2,783,247	2,838,912
Fines and forfeitures	724,686	151,615	408,910	523,060	533,521	544,192	555,075
Intergovernmental	330,392,058	306,700,349	317,642,157	330,819,972	330,819,972	330,819,972	330,819,972
Departmental and other	13,760,708	21,467,425	18,798,276	16,253,137	16,253,137	16,253,137	16,253,137
Investment income	4,591,041	2,301,580	2,750,000	1,800,000	2,000,000	2,000,000	2,000,000
Reserves	-	2,350,000	10,000,000	-	-	-	-
Miscellaneous	-	-	-	-	-	-	-
Revenue Total	**520,041,502**	**512,396,226**	**528,657,502**	**529,917,890**	**532,631,198**	**536,009,760**	**540,299,649**
% Change		-1.5%	3.2%	0.2%	0.5%	0.6%	0.8%
Surplus/(Gap)	**65,083,101**	**68,404,150**	**-**	**(35,619,012)**	**(67,715,512)**	**(81,674,654)**	**(95,865,355)**

The following assumptions were used for fiscal years 2011 - 2014. These assumptions consider historical collections and spending and the current economic climate. In general, the financial forecast assumes that the local and state economy will continue to decline in FY2010 and begin to improve in late FY2011 and FY2012.

REVENUE

State Aid

In general, the following state aid projections are based on the assumption that the Commonwealth's current economic condition will not improve until FY2012. This assumption is supported by recent news that Governor Patrick intends to level fund local aid to communities in Fiscal Year 2011. Springfield cannot count on increased state aid in the next several years, and assumes level funding for state aid for FY11 – FY14.

Chapter 70

The City's largest source of state aid is 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 following projection assumes a restoration to pre-9C levels for Chapter 70 in FY2011 with no growth for FY2012 - FY2014. The financial forecast assumes that the municipality will have to increase its local contribution to meet its foundation budget.

Charter School Tuition Reimbursements

The Commonwealth provides assistance to municipalities whose resident students attend charter schools. Sending districts are reimbursed a portion of the costs associated with students attending charter schools, 100 percent of the tuition increase for the first year, 60 percent in the second year, and 40 percent in the third year.

Governor Patrick intends to expand the number of charter schools in urban districts. This projection assumes that the number of students attending charter schools will continue to increase annually by ten percent.

Unrestricted General Government Aid

In January of 2009, the Governor announced that the Commonwealth was combining Lottery Aid and Additional Assistance into a new state aid category, entitled Unrestricted General Government Aid.

As stated earlier, the City's unrestricted general government aid was reduced by $4.6 million in FY2009 and $13.7 million in FY2010. The financial forecast assumes that the City's unrestricted general government aid will be level funded for the next four years. The last time the State implemented 9C reductions, the City did not receive an increase in unrestricted general aid for four years.

School Building Assistance Aid

The Massachusetts School Building Authority (MSBA) reimburses approved school building projects through School Building Assistance aid. This program is designed to help struggling communities keep building costs at a manageable level and provide students first class facilities in which to learn.

The assumption includes a 90 percent reimbursement for the new Putnam High School and the renovation of Forest Park Middle School. These are the final projects statewide being funded under the “old” MSBA method.

Other State Aid

The following are the assumptions for the other state aid categories Springfield receives:

The Governor’s initial budget for FY11 again reduces the Police Career Incentive aid (Quinn Bill), partial reimbursements for additional police officer education. The recommended funding is 90 percent below the amount received in FY09, with a high probability that this funding source will be eliminated entirely in the future.

The City receives a 75 percent reimbursement on all spending towards veterans’ financial, medical and burial benefits. The lag time in reimbursements may affect the City’s cash flow if it did not have a strong cash position. The following projection assumes a 12 percent increase in veteran benefits state aid, proportional to the projected increase in our projected veteran benefit expenditures.

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 an annual two percent increase as the City’s average age increases.

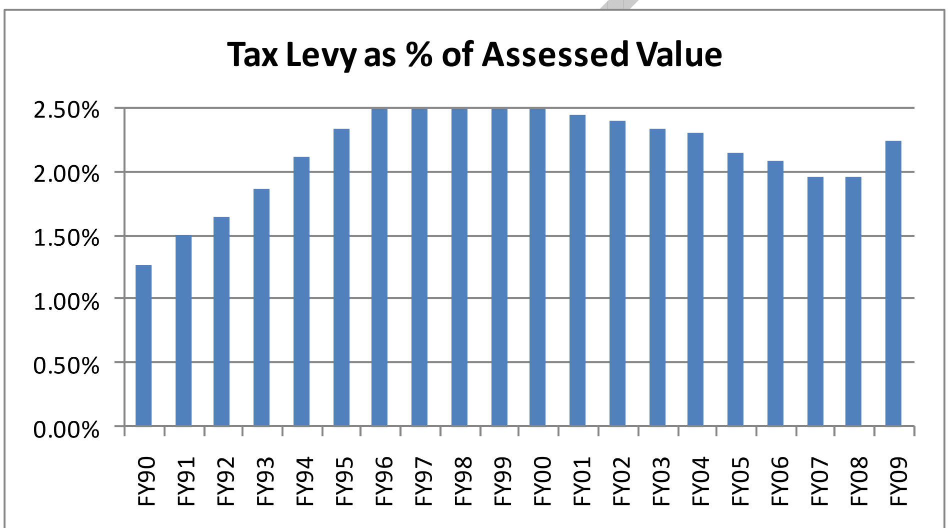
The State reimburses municipalities for state owned land. The following projection assumes level funding for the next four years.

Local Source Revenue

The remaining 37 percent of the City’s revenue is from local source revenue, including property taxes, excise tax on motor vehicles, fees, fines and payments-in-lieu of taxes. Over the last several years, the City made great strides in improving local source revenue collections. These revenue sources are discussed in greater detail, as some are relatively stable while others are cyclical with the economy.

Property Taxes

The financial forecast also assumes no new growth from Fiscal Year 2011 to 2014. New growth is the additional property tax revenue generated by new construction, renovations or other increases in the tax base during the calendar year. Over the last five fiscal years, the City's new growth has averaged $3.8 million per year. This was because of a combination of aggressive identification of new personal property, disposal of tax title properties and expiring Chapter 121A values.



The financial forecast assumes the City will be able to increase its levy by 2.5 percent annually, within the limits of Proposition 2 ½. The City reached its levy ceiling from Fiscal Year 1996 to Fiscal Year 2000 due to a decrease in the City's total assessed value. Springfield's Fiscal Year 2010 property tax levy is 2.25 percent of the assessed value.

If the City's assessed values decreased in Fiscal Year 2011 at the rate of Fiscal Years 2009 and 2010, the City would once again hit its levy ceiling. Reaching the levy ceiling in FY11 will result in zero percent growth in the citywide property tax levy over previous commitments until property values rise. This is a major concern because property taxes accounted for 81 percent of the City's local source revenue in FY10. The inability to raise additional property tax revenue will have a major impact on the extent of budget cuts needing to be made.

The City's overlay reserve is projected to be $4.5 million from Fiscal Year 2011 to 2014. The overlay reserve is an account established annually to fund anticipated property tax abatements, exemptions and uncollected taxes. Fiscal Year 2011 is a potential revaluation year and anticipates additional abatement and exemption filings.

Finally, the financial forecast assumes a 98 percent collection rate for property taxes each year.

Local Receipts
After a projected decline of more than $2 million in Fiscal Year 2010, the financial forecast assumes a gradual increase in local receipts from Fiscal Year 2011 to 2014.

Springfield collects a motor vehicle excise tax, which is based on a rate of $25 per $1,000 of valuation for every motor vehicle. From Fiscal Year 2005 through Fiscal Year 2009, the City collected an average of $8.8 million in motor vehicle excise tax revenue annually. The financial projection assumes an excise tax collection of $7.75 million in Fiscal Year 2011 – 2014.

Massachusetts communities have the option of assessing a tax of up to 4 percent on short-term room occupancy, including hotels and motels. The City collected on average $882,192 in hotel / motel excise tax in the last five fiscal years. The following projection assumes decreased collections in Fiscal Year 2011, level funding in Fiscal Years 2012 and 2013, and a two percent increase in Fiscal Year 2014 as the economy begins to improve. As stated earlier, the financial projection does not assume an increase in the room occupancy taxes, allowed by local option.

The financial projection assumes a loss of $1 million in funding for Fiscal Year 2011 through 2014 for charges for services and payments in lieu of taxes. The first category assumes a conservative demand for services that require a charge or fee. The PILOT agreement for the 1350 Main Street expires in 2011.

The City imposes penalties and charges on all late payments and taxes. Over the last five years the City made significant strides to improve its collection and enforcement of taxes, yet there will always be a small group of delinquent tax payers. The projection assumes level funding of this revenue source for the next four fiscal years.

The financial projection assumes an annual two percent growth for licenses, permits, fines and forfeitures. Over the last year the City has spent a considerable amount of time examining its collection of fees, fines and permit revenue. Currently the City is implementing a new permitting software (ACELLA) to improve its collection rate of permits and fees.

The financial projection assumes a two percent annual increase in the departmental and other revenue category largely based on the increased parking revenue. In Fiscal Year 2008, the City hired the Springfield Parking Authority to enforce on-street parking, resulting in a significant increase in parking ticket revenue.

Due to the current economic condition, the financial projection assumes a ten percent decrease of investment income in Fiscal Year 2011, level funding from Fiscal Year 2012 – 2013, and a two percent increase in Fiscal Year 2014.

Expenses
After a minimal decrease in expenses in Fiscal Year 2010, the financial forecast assumes $37.8 million, $33.9 million, $17.3 and $18.5 million increases in Fiscal Years 2011 – 2014 respectively.

Personal Services
The following projection assumes a level number of funded employees in the subsequent four years after Fiscal Year 2010. The financial forecast assumes salary increases in accordance with collective bargaining agreements.

Other than Personal Services
The projection assumes a two percent increase for other than personal services (OTPS) costs, based on the Fiscal Year 2010 budget except where individual expenditure types dictate a larger or smaller rate of change.

While the efforts by the City to control utility costs have been extremely successful over the last three years, the projection assumes level funding in utility accounts from Fiscal Years 2011 through 2014 due to volatility in the cost of fossil fuels.

Snow / Ice Removal
The projection assumes a level funding for costs related to snow removal. Any deficit above this amount would be covered by operational savings within the budget.

Health Insurance
As mentioned earlier, the City has annually saved millions by receiving its health insurance through the Group Insurance Commission. This financial forecast assumes an overall increase of nine (9) percent associated with health insurance, including enrollment and rate changes. The actual rate for FY11 will be determined on March 2, 2010.

Fringe Benefits
The projection assumes a two percent annual growth for workers compensation and funding for annual unemployment costs. Should the City have a significant round of layoffs due to 9C cuts or state aid reductions, as in Fiscal Year 2009, the unemployment appropriation would have to increase.

Retirement
The retirement projection is based on the City's most recent actuarial report. On average, the City's retirement appropriation is projected to increase by four percent annually. This cost is driven by the requirement for the City's retirement system to be fully funded by FY2028 and the City's current unfunded liability is over $402 million. Governor Patrick's proposed FY11 budget proposes legislation to extend the funding deadline to FY2040. An updated actuarial report is expected until early in Fiscal Year 2011.

Debt Service
The City's debt service is based on its current schedule plus an assumed bond issuance of approximately $15 million in February 2010 for the Forest Park Middle School and parochial school renovations.

Assessments
The projection assumes state assessments will increase an average of two percent annually over the next four years. Other municipal assessments, such as those with the Springfield Museums Association and M.C.D.I., are based on the agreed schedule.

School Department
The School Department projection is based on a projected enrollment increase and the required funding rate per student. The financial projection does not anticipate receiving any additional American Recovery and Reinvestment Act (ARRA) funds in FY11. Springfield received ARRA funds in Fiscal Year 2009 and 2010 in order to meet its foundation budget after reductions in Chapter 70 aid.

The School Department's budget includes benefits for School Department employees and retirees.

Trash Enterprise Fund
The projection assumes the elimination of the trash fee in accordance with Chapter 468 before Fiscal Year 2012, at which point the $8.3 million enterprise fund expenses would return to the general fund and the City would lose the annual trash fee revenue of $3.5 million.

APPENDIX B

The outlook for Massachusetts in 2010 and beyond

Worcester Business Journal

The Outlook For Massachusetts In 2010 And Beyond

By Alan Clayton-Matthews
Special to the Worcester Business Journal
12/28/09

Technically, the current recession may be over in that the bottom in real gross state product — a measure of the output of goods and services produced in state — may have already been reached in October or November of this year.

Weak growth in output in the first half of next year will not be strong enough to result in employment gains, so employment will continue to fall in the first three quarters of next year and the unemployment rate will continue to rise, although the pace of job loss will slow.

Tough Sledding

The New England Economic Partnership (NEEP) forecast calls for employment to bottom out in the third quarter of next year (2010), with total job losses in the recession amounting to 5.9 percent of the peak payroll employment level in the first quarter of 2008. Despite the unexpected drop in the unemployment rate in October, the NEEP outlook is for the unemployment rate to continue to rise through the middle of next year, peaking at 9.6 percent in the second or third quarter of 2010.

In terms of the number of jobs lost, this recession is similar to the last one, the so-called "dot.com" recession of 2001-2003, in which employment declined by 6.1 percent. However, this recession has been steeper and deeper, and has been harder on workers than the last.

We estimate the peak to trough decline in real gross state product to have been 3.2 percent, versus 2.5 percent in the prior recession. The unemployment rate has exceeded that of the last recession and even that of the very severe 1989-91 recession. Moreover, underemployment has been a particular problem in this recession, with more workers than ever before in recent history working at reduced hours, and many having experienced salary reductions or furloughs.

The economic stimulus program of the federal government has been successful in limiting job losses and supporting consumer spending, especially with the new homes credit and cash for clunkers programs. There is a danger that households, having suffered income losses through job losses, reduced hours of work, and reduced pay rates, could cut back on consumer spending enough to send the economy into a double-dip recession. If this happens, another round of fiscal stimulus would be needed.

However, I don't think this will be necessary, because private demand and investor confidence appears to be improving, especially in technology markets that are important for Massachusetts exports. Virtually every measure of demand or sales in information technology markets turned around sharply in the spring of this year. Furthermore, a weakening dollar will help spur exports by making U.S. products cheaper relative to the international competition.

Wallet Health

In addition, the housing market has improved substantially this year, with robust increases in sales and prices throughout the spring and summer. In combination with a sharp rise in stock markets, household wealth is growing once again. It also appears that hours of work are beginning to increase as well.

With rising household incomes and wealth, the vicious downward cycle of this recession should be over, and should soon be replaced by a virtuous cycle of increasing spending, which will lead to job growth late in 2010.

Employers have cut costs to the bone relentlessly in this recession, and will have to add hours and later jobs in response to even a tepid rise in consumer spending. Although the job recovery will just begin to get rolling late next year, the NEEP outlook is for accelerating job growth in 2011.

Commercial real estate will be about the last sector to participate in this recovery. The excess inventory in office and retail space will not be absorbed until employment returns to its former level and shoppers return to malls en masse. This may not happen until 2013, when employment in Massachusetts reaches is pre-recession level.

Alan Clayton-Matthews is an associate professor at the School of Public Policy and Urban Affairs for Northeastern University. He's also a director with the New England Economic Project.

APPENDIX C:

Memo from Financial Advisor regarding bond-rating improvement opportunities

FirstSouthwest
A PlainsCapital Company.

Memorandum

54 Canal Street
Suite 320
Boston, MA 02114

617.619.4408 Direct
617.619.4411 Fax

Cinder McNerney
Managing Director

cmcnerney@firstsw.com

Date: February 23, 2010

To: Lee Erdmann; T.J. Plante

Cc:

Subject: Action steps to improve City's bond ratings

Hi Lee and TJ.

You have asked me what the City needs to do to improve its credit rating. The issue with improving the credit rating is as follows:

The City has already done a number of things that will result in an upgrade, IF these accomplishments can be sustained and maintained. However, because control of the City's operations has been turned back to the City with the dissolution of the SFCB in June 2009, it's critical to an upgrade, that the rating agencies see the City prove that it's willing and able to do the following in each year as it moves forward:

Strictly adhere to all of the new financial policies and practices the SFCB established, including the fund balance policies and conservative estimating procedures, added to the City's ordinances prior to dissolution of SFCB.

Produce annual operating surpluses.

Eliminate future projected operating deficits in medium term projections.

Maintain control over operating expenditures.

Achieve structural balance in the budget; i.e., eliminate the use of non-recurring revenues, including reserves, to balance the budget, except for emergencies, and to the extent reserves have to be utilized, then develop a plan to replenish those reserves in a timely fashion.

Manage the capital plan in accordance with the ordinances, and maintain and address deferred City infrastructure needs.

Develop a plan to further fund pension liability.

Develop a plan relative to the City's OPEB liability and start funding it.

Set/maintain trash fees at rates adequate to insure the fund is fully self-supporting.

Maintain the adopted meals tax.

Expand opportunities for economic growth in the City.

As the City produces its own trend in accomplishing this list and balancing its resources, the more credibility it will establish with the rating agencies, which will result in an upgrade.

Moody's most recent credit report dated April 21, 2009, lists the factors that could move the rating up, as well as the factors that could move the rating down.

Standard & Poor's most recent credit report dated the same date, points out that the City's future credit direction will depend on the maintenance of the sound financial fundamentals achieved under the control board.

Please call with any questions or if you would like additional information. Thanks

Cinder

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CITY OF SPRINGFIELD, MASSACHUSETTS

Credit Comparison with Massachusetts Baa1 Rated Communities

February 2010

FirstSouthwest
A PlainsCapital Company.

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Boston, MA 02114
Telephone (617) 619-4408 Fax (617) 619-4411

CITY OF SPRINGFIELD, MASSACHUSETTS

Credit Comparison with Massachusetts Baa1 Rated Communities

		Economics							Debt			Finances										
Issuer	Moody's/ S&P	2000 Population	2000 Per Capita Income	2000 Median Family Income	December 2009 Unemployment Rate	Final 2008 Equalized Valuation	Per Capita EQV	FY 09 Residential AV as a % of Total AV	6/30/09 General Obligation Bonded Debt Outstanding	Bonded Debt Per Capita	Cumulative % of Principal Retired in 10 Years	7/1/09 Free Cash	6/30/08 Stabilization Fund Balance	FY 08 Total Fund Balance	FY 08 Undesignated General Fund Balance	FY 08 Total Revenues	Total Fund Balance as a % of Revenue	Undesignated and Stabilization Fund Balance as a % of Revenue	FY 10 Average Single Family Tax Bill	Average Single Family Tax Bill as a % of Median Family Income	FY 10 Excess Lower Levy Limit Capacity	Cumulative Excess Lower Levy Limit Capacity for the past 10 years
Springfield	Baa2/BBB+	152,082	15,232	36,285	13.2%	8,479,854,100	55,758	75.7%	321,253,452	2,112	77.9%	12,543,347 (1)	68,081,960	57,402,901	39,677,849	555,595,620	10.33%	19.40%	2,685	7.40%	7,429	109,185
Fall River	Baa1/BBB+	91,938	16,118	37,671	16.9%	7,209,931,100	78,422	79.5%	291,299,592	3,168	50.5%	2,025,802	7,313,224	18,787,583 (2)	14,194,265 (2)	234,138,232 (2)	8.02%	9.19%	2,139	5.68%	60,007	32,504,610
Fitchburg	Baa1/BBB+	39,102	17,256	43,291	13.0%	3,088,083,300	78,975	83.2%	85,750,979	2,193	78.4%	2,384,789	320,940	3,516,396	2,399,957	108,425,095	3.24%	2.51%	2,687	6.21%	910	86,096
Gardner	Baa1/NR	20,770	18,624	47,164	12.1%	1,486,717,200	71,580	86.1%	23,427,334	1,128	87.0%	865,160	281,968	2,645,943	779,333	45,208,658	5.85%	2.35%	2,676	5.67%	10,658	339,041
Haverhill	Baa1/NR	58,969	23,280	59,772	10.5%	6,700,320,500	113,624	84.0%	75,321,245	1,277	76.4%	4,170,615	445,493	17,039,684	10,229,045	162,879,472	10.46%	6.55%	3,474	5.81%	4,696	290,437
Holyoke	Baa1/BBB+	39,838	15,913	36,130	12.2%	2,361,133,900	59,268	70.9%	55,787,077	1,400	69.2%	5,875,643	9,396,513	13,577,770 (3)	7,007,907 (3)	134,566,043 (3)	10.09%	12.19%	2,764	7.65%	12,620	2,183,587
Lynn	Baa1/A-	89,050	17,492	45,295	10.3%	7,613,788,900	85,500	86.2%	89,147,000	1,001	88.8%	4,675,104	-	10,476,007	6,800,177	269,519,913	3.89%	2.52%	3,466	7.65%	379,881	17,243,491
Saugus	Baa1/NR	26,078	25,524	65,782	9.2%	4,489,098,800	172,141	80.0%	33,455,998	1,283	83.4%	1,485,995	514,561	1,949,924	752,227	68,438,352	2.85%	1.85%	3,321	5.05%	2,753	353,532
Wareham	Baa1/NR	20,335	21,312	45,750	10.5%	4,216,499,700	207,352	84.9%	39,643,570	1,950	70.9%	(462,952) (1)	163,635	234,993	(15,280)	53,055,892	0.44%	0.28%	2,290	5.01%	30,800	134,370
Springfield's Rank		1	9	8	8	1	9	2	9	7	5	1	1	1	1	1	2	1	6	3	6	8

(1) Free Cash as of 7/1/08.
(2) Extracted from FY 2007 Financial Statements.
(3) Extracted from Draft FY 2008 Financial Statements.

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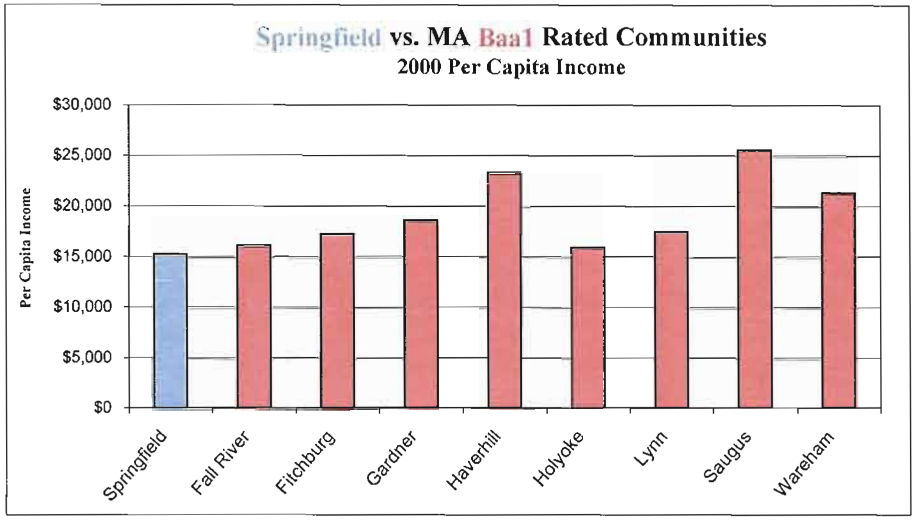

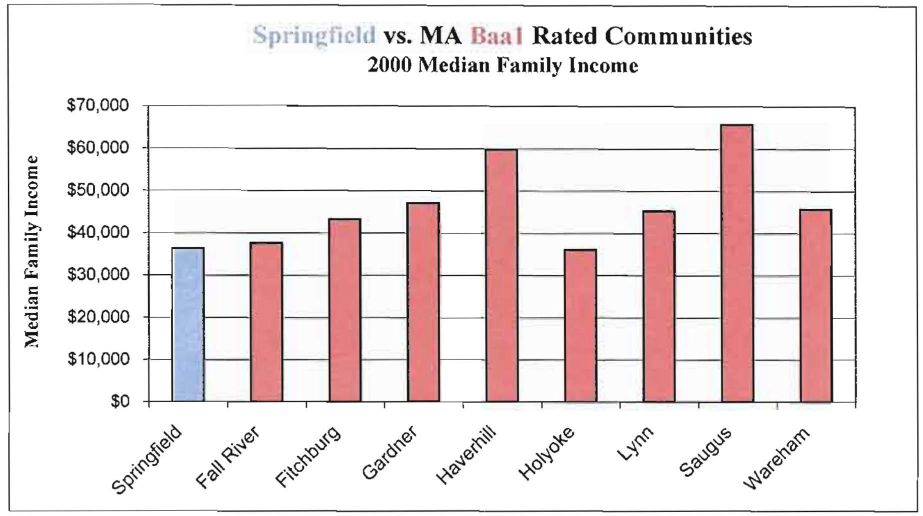

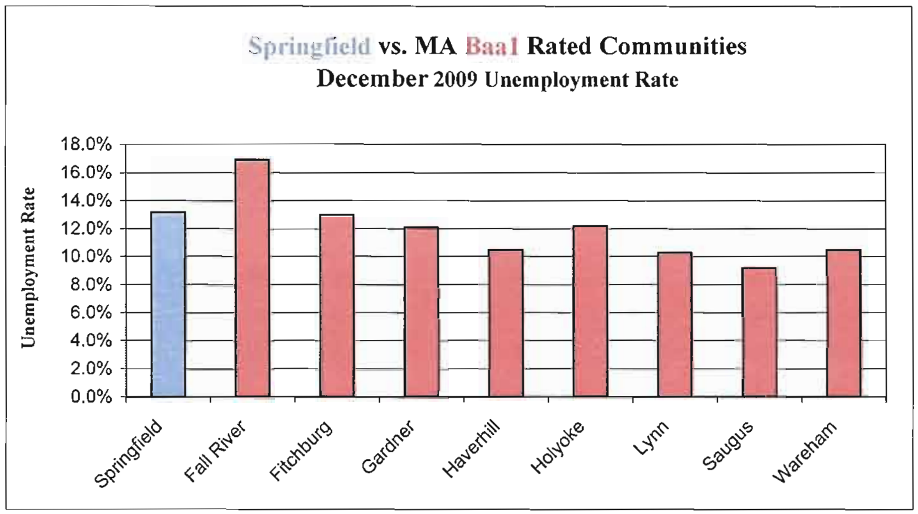

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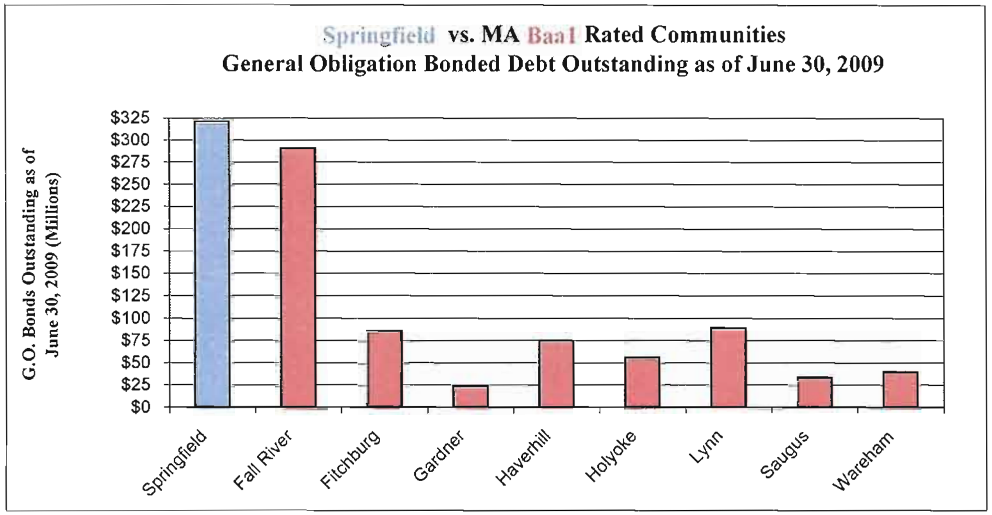

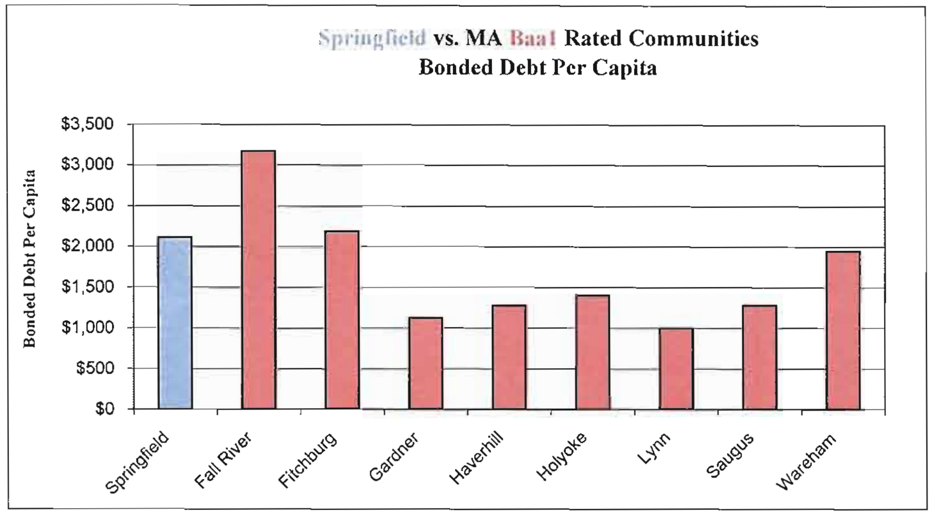

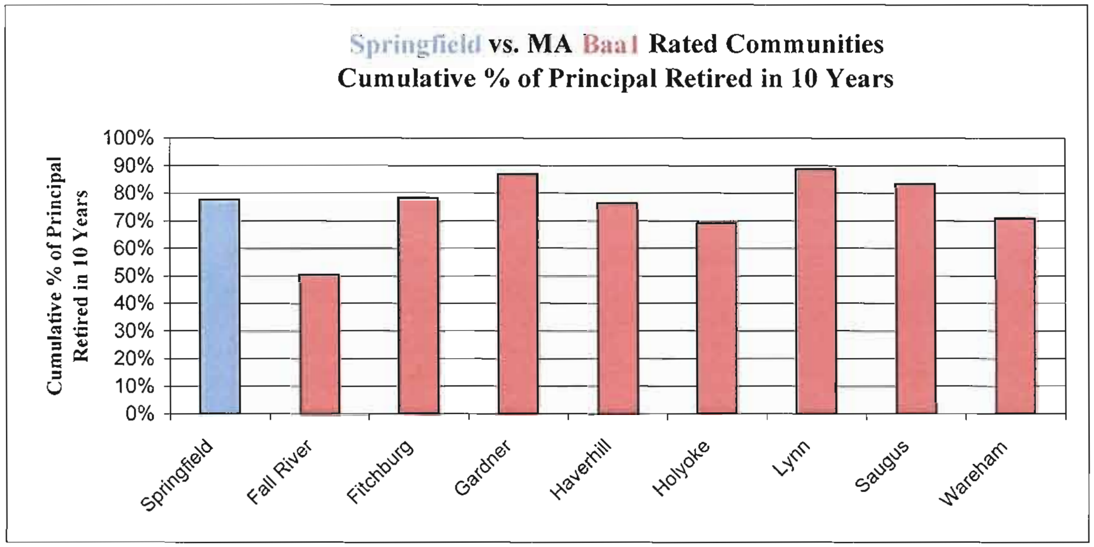

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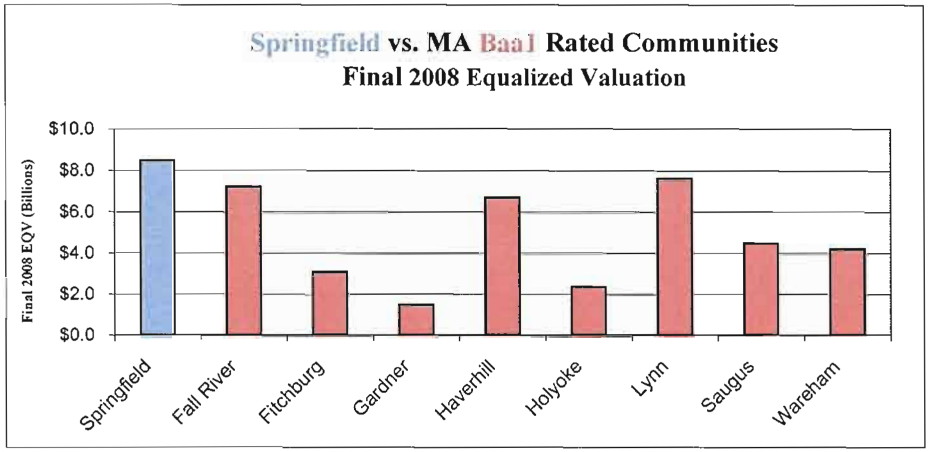

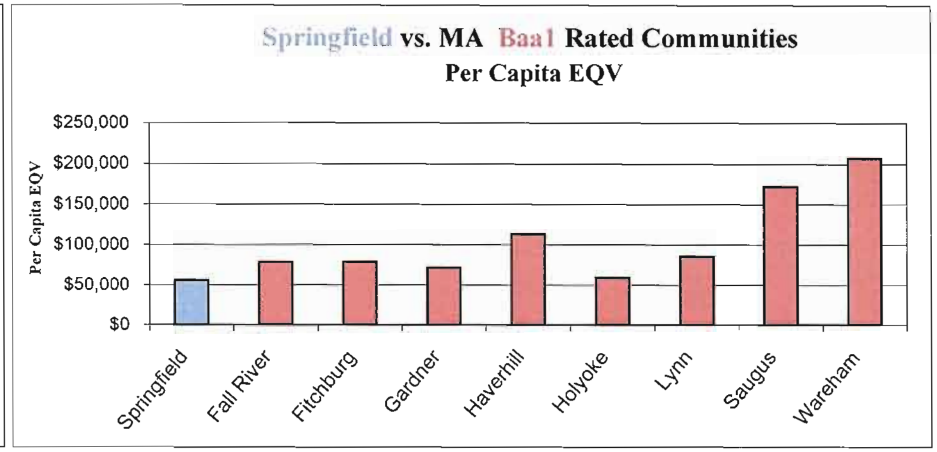

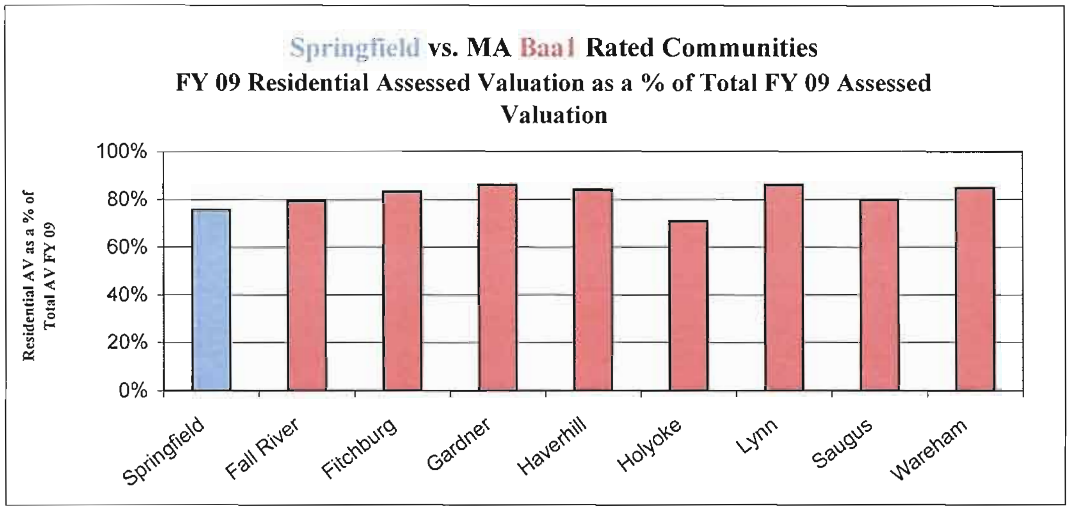

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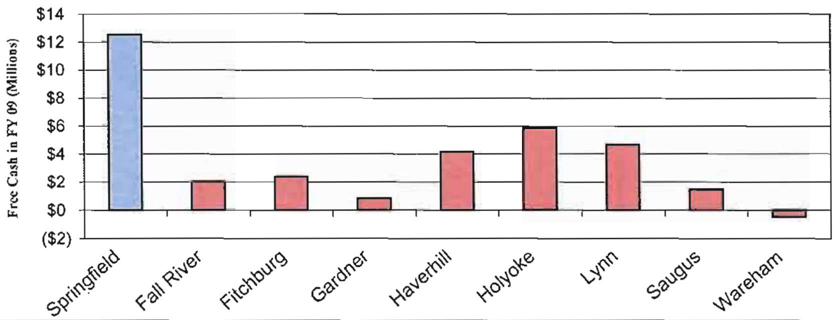
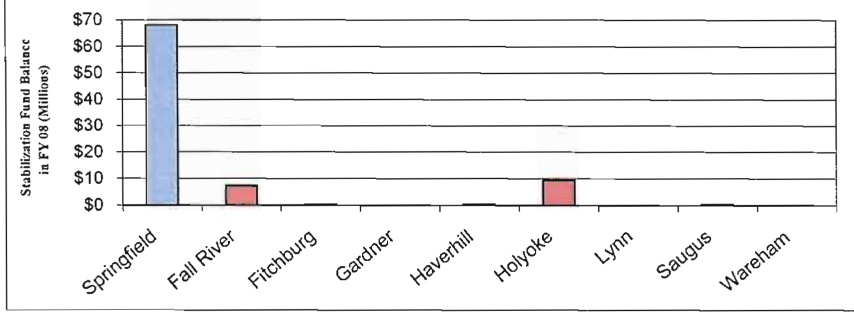
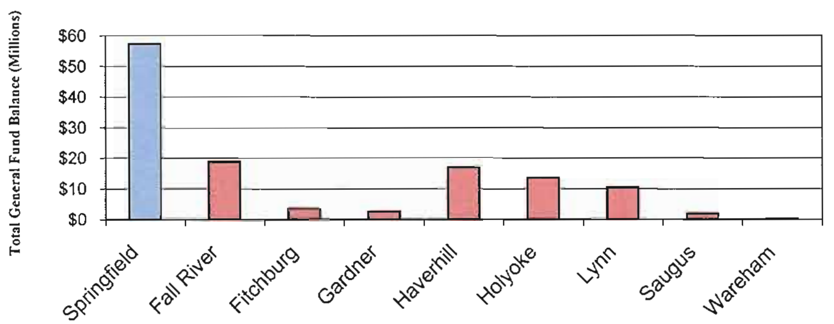
Springfield vs. MA Baa1 Rated Communities
7/1/09 Free Cash



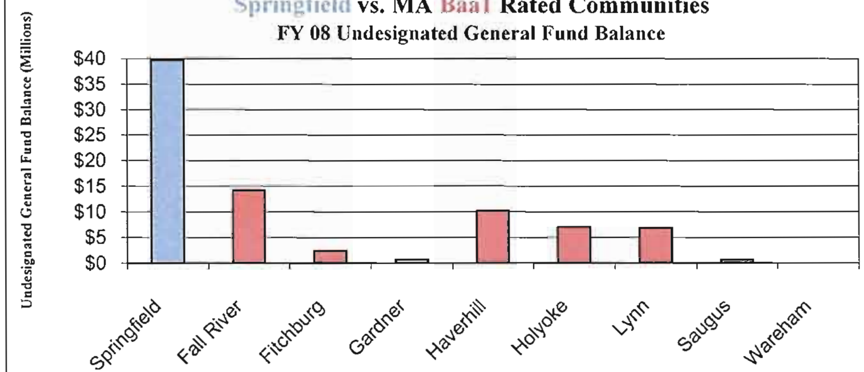
Springfield vs. MA Baa1 Rated Communities
6/30/08 Stabilization Fund Balance



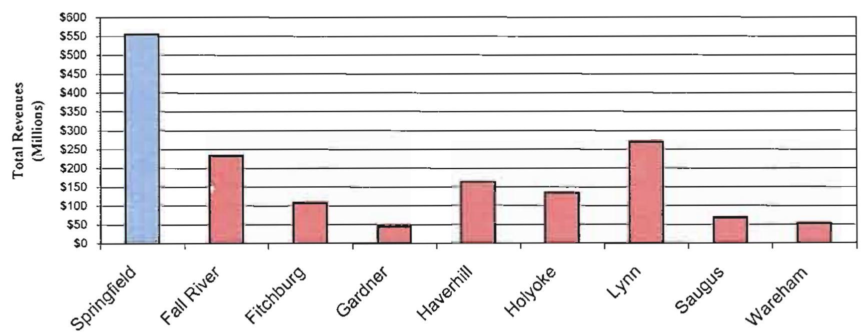
Springfield vs. MA Baa1 Rated Communities
FY 08 Total General Fund Balance



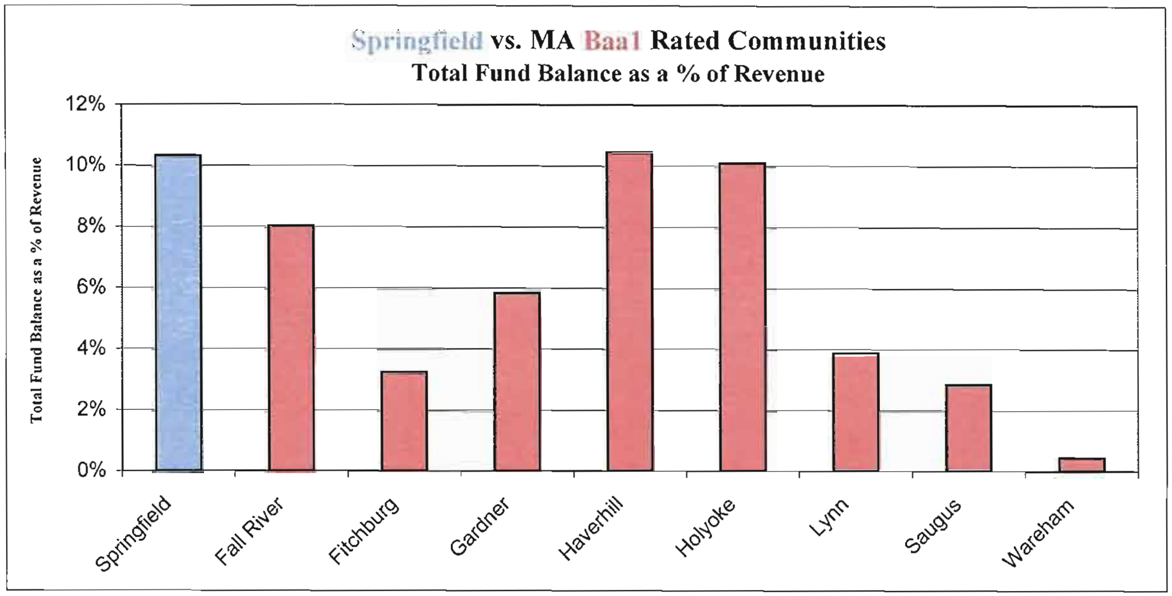
Springfield vs. MA Baa1 Rated Communities
FY 08 Undesignated General Fund Balance

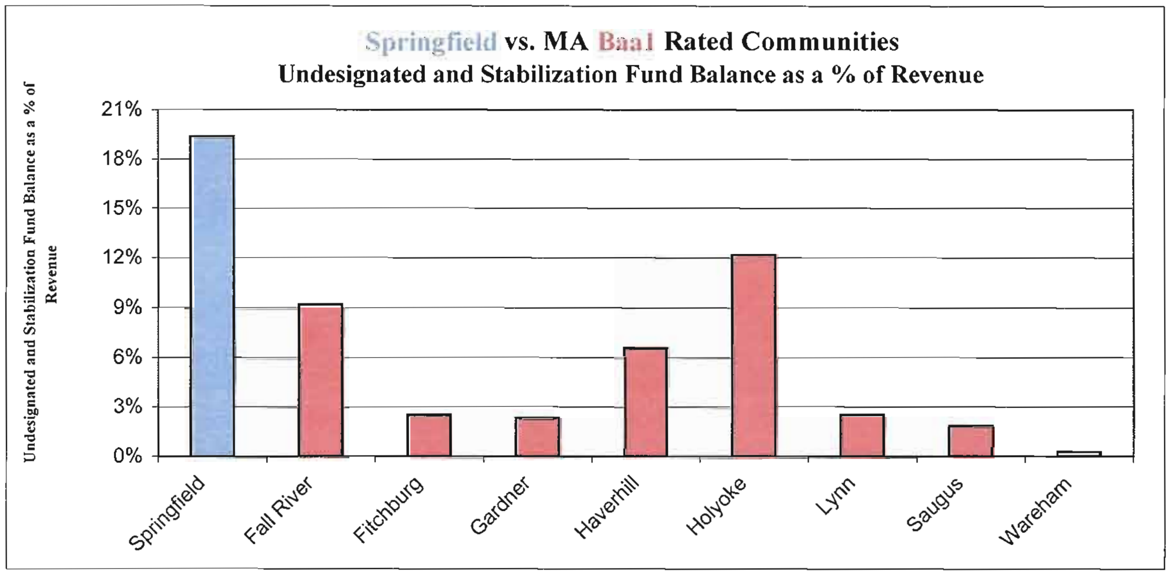


Springfield vs. MA Baa1 Rated Communities
FY 08 Total Revenues



* Springfield and Wareham's Free Cash is as of 7/1/08.
* Fall River's Total Fund Balance, Undesignated General Fund Balance and Total Revenues are extracted from FY 2007 Financial Statements.
* Holyoke's Total Fund Balance, Undesignated General Fund Balance and Total Revenues are extracted from Draft FY 2008 Financial Statements.





* Fall River's Total Fund Balance, Undesignated General Fund Balance and Total Revenues are extracted from FY 2007 Financial Statements.
* Holyoke's Total Fund Balance, Undesignated General Fund Balance and Total Revenues are extracted from Draft FY 2008 Financial Statements.

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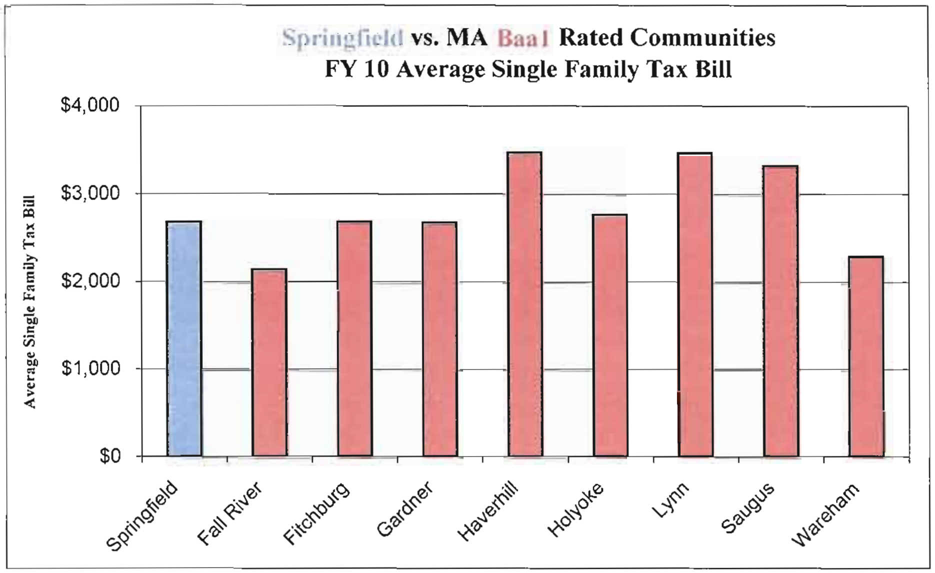

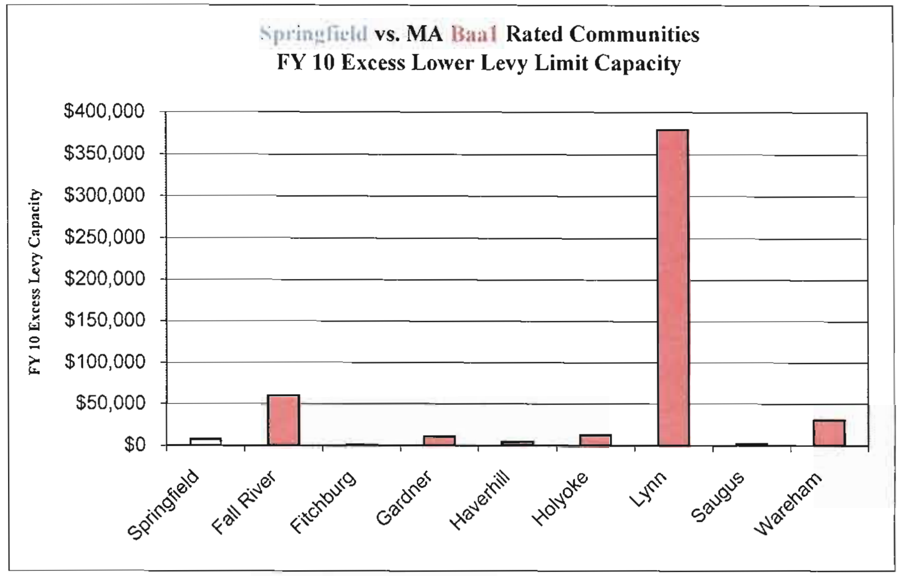

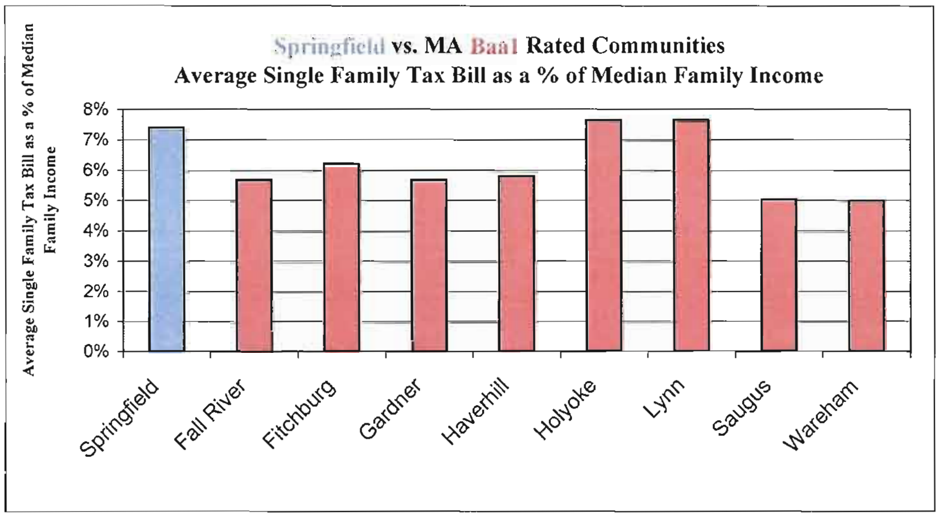

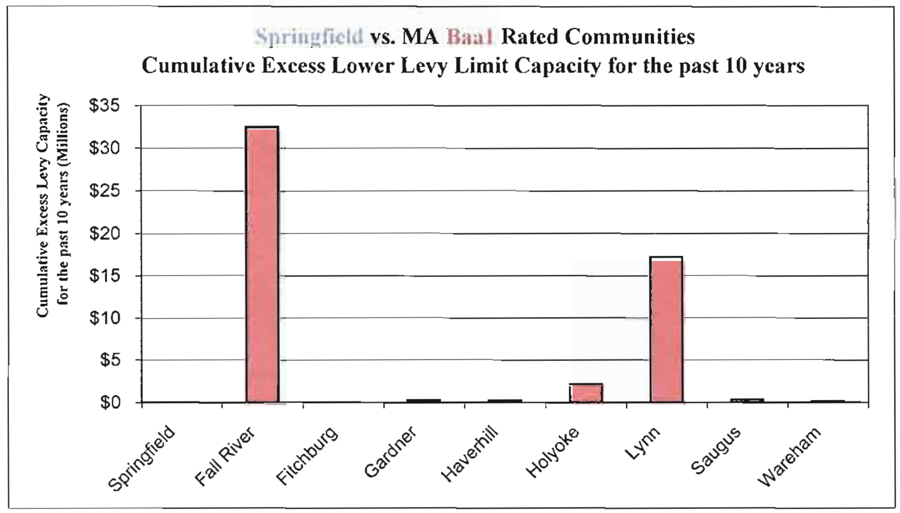

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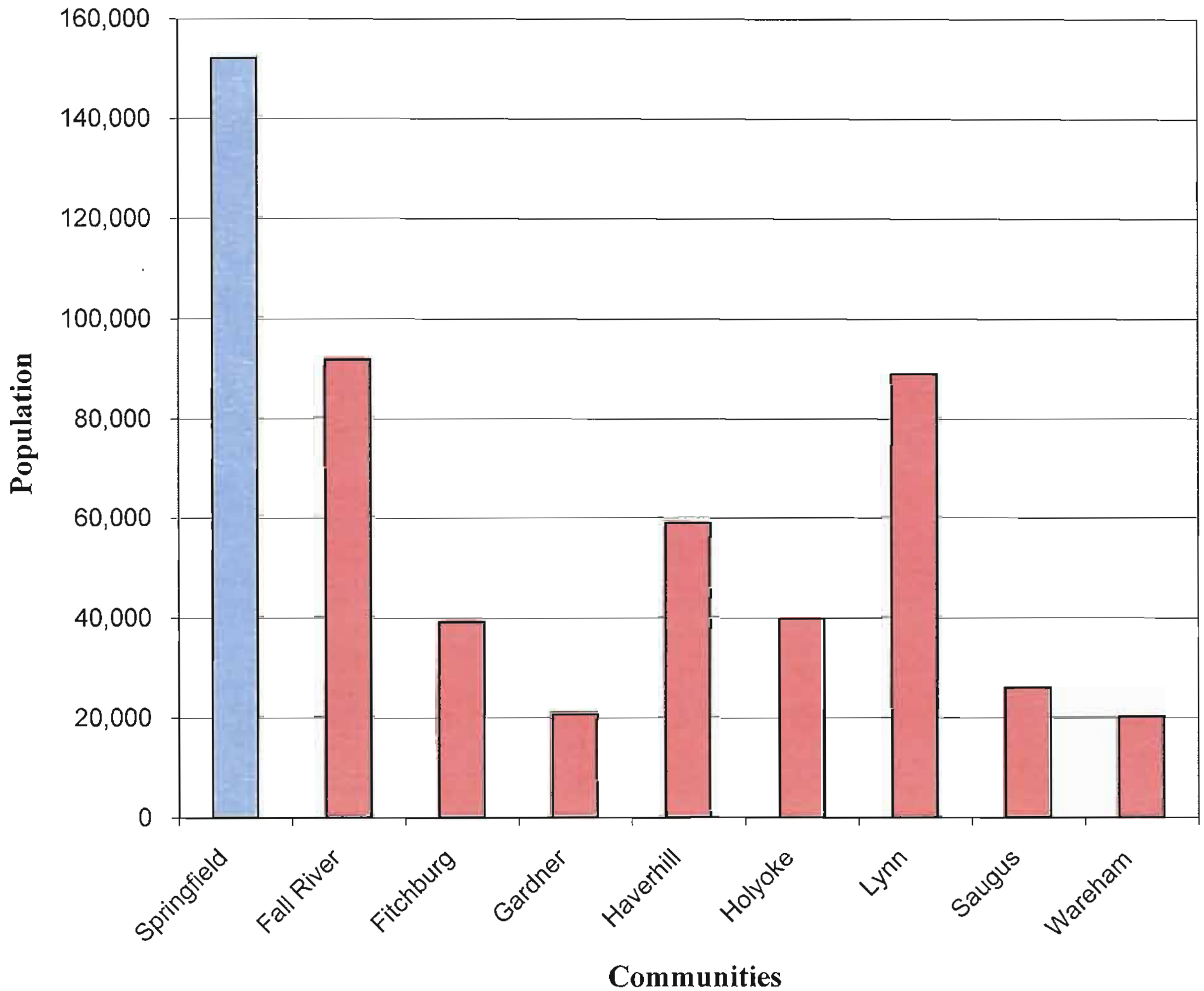
Springfield vs. MA Baa1 Rated Communities
2000 Census Population



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CITY OF SPRINGFIELD, MASSACHUSETTS

Credit Comparison with Massachusetts A3 Rated Communities

February 2010

FirstSouthwest
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CITY OF SPRINGFIELD, MASSACHUSETTS

Credit Comparison with Massachusetts A3 Rated Communities

Issuer	Moody's/ S&P	2000 Population (Economics)	2000 Per Capita Income (Economics)	2000 Median Family Income (Economics)	December 2009 Unemployment Rate (Economics)	Final 2008 Equalized Valuation (Economics)	Per Capita EQV (Economics)	FY 09 Residential AV as a % of Total AV (Economics)	6/30/09 General Obligation Bonded Debt Outstanding (Debt)	Bonded Debt Per Capita (Debt)	Cumulative % of Principal Retired in 10 Years (Debt)
Springfield	Baa2/BBB+	152,082	15,232	36,285	13.2%	8,479,854,100	55,758	75.7%	321,253,452	2,112	77.9%
Lowell	A3/A	105,167	17,557	45,901	12.0%	8,186,441,400	77,842	84.3%	211,153,304	2,008	66.6%
Malden	A3/A+	56,340	22,004	55,557	8.7%	6,079,443,100	107,906	87.5%	96,068,966	1,705	94.7%
Medford	A3/A+	55,765	24,707	62,409	8.0%	7,955,997,000	142,670	87.6%	52,341,023	939	84.2%
Methuen	A3/NR	43,789	22,305	59,831	11.9%	5,599,072,900	127,865	85.9%	76,477,147	1,746	81.3%
New Bedford	A3/NR	93,768	15,602	35,708	15.8%	7,140,048,800	76,146	83.4%	228,660,818	2,439	61.0%
Revere	A3/A	47,283	19,698	45,865	9.4%	5,571,573,100	117,835	87.5%	41,462,060	877	47.1%
Taunton	A3/NR	55,976	19,899	52,433	10.3%	6,619,361,800	118,254	79.3%	109,666,189	1,959	69.8%
Worcester	A3/A-	172,648	18,614	42,988	10.0%	13,827,179,500	80,089	80.9%	599,095,549	3,470	66.7%
Springfield's Rank		2	9	8	8	2	9	1	8	7	4

Issuer	7/1/09 Free Cash (Finances)	6/30/08 Stabilization Fund Balance (Finances)	FY 08 Total Fund Balance (Finances)	FY 08 Undesignated General Fund Balance (Finances)	FY 08 Total Revenues (Finances)	Total Fund Balance as a % of Revenue (Finances)	Undesignated and Stabilization Fund Balance as a % of Revenue (Finances)	FY 10 Average Single Family Tax Bill (Finances)	Average Single Family Tax Bill as a % of Median Family Income (Finances)	FY 10 Excess Lower Levy Limit Capacity (Finances)	Cumulative Excess Lower Levy Limit Capacity for the past 10 years (Finances)
Springfield	12,543,347 (1)	68,081,960	57,402,901	39,677,849	555,595,620	10.33%	19.40%	2,685	7.40%	7,429	109,185
Lowell	(490,543)	1,757	11,640,161	3,582,828	315,255,420	3.69%	1.14%	3,072	6.69%	4,810,057	79,625,584
Malden	(1,771,365)	-	9,014,978	4,267,899	140,850,495	6.40%	3.03%	n/a	n/a	36,054	160,509
Medford	1,056,105	5,179	3,201,504	1,482,553	128,557,211	2.49%	1.16%	3,931	6.30%	40,774	2,602,465
Methuen	121,398	55,365	1,870,018	449,431	122,789,677	1.52%	0.41%	3,337	5.58%	2,041,030	32,852,085
New Bedford	485,884	9,469,936	18,557,276	17,980,974	277,474,849	6.69%	9.89%	2,838	7.95%	34,413	10,409,803
Revere	1,356,076 (1)	1,480,847	10,595,298	1,946,036	123,625,326	8.57%	2.77%	3,347	7.30%	37,157	15,172,235
Taunton	(1,452,099)	3,663,951	19,109,026	7,749,153	146,805,960	13.02%	7.77%	n/a	n/a	-	118,927
Worcester	729,205	3,227,525	10,024,617 (2)	10,024,617 (2)	507,646,416 (2)	1.97%	2.61%	3,129	7.28%	12,031,636	115,448,224
Springfield's Rank	1	1	1	1	1	2	1	7	2	8	9

(1) Free Cash as of 7/1/08.
(2) Extracted from FY 2007 Financial Statements.

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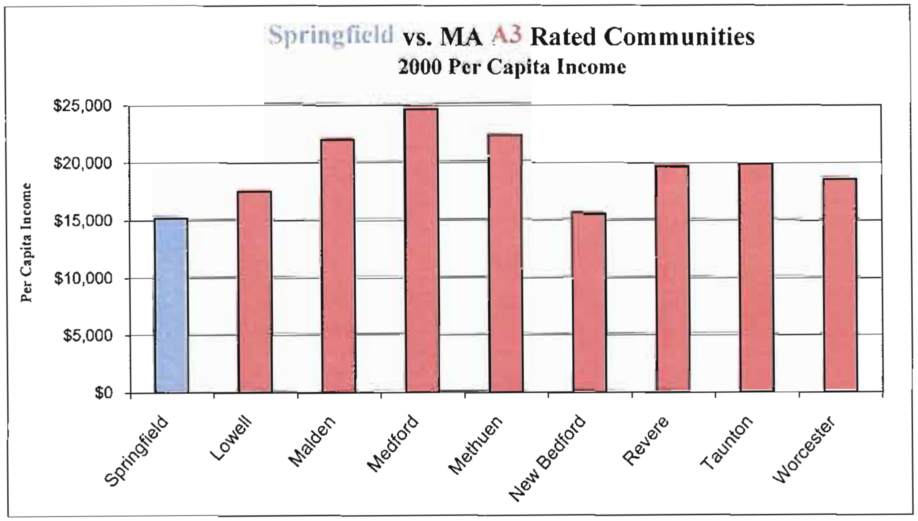

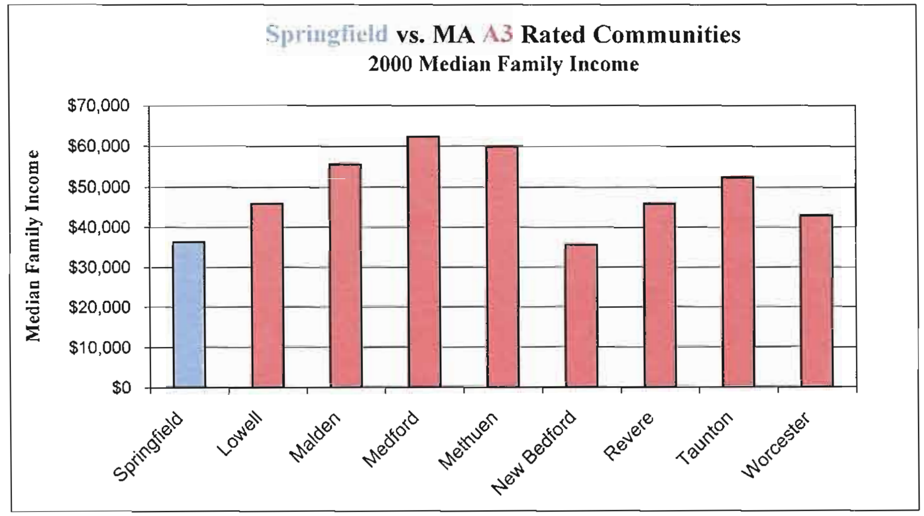

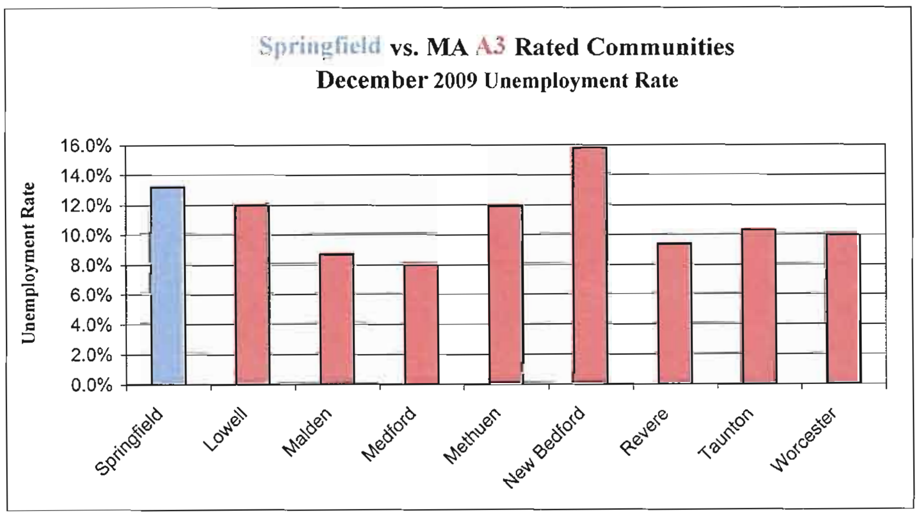

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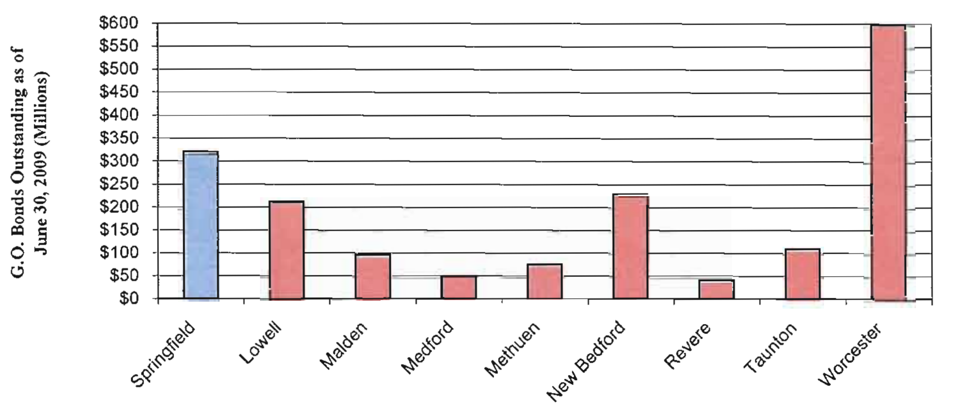
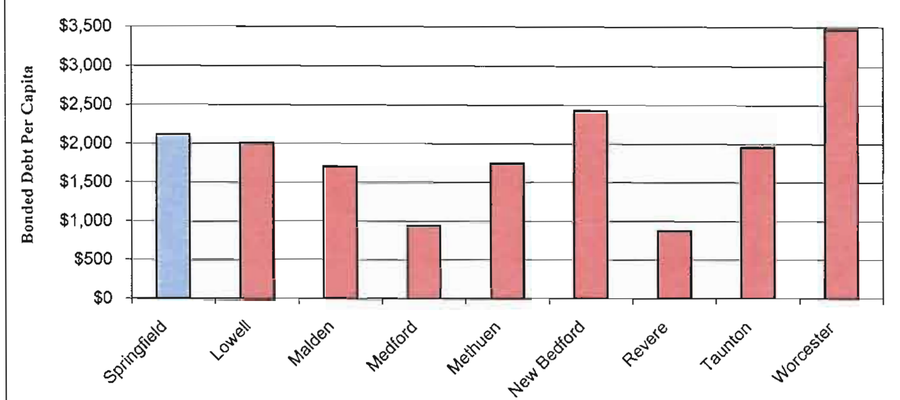
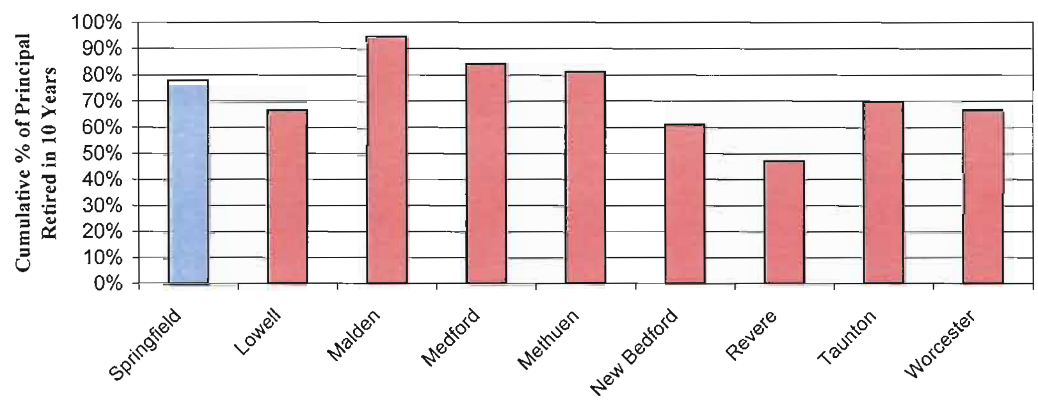
Springfield vs. MA A3 Rated Communities
General Obligation Bonded Debt Outstanding as of June 30, 2009



Springfield vs. MA A3 Rated Communities
Bonded Debt Per Capita



Springfield vs. MA A3 Rated Communities
Cumulative % of Principal Retired in 10 Years



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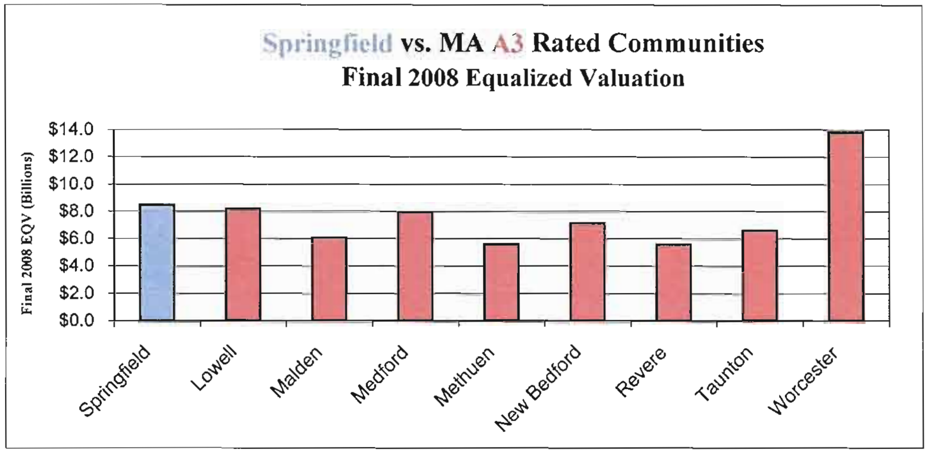

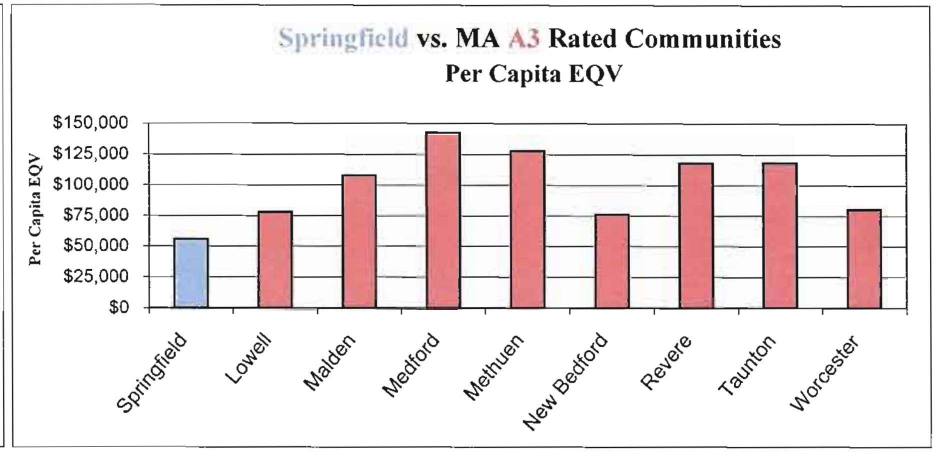

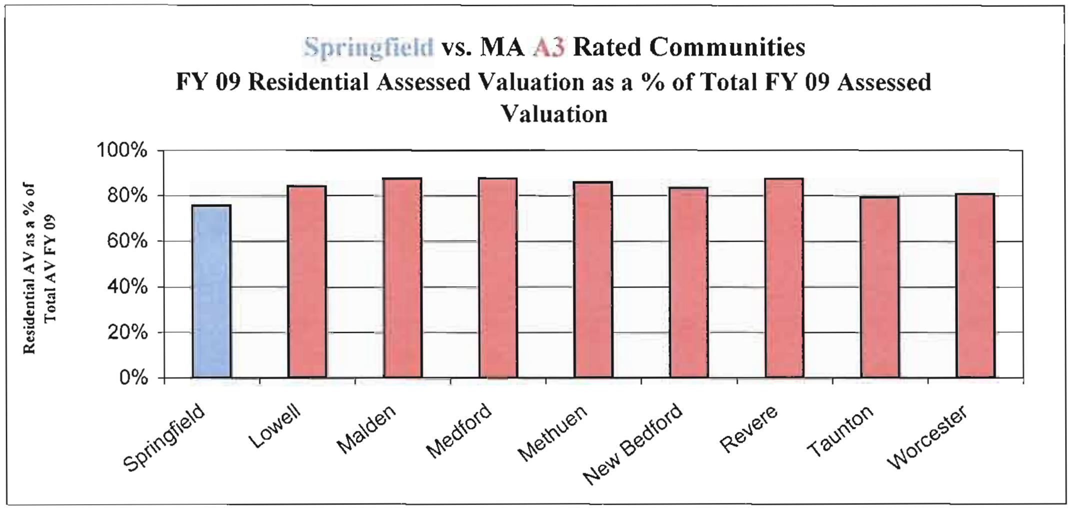

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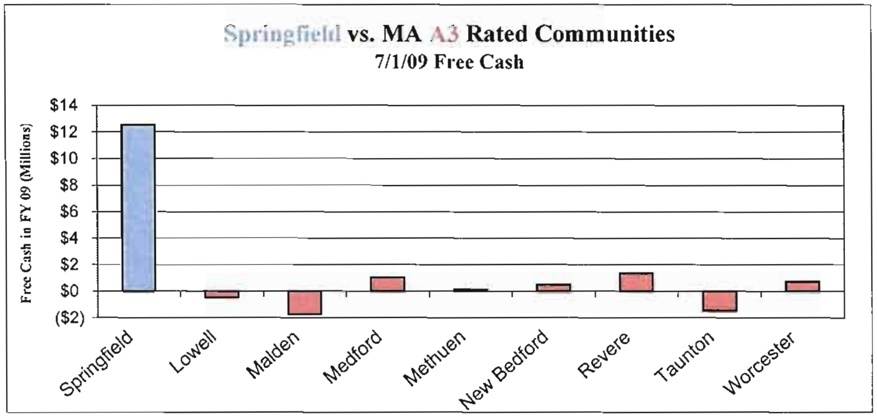

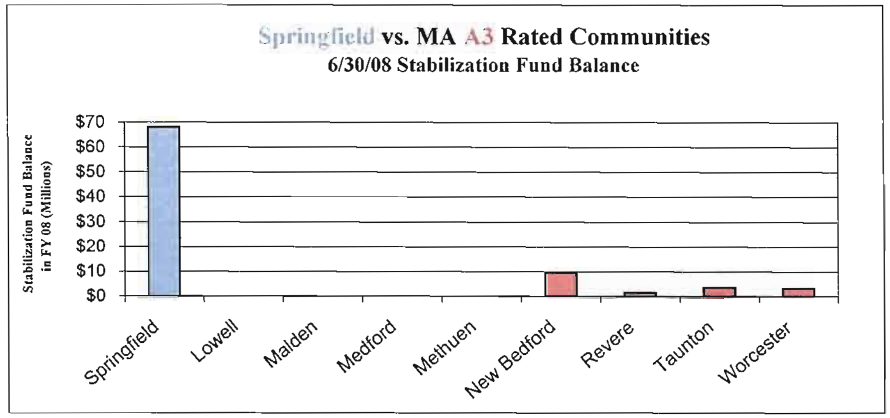

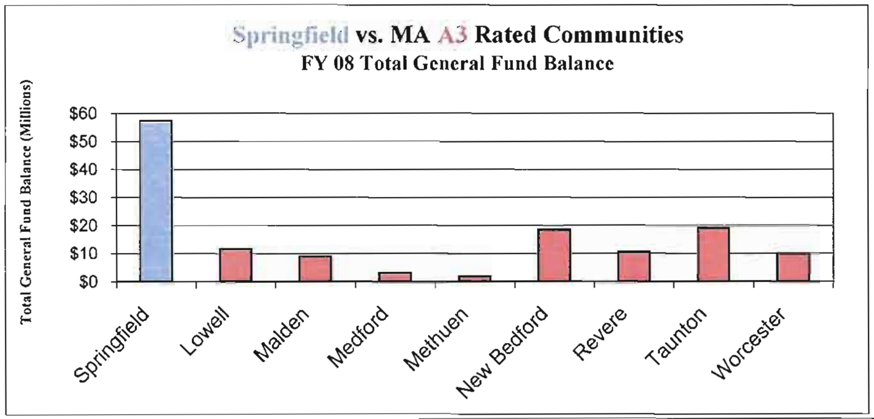

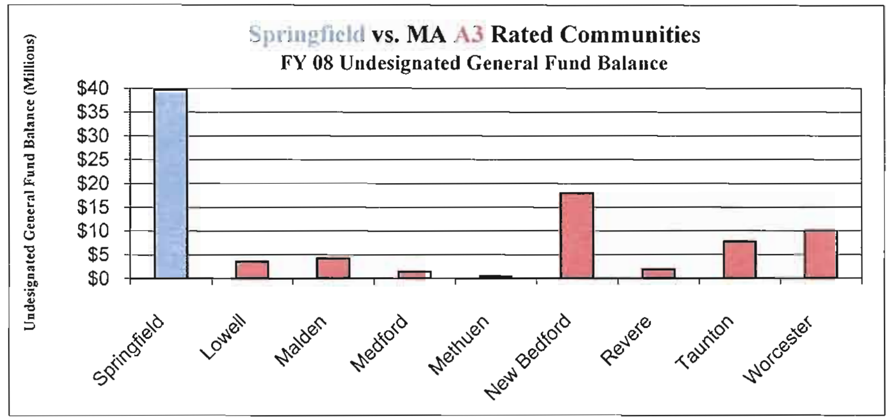

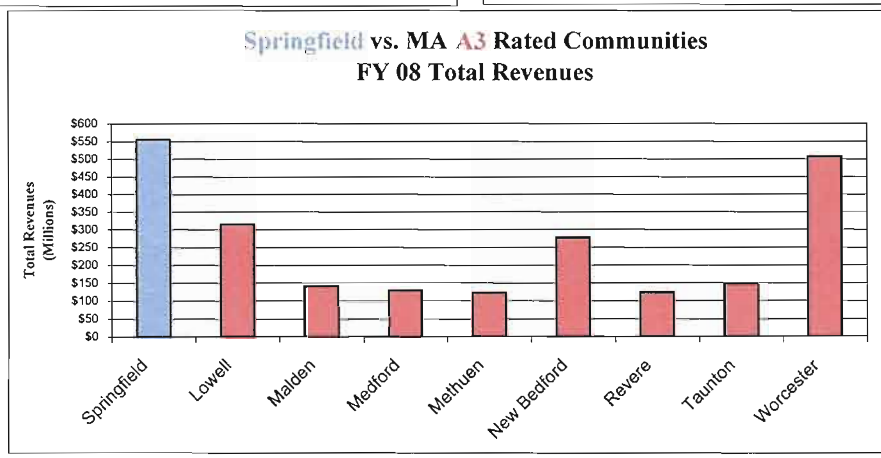

* Springfield and Revere's Free Cash is as of 7/1/08.
* Worcester's Total Fund Balance, Undesignated General Fund Balance and Total Revenues are extracted from FY 2007 Financial Statements.

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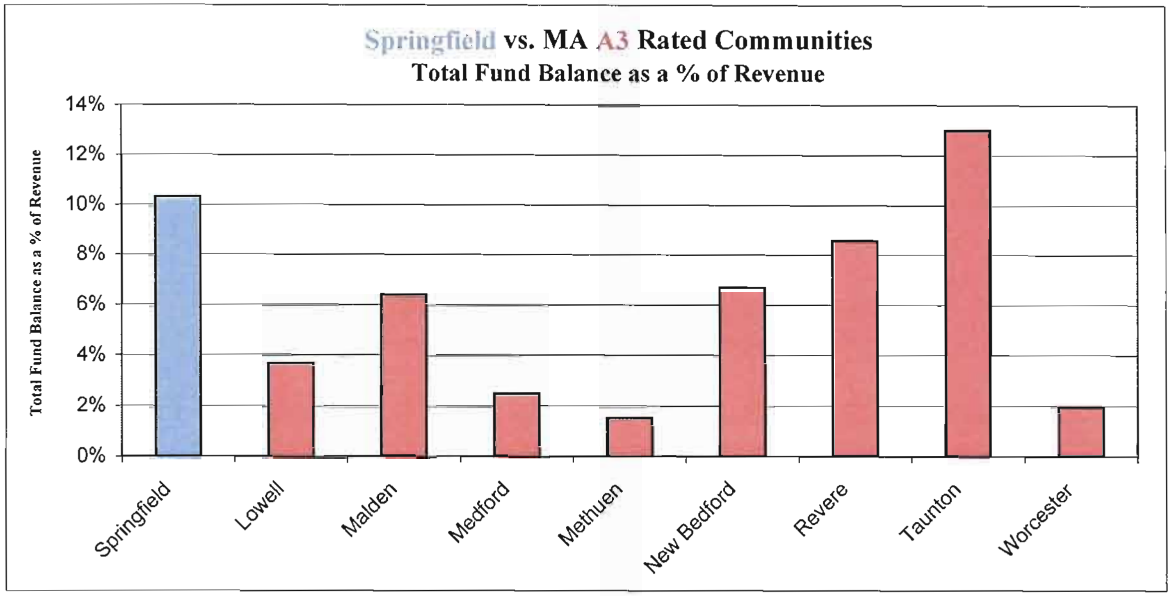

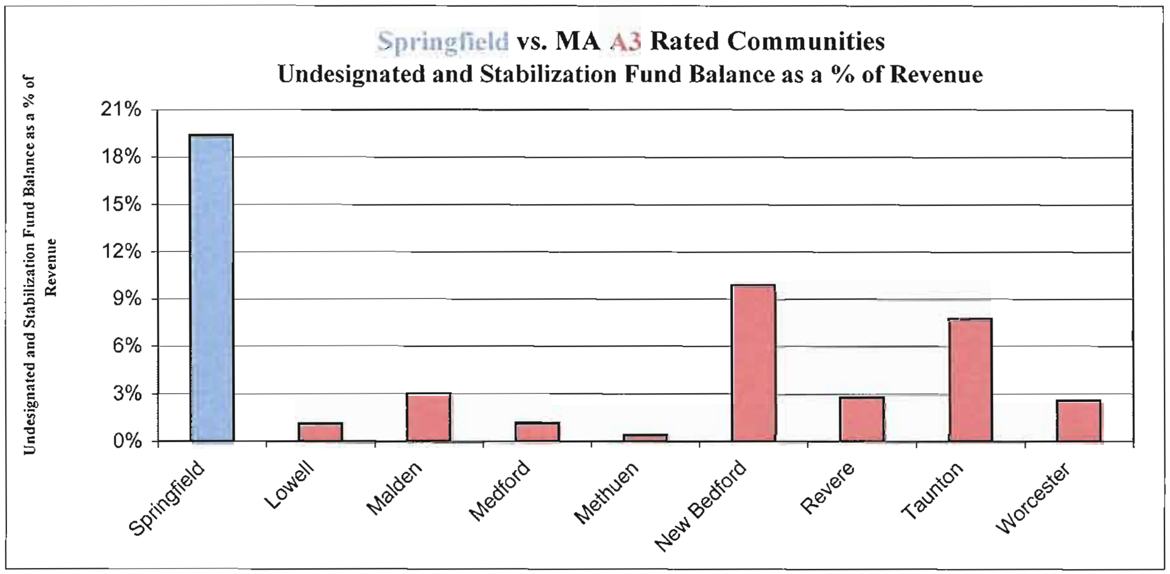

* Worcester's Total Fund Balance, Undesignated General Fund Balance and Total Revenues are extracted from FY 2007 Financial Statements.

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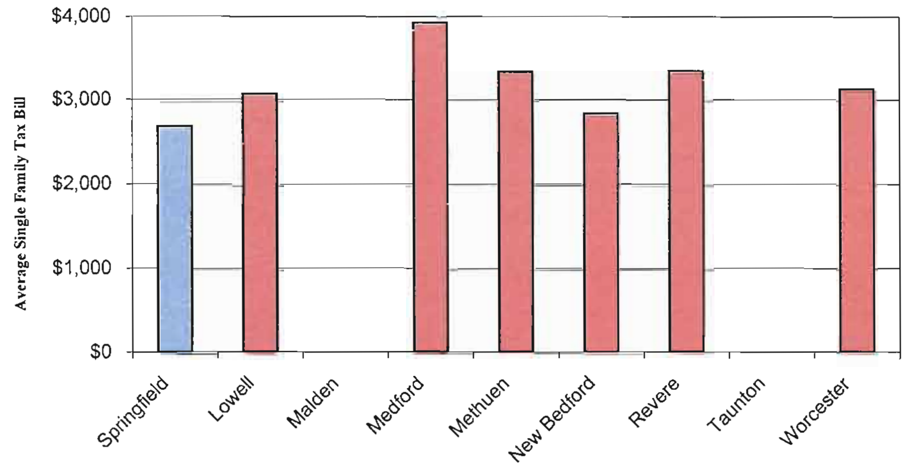
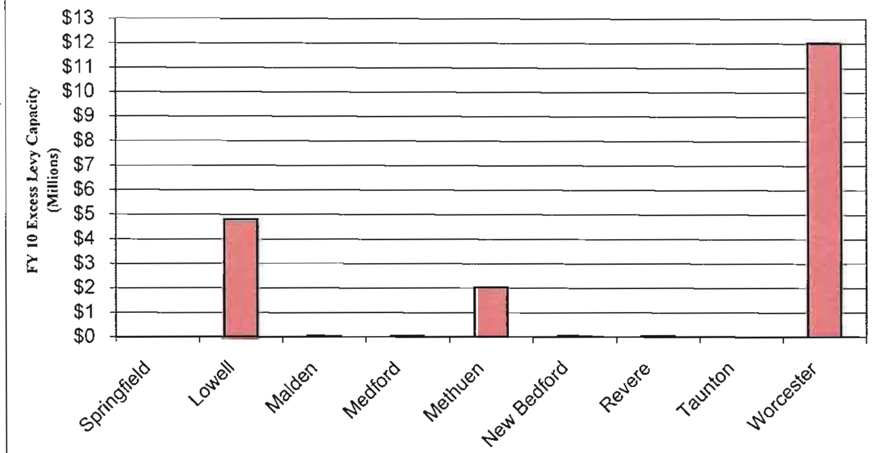
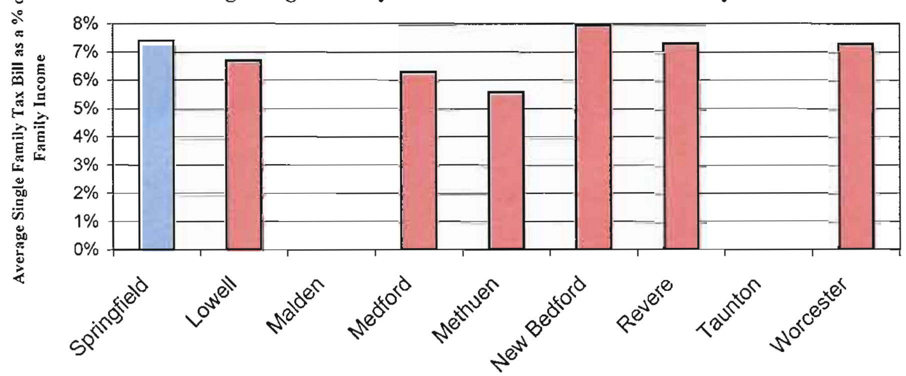
Springfield vs. MA A3 Rated Communities
FY 10 Average Single Family Tax Bill



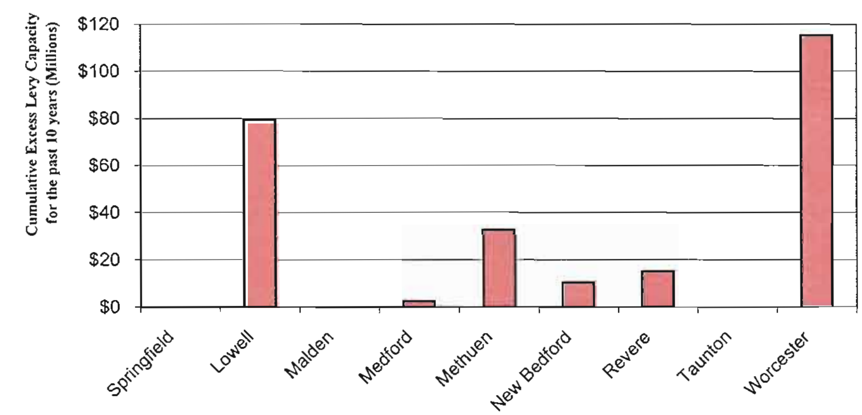
Springfield vs. MA A3 Rated Communities
FY 10 Excess Lower Levy Limit Capacity



Springfield vs. MA A3 Rated Communities
Average Single Family Tax Bill as a % of Median Family Income



Springfield vs. MA A3 Rated Communities
Cumulative Excess Lower Levy Limit Capacity for the past 10 years



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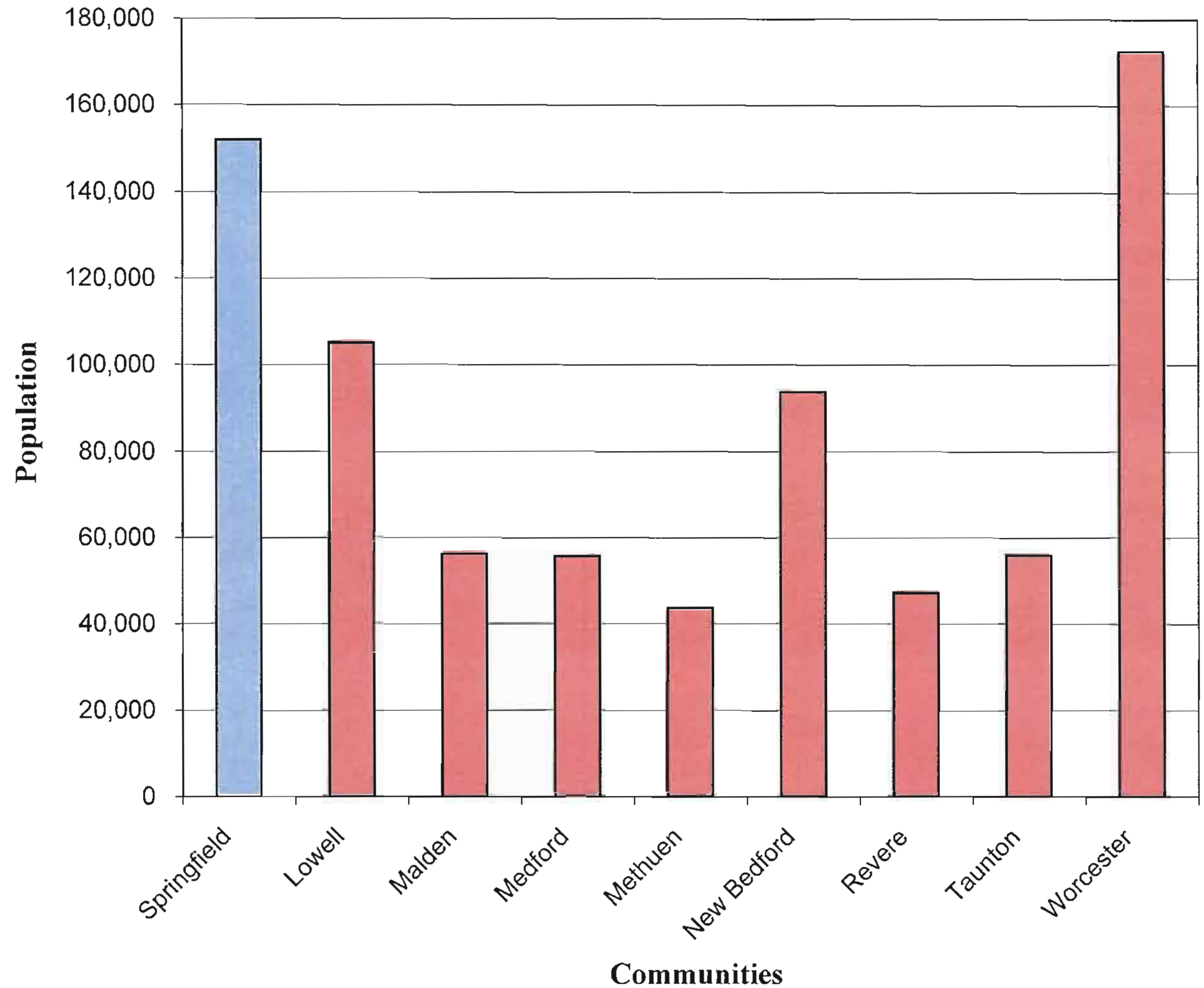
Springfield vs. MA A3 Rated Communities
2000 Census Population



APPENDIX D:

Reserve Funds

IN FOCUS: RESERVES AND FREE CASH

After decades of certifying negative reserve fund balances, the City has certified four consecutive years of positive reserve fund balances. These reserve funds exist to cushion the damage caused by mistakes, such as the school busing deficits, as well as the "rainy days" that are caused by recessions and other losses of reserves.

As of June 30, 2009, the City's reserve fund balances totaled $33,067,306.

Stabilization Reserve Funds

The City's Stabilization Reserve Fund currently has a balance of $24,897,570. The purpose of this reserve is to provide long-term financial stability for the City while improving its financial flexibility and credit worthiness. The City's financial policies require the City to maintain a stabilization reserve fund equal to between 5% and 15% of operating revenues, less debt exclusions.

Chapter 656 Reserve Fund

Chapter 656 of the Acts of 1989 established a fiscal stability reserve fund for the City of Springfield. The balance of this reserve is to be one percent of the gross amount raised as shown in the assessors' tax recapitulation sheet approved by the Department of Revenue. This reserve is maintained in the general fund and has a balance of $6,042,256.

Self Insurance Reserve Fund

The City is self insured, meaning that it does not have property or liability insurance and pays all damage claims without the use of insurance policies. The Self Insurance Reserve Fund is designed to provide the City financial support should a significant liability occur; this allows the City to avoid making unplanned reductions in its operating budget or reserve funds. The current balance of the Self Insurance Reserve Fund is $560,739.

Productivity Bank Stabilization Reserve Fund

The Finance Control Board recently appropriated $1.5 million into a Productivity Bank Stabilization Reserve Fund. The purpose of this "bank" is to distribute loans to departments to finance projects that generate additional revenue or reduce costs. Departments are required to repay Productivity Bank loans over five years, and departments are permitted to "gain share" in savings and additional revenue in excess of the amounts required to repay the loan. The Productivity Bank is intended to reduce costs, increase revenue and create a recycle of innovation, accountability and entrepreneurship across the City. The Productivity Bank Loan Committee recently issued two loans totaling $796,834 and will be reviewing additional projects in Fiscal Year 2010.

ESCO Stabilization Reserve Fund

The Finance Control Board restructured the City's debt portfolio in 2007 and again in 2009 to address the City's prior inappropriate management of debt and capital investment. As part of the structure of the 2007 bond issuance, the Board appropriated funds into a stabilization reserve fund to help finance a more aggressive debt schedule for the City's energy services contract (ESCO) debt. The more aggressive debt structure has saved the City substantial interest expenses while also helping to re-shape the City's bond repayment plan to allow future capital investment and prevent the "debt spikes" that were built into the City's debt schedule prior to 2004. The current balance of this Fund is $769,907.

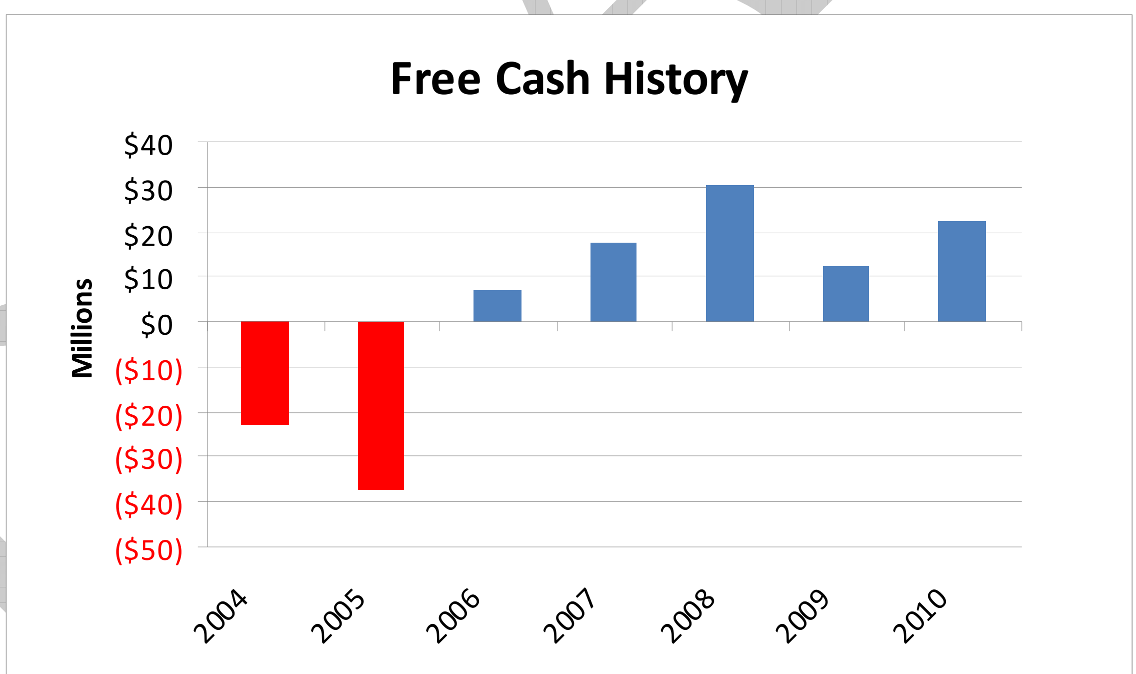
Springfield Promise Program Trust Fund

The Finance Control Board appropriated $46,960,000 to the Promise Program Trust Fund to payback the Chapter 169 loan and fund college counseling and "last dollar" scholarships. In an emergency, the City has the ability to call back these funds. In Fiscal Year 2011, Governor Patrick proposes a $23 million lump-sum payment to the State and forgiving $11 million of the outstanding principal, subject to legislative approval.

Free Cash

Free cash is the amount from the previous fiscal year that exceeded revenue estimates and expenses were less than appropriations, less uncollected overdue property taxes. The State Department of Revenue certifies each municipality's free cash amount on an annual basis. A well performing municipality should always certify free cash at the end of each fiscal year.

In Fiscal Year 2010, the City of Springfield certified positive free cash for the fifth consecutive year after 17 years of negative free cash.



APPENDIX E:

Long Term Liabilities

Property Tax Limitations

While Springfield's largest local revenue source is limited to 2.5 percent annual increase, expenses increase at a higher rate.

From 1996 to 2000 Springfield's tax levy was up against its 2.5 percent levy ceiling, limiting the City's ability to increase property taxes. Since 2004, the City increased its room between the tax levy and the tax ceiling through additional economic development and higher assessed values.

In 2009, Springfield's assessed values decreased by 7.2 percent and, in 2010, decreased by an additional 3.4 percent. If the City's assessed values continue to decrease on an annual basis, Springfield will likely reach its levy ceiling in 2011. The inability to raise additional property tax revenue will force the City to drastically reduce expenditures during Fiscal Year 2011.

The limitations of Proposition 2 ½ emphasize the need for the City to annually increase its property tax base, through new growth in commercial, industrial and residential properties.

State Aid

The Commonwealth reduced state aid to Springfield by $4.6 million on January 28, 2009 as a result of severe revenue shortfalls. The Commonwealth's then-projected $2.5 billion deficit resulted in $128 million in local aid reductions across Massachusetts, driving service reductions, layoffs and other mitigation efforts in a number of communities.

In May, the Commonwealth reduced Chapter 70 aid (education aid) to municipalities, but offset these reductions by providing American Recovery and Reinvestment Act (ARRA) funds. Springfield's Fiscal Year 2009 Chapter 70 aid was reduced by $27.6 million, but received an equal amount of ARRA funds.

The City is currently anticipating that the economic recession will continue to negatively influence the City's state aid revenue. Governor Patrick's proposed budget level funds unrestricted general government aid to Springfield even though the overall state budget increases and his revenue package includes a number of proposed tax increases.

Personnel and Benefits

One of the largest costs in the City's budget is personnel. The Fiscal Year 2009 budget appropriated $267 million for salaries and overtime as well as $89 million for benefits. The City is able to manage these costs through strict control mechanisms such as the Personnel Review Committee. This Committee reviews every hire, backfill, and promotion prior to filling a vacancy and frequently drives a re-examination and modernization of departmental structures as part of its review. Department heads must justify and/or reaffirm the need for every position when a vacancy occurs.

Springfield is also in a more advantageous position compared to other municipalities as a result of recent contract negotiations. Over the last several years the City and the Finance Control Board renegotiated long-term contracts with every union, which included annual union wage increases within the City's revenue raising capacity. As is common for other cities and towns, prior contracts provided wage increases in excess of the City's ability to raise revenue.

Springfield's Fiscal Year 2009 budget appropriated $58 million for health insurance. Prior to Fiscal Year 2007, the City's health insurance costs were increasing at a rate of 18 percent annually. While the Finance Control Board took a number of initial steps to improve health insurance, these only reduced the "base cost" for health insurance without significantly adjusting the annual rate of growth for this cost center. This growth rate was structurally reduced, however, when the City became the first community to join the Group Insurance Commission (GIC). The GIC purchases health insurance for 265,000 state employees and retirees and has significant purchasing power. Over the last number of years, GIC premiums increased at an average 9% annually. Since the City adopted the GIC, health insurance premiums have increased -11%, 6%, 9% and 2% in Fiscal Years 2007, 2008, 2009 and 2010, respectively.

Another serious personnel-related liability to consider is the payout upon retirement for accrued sick time. While unions have bargained this benefit at varying amounts, these lump sum payouts can result in extremely large payouts that may not be adequately funded.

Retirement

Retirement benefits for local and state employees are uniform across the Commonwealth. Until July 2009, Chapter 32 of the Massachusetts General Laws required municipalities to fully fund their retirement liability by 2028. The Commonwealth's Fiscal Year 2010 budget included an extension of this requirement to 2030, and further modifications are included as part of Governor Patrick's Municipal Relief Act 2, with a proposal to extend the funding deadline to 2040. Springfield's most recent actuarial valuation estimated the City's pension liability at $402.5 million as of January 1, 2008, only 42.4 percent funded.

While the City's current schedule does not include extending the deadline to 2030, it also does not consider the ramifications to the City's investments due to the recent market collapse. Management of Springfield's retirement system assets was transferred to the Pension Reserves Investment Management Board (PRIM) in August 2005. PRIM manages the Commonwealth's retirement assets as well. The fund lost 23.6 percent of the value of its assets in Fiscal Year 2009, its worst performance in the fund's history. The loss in assets and the extension of the schedule will be factored in the City's next actuarial valuation.

Other Post Employment Benefits

In addition to providing pension benefits, the City provides health, dental, vision and life insurance to retired employees and their survivors, in accordance with Chapter 32 of the

Massachusetts General Laws. The City will spend approximately $25 million on retiree benefits in Fiscal Year 2010.

While the City is not required to fully fund this liability, these growing costs will be passed to future generations. In general, today's tax payers should pay for the benefits they receive today. This is one of the reasons why the City issues debt for capital projects, as it spreads the cost of the project across the years that tax payers will receive the benefits. Under this equity theory, tax payers should be setting aside funds for the OPEB liability accrued by current city employees who deliver today's services, just as they set aside funds for future pension costs.

Instead, the City has paid for this cost on an ongoing basis. As retirees live longer and health care costs increase, these costs are projected to quadruple in thirty years. The City's OPEB liability is estimated at $761 million as of June 30, 2008. In order to fully fund this liability in 30 years, as it does with retirement, the City would have to appropriate $41.8 million annually.

The City's other post employment costs are anticipated to increase by 5 percent annually, almost double the amount the City is able to increase property taxes, as seen below.

Debt Service and Capital Needs

The City has a $500 million Capital Improvement Plan that identifies major equipment and construction needs over the next five years. Due to previous deferred maintenance and the number of facilities and parks, the City has significant capital needs.

From 2007 to 2009, the City restructured its debt schedule to create a declining payment schedule. This created capacity to issue debt in future years. For example, the City will pay off 59 percent of the principal borrowed in ten years. Previously, the City back-loaded its debt causing major debt spikes in future fiscal years.

While the City will have additional capacity in the long-term, there is very little budgetary relief in the next four years. The City should strive to maximize the rate of return for every local dollar invested in capital projects, by using external funds, pay-as-you-go capital operating funds and improving its management of capital projects.

Net School Spending

Net school spending is a formula established by the Education Reform Act of 1993 is used by the Department of Elementary and Secondary Education annually to determine the amount of money each school district in the Commonwealth of Massachusetts must budget. Failure to comply with this requirement may result in non-approval of a municipality's tax rate, enforcement action by the Attorney General, or loss of state aid.

Net school spending has changed by 3.8 percent, 8.7 percent, 3.6 percent, and (1.9) percent in Fiscal Years 2007, 2008, 2009, and 2010, respectively. In Fiscal Year 2011, net school spending is projected to increase by 5.7 percent.

APPENDIX F:

Policy & Operating Changes
Fiscal Years 2005 - 2010

History of Prior Financial Problems (1989-2004)

Since 1989 the City has experienced varying periods of financial stress. Contributing factors included the regional economic downturn, increases in employee health care costs, cutbacks in state aid totaling $24.2 million between 1989 and 1992 and deficits associated with the operation of a municipal hospital. The City undertook a series of steps between 1989 and 1995 to address these issues, but a structural imbalance remained into the 1995-1996 fiscal year. In response, the City sold its municipal hospital in 1996 to end the structural deficits this enterprise was creating for the City.

The State Legislature acted in 1989 to assist the City in overcoming its financial difficulties. Chapter 656 of the Acts of 1989 established a Department of Finance under the direction of a Chief Financial Officer. The position of Chief Financial Officer allowed the City to consolidate and centralize financial management under a professional with specific skills and experience as a financial manager. Chapter 656 of the Acts of 1989 also provided for the consolidation of personnel activities under the City's Human Resources Director. Both operational reforms were designed to improve the City's ability to manage two of its largest and most important areas – finance and personnel.

Chapter 656 also established a fiscal stability reserve fund and created personal liability for department heads who failed to manage within their budgets. The Chapter 656 reserve is currently 1 percent of the gross amount to be raised as shown on the assessors' tax recapitulation sheet approved by the Department of Revenue. This reserve is maintained in the General Fund and had a balance of $5,624,879 as of April 2, 2009.

Nevertheless, during fiscal 1996 it was determined that various hospital revenue deficits from prior years had not been raised as required by Massachusetts General Law. The City sought and received special legislative authority to issue in June 1996 $21,350,000 in deficit notes to eliminate this deficit and permit its amortization over a ten year period.

In addition to budgetary reductions, service shedding through sale of the municipal hospital and operational reforms, the City undertook a successful operational override of Proposition 2 ½ in June 1990. This created $10.8 million in additional, recurring, tax revenue. Combined with the issuance of deficit notes, these actions assisted the City in achieving some financial flexibility and stability.

In fiscal year 2003, the Commonwealth received lower than anticipated revenue. The State Legislature authorized the Governor to make significant budgetary reductions to compensate for this loss of revenue, including significant reductions in the amount of state aid originally appropriated for cities and towns. As a result, state aid for Springfield was reduced by $3,388,398 mid-year, after its tax rate had been set. The City took steps to reduce expenditures to absorb the cuts and in doing so, reduced its workforce by 295 employees. This reduced expenditures by approximately $2.5 million. The City saved another $1.5 million by reducing work hours for some personnel, reducing non-personnel expenditures, and through the receipt of additional grant funds.

Continued changes in the local economy, significant growth in certain cost areas and management difficulty continued to impact the City's financial performance. In fiscal year 2004 these difficulties resulted in a budget deficit of approximately $20 million. Exercising authority granted to the City under Chapter 656 of the Acts of 1989, the City imposed a wage freeze on all collective bargaining units, and utilized non-recurring revenue to address this deficit.

Enactment of Chapter 169 of the Acts of 2004

Over two decades, the City of Springfield experienced varying periods of financial stress, culminating in a $41 million deficit for fiscal 2005. In response to this fiscal crisis on June 9, 2004, the Massachusetts Legislature enacted Chapter 169 of the Acts of 2004, An Act Relative to the Financial Stability of the City of Springfield. This legislation provided a $52 million no interest loan to the City and created the Springfield Finance Control Board ("SFCB"). The SFCB consisted of five members including the Mayor, the President of the City Council and three members appointed by the Secretary of Administration and Finance. The SFCB acts by a majority vote of its members. The SFCB dissolved June 30, 2009.

The $52 million Trust Fund was subject to the control of the Secretary from which interest-free loans were disbursed to the City from time to time on terms and conditions determined by the SFCB and approved by the Secretary. Over the ensuing years, the SFCB improved the City's finances by renegotiating all collective bargaining agreements; implementing an integrated financial software system MUNIS; collecting tens of millions of dollars in unpaid taxes; investing in infrastructure through the Capital Improvement Plan; restructuring the City's debt structure; enrolling in the state Group Insurance Commission ("GIC") for group health insurance; consistently certifying Free Cash and steadily increasing the reserves each year; implementing a time and attendance system; and improving the effectiveness and efficiency of delivering municipal services through a variety of means, including the establishment of the CitiStat Department and 311 Call Center.

Enactment of Chapter 468 of the Acts of 2008

In anticipation of the expiration of the SFCB on June 30, 2009 and continuing a structured transition to local control July 1, 2009, on January 9, 2009, the Commonwealth enacted Chapter 468 of the Acts of 2008. This legislation included a series of governance changes, including the creation of the Chief Administrative and Financial Officer ("CAFO") and the affirmation of the Director of Internal Audit and Comptroller positions created by the SFCB in 2007, as outlined below. In addition, the legislation extended the $52 million loan payback schedule from five years to fifteen years. The yearly payment from fiscal 2010 to fiscal 2022 is $3.6 million. The final payment of the loan is due no later than June 30, 2022.

Chapter 468 created the Department of Administration and Finance, which is responsible for the overall budgetary and financial administration of the City. This department is under the control of the Chief Administrative and Financial Officer ("CAFO"), which shall report to the Mayor. The CAFO is appointed to a term no longer than three years.

The CAFO is responsible for administering and supervising the City's financial services, which includes developing department budgets, monitoring expenditures, reviewing transfers and allotments and implementing and maintaining uniform financial systems and controls for all departments. The CAFO shall also submit a four year financial plan and a five year capital plan to the Mayor and city council.

The Board of Assessors, Treasurer/Collector, Budget Director, Comptroller, Director of Information Technology, Office of Procurement, Director of Human Resources, Labor Relations Director, Director of Capital Asset Construction and any other positions or departments approved by the Mayor are under the direction of the CAFO. The business and financial services of the School Department are under the authority of the CAFO as well.

Chapter 468 also provides that in any year in which a loan to the City from the $52 million Trust Fund described above remains outstanding, on or before July 1, the CAFO shall submit to the director of accounts in the State Department of Revenue a pro forma tax rate recapitulation for the following fiscal year. The director shall ascertain whether the city budget for that fiscal year contains reasonable revenues from taxation and other sources to meet the appropriations and other amounts required by law to be raised and the director shall report his conclusion to the commissioner of revenue. In any such year, upon submission of the annual tax rate recapitulation, the director shall also ascertain whether the city budget for that fiscal year contains reasonable revenues from taxation and other sources to meet the appropriations and other amounts required by law to be raised and the director shall report his conclusion to the commissioner. If the commissioner determines that the city budget as presented on the pro forma or annual tax rate recapitulation would not permit certification of the tax rate for the applicable fiscal year, he shall certify this determination in writing and provide notice of the determination with a copy of the certificate to the secretary of administration and finance. Upon such notification, the secretary may recommend to the governor that he submit legislation reviving the finance control board or establishing a receiver for the City.

The Office of Comptroller is responsible for maintaining the City's financial records, including the general ledger and subsidiary ledgers, verify that all payments are lawful and funding exists, and preparing financial statements and reports.

The Director of Internal Audit examines the City's financial records and conducts financial and performance audits to prevent and detect waste, fraud and abuse as well as improve the efficiency, effectiveness and quality of municipal services. The Director of Internal Audit is also responsible for administering the City's Fraud Hotline.

Previously, the responsibilities of Comptroller and Director of Internal Audit were combined under the position of City Auditor.

Fiscal Year 2005

At the time the SFCB was created, the fiscal year 2005 budget deficit was estimated at $41 million. Subsequently the City received an additional $4.1 million in state lottery aid, thereby reducing the estimated fiscal year 2005 budget deficit to $37 million.

The SFCB undertook a series of actions to reduce the budget deficit which included continuing the fiscal year 2003 and 2004 wage freezes, competitively bidding for a new healthcare administrator and adopting Chapter 32B Section 18 which requires a mandatory transfer of primary retiree health insurance coverage to Medicare plans. The SFCB also modified the healthcare plans offered to employees and retirees, reduced overtime, and implemented a hiring freeze. The SFCB also initiated operational assessments of a number of city departments to identify operating deficiencies and implement organizational improvements. This resulted in outsourcing of some services and streamlining the management structure of the City.

During fiscal year 2005, the City borrowed from the trust fund established under Chapter 169 for cash flow purposes to eliminate cash flow borrowing. Each use of the trust fund for this purpose was repaid during the fiscal year. The SFCB increased fines and fees in several areas to become more comparable with those in surrounding communities. The SFCB also began a practice of budgeting a bad-debt percentage within its tax levy to more accurately reflect the difficulty the City had experienced in collecting taxes from some taxpayers. Through additional cost-cutting measures, revenue enhancements, and improvements to budget management, fiscal year 2005 closed with a $21 million deficit as compared to the $37 million deficit projected at the start of the fiscal year.

On July 1, 2004, the City had a certified free cash deficit of $52 million. At July 1, 2005 the City's free cash balance was certified at just under $6.8 million. This was the first certification of positive free cash for the City since 1988.

Fiscal Year 2006

The original estimated budget deficit for fiscal year 2006 was $6.5 million. The City continued its cost cutting measures, reform of municipal management and operation, enhanced and expanded revenue collections, and focus on financial controls. As a result, though a $6.5 million deficit was projected for the fiscal year, the City certified Free Cash in the amount of $17.4 million at the close of the fiscal year.

During fiscal year 2006, the balance of outstanding, unpaid property taxes was $31.5 million, with more than $18 million in additional interest and penalties associated with these tax debts. The City has collected $11.5 million of the outstanding principal balance and $4.1 million in interest and penalties. Collection efforts continue and are being conducted by a private firm which specializes in revenue collection.

Improved treasury management practices also resulted in increased interest earnings, from

$200,000 in fiscal year 2004 to $2 million in fiscal year 2005 and $3.7 million in fiscal year 2006.

Additional improvements were also made in the area of technology and automation, including implementation of software in the Collector's Office that now allows for online credit card and debit payments. Additional software was also installed in the Collector's Office which enabled the consolidation of tax information at a single point of service. Implementation of new software in the City Clerk's office has automated various office functions and has allowed the City to use the Internet for a number of business processes. This has reduced costs, improved efficiency, increased customer service, and increased the level of service provided to the public.

The City also continued implementation of its MUNIS integrated financial accounting system, as well as the implementation of additional internal control modules. Project implementation began in July 2006.

During fiscal year 2006, the SFCB approved a $1.6 million loan from the Trust Fund established pursuant to Chapter 169 to purchase a former private elementary school that has been converted into a school for special needs students. This reduced the number of out-of-district placements for special needs students with an attendant estimated annual saving of $2 million per year.

In an effort to reduce long-term operating costs and preserve prior investments of taxpayer resources, the SFCB initiated a comprehensive program of increased maintenance and capital investment in municipal buildings and infrastructure. The promotion of the Director of Parks and Recreation to the position of Director of Parks, Buildings and Recreation Management has resulted in a more than 4,600 unit (677%) increase in building repairs during fiscal year 2006. The SFCB also made significant investment in building repairs and renovations to maintain the City's investment in infrastructure after years of neglect.

By the close of fiscal year 2006, the City had borrowed $25.5 million from the Trust Fund established pursuant to Chapter 169.

Fiscal Year 2007

The fiscal year 2007 budget was adopted as a projected balanced budget without the use of Trust Fund support. As a result of significant and continued cost control and efficiency improvements, the City ended Fiscal Year 2007 with a certified free cash balance of nearly $30.5 million, $3 million of which was carried forward from the prior fiscal year.

During fiscal year 2007 the City implemented an energy service contract (ESCO), which replaced outdated building systems with high-efficiency boilers, motors and other equipment. The projected savings for this program are $32.5 million over the 20 year life of the bonds used to finance the investments.

The City and the SFCB continued to improve municipal operations and financial management. Key among these efforts were continued collection of tax and other outstanding debts to the

City and the use of information technology in a variety of municipal operations. Examples of these improved processes include the first account reconciliations in three decades, the close out of completed projects and other efforts, such as the final separation of water and sewer functions to the independent Water and Sewer Commission and the adoption of joint civilian dispatch for police and fire.
At the close of the fiscal year, the City and the SFCB had completed contract negotiations with unions representing approximately 98% of employees. All contracts are long-term in nature and provide for wage increases of less than 2.5% on average through their terms.

Fiscal Year 2008

The City and the SFCB continued to increase efficiency, invest in infrastructure and improve the operations of City government. Ongoing efforts include:

- Adoption and continued implementation of CitiStat to improve departmental and City-wide efficiency increase the amount and quality of work performed and to transition the City to a data-driven model of decision making.
- Implementation of 311 to consolidate multiple call center functions, provide necessary management information and track calls for service.
- Implementation of work order systems to track work conducted by City departments. Implementation of a prototype system in the Department of Parks, Recreation and Facility Management; increased the number of facility maintenance work orders completed by nearly 100% without the need for additional resources. When integrated with 311 and MUNIS, these systems will provide the City with a single point of access for information about all City expenditures and work being conducted.
- Implementation of a time and attendance system, projected to reduce payroll errors, prevent payroll fraud and develop a single, central repository for the collection and analysis for all pay and benefit time information. This system is conservatively projected to reduce errors and overpayments by $3 million per year.
- Continued implementation of modules of the MUNIS financial system, including general billing and tax collection.
- Implementation of a management training program for all municipal senior-and middle-level managers.
- Implementation of departmental reorganizations in payroll, purchasing, treasury/collections and inspectional services.
- Outsourced the management of on-street parking enforcement to improve enforcement, increase revenue and improve coordination with the City's off-street parking infrastructure.
- Development of a comprehensive capital improvement plan based on quantitative measures of need and benefit for immediate-and long-term infrastructure projects and departmental equipment.

During fiscal year 2008, the City and the SFCB completed negotiations for all bargaining unit employees.

The City and the SFCB also continued to improve financial management generally through the addition of four new financial analysts in the Finance Department. The SFCB also accelerated the funding of the Springfield Retirement System by requiring the release of all pension appropriation funding to the System in July of each year, rather than the prior monthly release of funding. In fiscal year 2008, the release of this funding occurred in October (as soon as practical after the SFCB's vote), resulting in an over-funding of the Retirement System of approximately $567,000. The City's fiscal year 2007 bond issuance also restructured the City's debt curve, eliminating two substantial debt spikes (one causing a 36% increase in debt service and the other a 42% increase) while reducing long-term costs through a largely equal principal structure.

In addition to implementing CitiStat and beginning the implementation of 311, the City and the SFCB also established the Office of Internal Audit to conduct financial and performance audits of all municipal departments.

The City continued to collect tax and other debts owed to it. To date, approximately $25 million has been collected in back taxes, interest and fines. The City has begun to dispose of properties taken through the tax title process, netting $1.4 million on 48 properties in the first two sales.

Fiscal Year 2009

The City of Springfield's $531.4 million fiscal 2009 budget was developed and proposed by the City with the support of the SFCB but without significant assistance of the SFCB as had occurred in prior years.

The fiscal 2009 budget had an overall increase of $20.6 million or 4.0 percent, from the previous fiscal year. This was the smallest increase since fiscal 2005. Historically, Springfield relies on state aid to fund between 62 to 64 percent of the City's budget. Unrestricted general government state aid in the form of Lottery Aid and Additional Assistance were level funded in fiscal 2009. The majority of local source revenue is in the form of property taxes, which is limited to a 2.5 percent increase due to Proposition 2 ½.

Despite the small increase in revenue, the City adopted the fiscal 2009 budget that included: debt service associated with a $19.5 million bond issuance, $2.9 million for pay-as-you go capital projects, funding for a new 3-1-1 Citizen Service Center, and a new recruit class of police officers. These initiatives were possible due to the City and the SFCB efforts to control major cost drivers including personnel and health insurance.

In fiscal 2008 the SFCB created the CitiStat Department. CitiStat is a performance management department designed to analyze the effectiveness and efficiency of service delivery as well as the use of City resources. Through their assistance to departments, CitiStat saved the City approximately $1.8 million in fiscal 2009.

In March of 2009 the Productivity Bank was created to provide loans to Springfield city departments for projects and initiatives that will generate additional revenues, savings and efficiencies in service deliveries. Departments will payback the loans through the additional revenues or savings generated by these projects. The SFCB appropriated $1.5 million to the Productivity Bank and the City is currently reviewing applications for funding.

One of the largest costs in the City's budget is personnel. The fiscal year 2009 budget appropriated $267 million for salaries and overtime as well as $89 million for benefits. The City's Personnel Review Committee serves as a strict control mechanism by reviewing every hire, backfill, and promotion. Recent contract negotiations place Springfield in a more advantageous position compared to other municipalities. Over the last several years, the City and the SFCB renegotiated long-term contracts with every union, which included annual union wage increases within the City's revenue raising capacity.

Springfield's fiscal 2009 budget appropriated $58 million for health insurance. Historically, the City's health insurance rates increased annually by double digits and had been projected to increase by 13% in fiscal 2007. These increases were mitigated by implementing a number of changes, including becoming the first municipality to join the Commonwealth's Group Insurance Commission (GIC). The GIC purchases health insurance for 265,000 state employees and retirees and has significant purchasing power compared to a municipality. On average, GIC premiums increase at a rate of 9 percent annually, though since the City adopted the GIC, increases have been -11%, 6%, 9%, 2% in FY07, FY08, FY09, and FY10, respectively.

The City and the SFCB also negotiated the separation of the Massachusetts Career Development Institute (MCDI) from the City of Springfield. Now an independent non-profit, MCDI functioned as a quasi-city government entity for many years. This change will reduce the City's financial subsidy to MCDI each year, from $1.2 million in fiscal year 2009 to $0 over the next four years.

In the fall of 2008, an estimated $7.45 million deficit for fiscal year 2009 was reported in the School Transportation Department. The deficit was primarily caused by the failure to implement the recommended number of bus reductions as well as a flawed contract for alternative transportation for special education and homeless students. The SFCB appropriated stabilization reserve funds to cover the projected deficit. Operational changes and a new transportation contract have since reduced the projected deficit by $2 million, and internal control and reporting procedures have been established to help prevent a recurrence of this problem in the future.

In addition, a deficit was reported in the trash enterprise fund, estimated at $777,800 for fiscal year 2009. The deficit was primarily caused by a larger than expected increase in the disposal fee and a low trash fee collection rate. The SFCB also appropriated stabilization reserve funds to cover the projected deficit with a directive to reduce the deficit. The City implemented a new billing software system and increased the collections effort, which resulted in a fund balance surplus of $257,338 as of June 30, 2009.

The economic recession led to decreases in the Commonwealth's tax revenues, forcing the Commonwealth to close a $2.5 billion shortfall in the State's budget, resulting in a $128 million reduction in state aid for cities and towns. Referred to as "9C" reductions, Section 9C of Chapter 29 of the Massachusetts General Laws requires the Governor to reduce spending whenever his administration determines that there will not be enough revenue to pay for the spending authorized in the current budget. The Legislature granted the Governor expanded 9C authority to reduce state aid to municipalities.

On January 28, 2009, the Commonwealth reduced fiscal year 2009 state aid to Springfield by $4.6 million, 9.7 percent of unrestricted general government aid; Chapter 70 aid for school purposes was not reduced. On the same day, the Governor submitted his fiscal year 2010 budget to the Legislature ("House 1"), which showed a $13.5 million reduction in Springfield's unrestricted general government aid from the original fiscal 2009 budget.

The City has addressed this reduction in state aid by:

- Reducing $4.6 million in recurring cuts through strategic reductions in city departmental budgets.
- Not using reserves to provide temporary relief to balance the FY2009 budget.
- Maintain the current level of sworn officers in the Police and Fire departments.

These reductions included the elimination of 75 vacant positions and projected 66 layoffs, resulting in $4.6 million in savings in fiscal year 2009 with a projected savings of approximately $10.4 million for fiscal year 2010. See Appendix A for audited financial results for fiscal 2009.

Fiscal Year 2010

On June 30, 2009, the Finance Control Board approved the City's $528.6 million fiscal year 2010 budget, a decrease of $2.7 million from fiscal year 2009. As previously noted, the $4.6 million in reductions made in response to the fiscal year 2009 9C state aid cuts resulted in approximately $10.4 million in projected savings in fiscal year 2010.

Revenues

The City's fiscal year budget reflected an overall decrease of $2.7 million in revenue from the original fiscal year 2009 revenue budget. The decline in revenue reflects recession-related reductions in state aid and certain local receipts.

State Aid

The fiscal year 2010 budget included a $13.8 million reduction in Springfield's unrestricted general government aid, as well as a $5.2 million reduction in Chapter 70 aid. The Commonwealth provided ARRA funds to offset the reduction in Chapter 70 funds.

The fiscal year 2010 revenue budget also includes revenue associated with a 0.75 percentage point increase in the local option meals tax. The Finance Control Board approved this revenue increase, which will take affect October 1, 2009 and generate $983,000 in fiscal year 2010 and $1.3 million annually.

Local Source Revenue

The fiscal year 2010 revenue budget assumes a $9.9 million increase in the City's largest local revenue source, property tax. In accordance with Proposition 2 ½, the fiscal year 2010 revenue budget assumes a 2.5% increase in the City's tax levy, as well as a $2.5 million increase in new growth, less $4.5 million for the overlay reserve.

The revenue budget included a $2.3 million decrease in local receipts, driven largely by projected decreases in motor vehicle excise taxes, earnings on investment and payments in lieu of taxes (PILOT). Decreases in both the motor vehicle excise tax and interest earnings on investments are clear impacts of the current economic recession. The PILOT decrease is due to the end of the Tower Square agreement, which is now captured in the City's tax levy.

The Finance Control Board authorized the use of up to $10 million of the City's financial reserve funds to balance the fiscal year 2010 budget. This appropriation is intended to cover one-time costs as well as to help reduce the impact of projected revenue reductions on critical City services.

Expenditures

The City's fiscal year 2009 mid-year budget reductions made significant progress towards balancing the City's fiscal year 2010 budget, because the reductions were recurring in nature. There were no additional layoffs in the adopted fiscal year 2010 budget.

New Departments

The fiscal year 2010 budget includes the funding for the changes in the governance structure as required by Chapter 468 of the Acts of 2008, including the creation of the Chief Administrative and Financial Officer, Department of Labor Relations, and the affirmation of the Director of Internal Audit and Comptroller positions.

Benefits

The fiscal year 2010 budget reflects a 2 percent weighted average increase in health insurance premiums as projected by the Group Insurance Commission. The City continues to benefit from the GIC through lower premium increases compared to 18% annual increases previously.

In addition, the fiscal year 2010 budget projects an 8% increase in pension costs, based on the City's recent actuarial valuation. It should be noted that substantial stock market declines will negatively impact the City's pension investment fund, increasing appropriation requirements in the coming fiscal years. This is, to some extent, mitigated by the recent improvements in pension fund investments related to the transfer of the Springfield Retirement System's assets to the Commonwealth, as well as changes to the timing of the release of pension appropriations to the retirement system.

Education

The fiscal year 2010 budget includes funding for the School Department based on the City's required contribution, according to the Massachusetts Department of Elementary and Secondary Education. The fiscal year 2010 budget reflects a 37 percent increase in funding for school transportation, a reflection of the severe under budgeting of this item in the fiscal year 2009 budget.

APPENDIX G:

City Financial Policies

COMMONWEALTH OF MASSACHUSETTS

CITY OF SPRINGFIELD
FINANCE CONTROL BOARD

EXECUTIVE ORDER

#04-09-13-2009

This Executive Order is issued pursuant to the provisions of Chapter 169 of the Acts of 2004, *An Act Relative to the Financial Stability of the City of Springfield.*

Pursuant to the authority granted under section 4(d)(7) of Chapter 169 of the Acts of 2004, the Springfield Financial Control Board hereby amends Title 4 of the Revised Ordinances of the City of Springfield, 1986, as amended, through further amendment, by adding a new Chapter 4.44 thereto: Financial Ordinances

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AMENDING TITLE 4, OF THE REVISED ORDINANCES OF THE CITY OF SPRINGFIELD, 1986, AS AMENDED HEREBY FURTHER AMENDED BY ADDING A NEW CHAPTER 4.44 THERETO: FINANCIAL POLICIES.

Title 4, of the Revised Ordinances of the City of Springfield, 1986, as amended, hereby further amended by adding the following new Chapter 4.44 thereto:

Chapter 4.44

FINANCIAL ORDINANCES

Sections:

4.44.010 Compliance with finance laws
4.44.020 Ordinances with regard to the budget.
4.44.030 Revenue policies.
4.44.040 Policies with regard to self-operations.
4.44.050 Capital planning policies.
4.44.060 Financial reserve policies.
4.44.070 Debt policies.
4.44.080 Policies regarding cash management.
4.44.090 Polices regarding financial reporting and reconciliation.
4.44.100 Polices regarding financial responsibilities of departments.
4.44.110 Policies regarding grants.

4.44.010 Compliance with finance laws. A. All city employees, agents, boards, commissions and authorities shall comply with all General Laws, Special Acts of the Commonwealth, and city ordinances that relate to finance and financial management.

B. By September 30 of each year, the finance department shall provide to all departments an update regarding the financial policies and ordinances of the city of Springfield. By November 1 of each year, the law department shall provide to all departments an annual update regarding changes to municipal finance law and regulations that may impact departmental operations.

4.44.020 Ordinances with regard to the budget. A. The mayor shall propose to the city council and the city council shall adopt balanced budgets in which non-one-time revenue equals or exceeds expenditures.

B. The city will not balance the budget by using one time or other nonrecurring revenues to fund ongoing expenditures. Transfers from "free cash" and a "stabilization reserve fund" shall be the only exception; appropriation from free cash or a stabilization reserve fund to fund ongoing expenditures shall require a written disclosure by the chief administrative and financial officer of the size of the appropriation, the remaining balance in reserve after said appropriation and a projection as to how the city will finance these recurring expenses in upcoming fiscal years.

C. The city will not use budgetary procedures that balance the budget at the expense of future years, including postponing or deferring payment of expenses already incurred, accruing future year revenues, or rolling over short-term debt.

D. The annual budget shall include the following sections: the expenditure budget, a summary of the city's financial condition, an analysis of revenues used in the proposed budget, a proposed allotment schedule for the budget as required by Chapter 656 of the Acts of 1989, an analysis of outstanding debt and a summary of the city's capital condition, including municipal buildings, infrastructure, equipment, rolling stock and information technology.

E. The city's annual budget shall be adopted at the level of departmental salaries, expenses and capital.

F. The budget will provide for adequate maintenance and the replacement of capital plant and equipment. In the event that the budget is not able to provide for adequate maintenance and replacement of capital plant and equipment, the city will identify and report on the funding gap and the maintenance, equipment and capital which are not funded in the proposed budget. All budgetary procedures will conform with existing state and local regulations.

G. The chief administrative and financial officer shall produce and issue a four (4) year financial plan for the city by March 30th of each year. Said plan shall be comprised of reasonable revenue estimates and all expenditures the city may reasonably experience during said period. All assumptions contained in the forecasts shall be clearly presented within the forecast document.

H. Within two (2) weeks of the start of the fiscal year, the comptroller shall encumber all personnel service funds in all departments for the entire fiscal year for each budgeted position then occupied by an employee.

I. The comptroller shall provide to the mayor and city council a monthly report of revenues and expenditures at the line item level.

4.44.030 Revenue policies. A. The city's annual budget shall include a revenue budget that is created in line item detail for City operations.

B. The City will estimate its revenue using conservative methods and present this along with the balanced budget.

C. The chief administrative and financial officer shall review and propose to the city council an updated fee schedule for each of the city's departments no less than every two (2) years to ensure the cost of services is being adequately recovered.

D. The city may build into its revenue base from one fiscal year to the next an increase in each revenue line item of no more than three percent (3%), with the exception of

1. Real and personal property taxes, whose increase shall not exceed the revenue permitted under law, with New Growth set at a level certified by the Assessors as reasonable.

2. Chapter 70 (school) aid and school building assistance payments from the Commonwealth, which shall be budgeted in an amount no greater than the estimates provided by the Commonwealth of Massachusetts, and

3. Certain fees and fines, which may increase more than three percent (3%) only if the underlying cost of the fee or fine is increased. In such an instance, the city may budget the entire increase associated with the fee and/or fine so long as said revenue assumptions are certified as reasonable by the chief administrative and financial officer.

E. Any revenue increase in excess of the three percent (3%) limit established herein shall be considered upwardly volatile revenue and may only be expended to increase reserve fund levels or to fund non-recurring capital expenditures.

F. The city will maintain property assessment for the purpose of taxation at full and fair market value, as prescribed by State law.

G. The city shall collect all revenue using fair and consistent methods, exercising all powers provided to it under law. On or before May 30th of each year, the city shall commence tax title proceedings against all properties that owe property taxes to the city.

4.44.040 Policies with regard to self supporting operations. A. The city shall annually adopt the rates and fees for all enterprise fund activities, and the chief administrative and financial officer shall propose no less than every two years the rates and fees for all other rate- and fee-supported services in city government.

B. In the event that an enterprise fund requires General Fund or other support because its revenue does not fully support its operations, the finance director and relevant department head shall make a report to city council regarding the fund, its revenue and expenditure position and the reason a deficit occurred.

4.44.050 Capital planning policies. A. For purposes of this ordinance, the term "capital" shall refer to a facility, object or asset costing more than twenty-five thousand dollars ($25,000) with an estimated useful life of ten (10) years or more.

B. The capital improvement program will directly relate to the long-range plans and policies of the city.

C. The capital improvement plan shall be issued by March 30th of each year and shall be produced by and in the form designated by the chief administrative and financial officer. At a minimum, the capital improvement plan shall be a "rolling" five (5) year plan which shall be submitted to the city council for approval annually.

D. The capital improvement plan shall be reviewed by the capital improvement planning committee and shall include all capital expenditures proposed by the various departments. The committee shall recommend in each year of the plan the capital investments to be funded, and how these expenditures should be financed.

E. The capital improvement planning committee shall be comprised of the city's chief administrative and financial officer or his/her designee, the finance director, a representative from the city council, the director of parks, buildings and recreation management, the budget director, the planning director, the director of capital asset construction, the director of public works and the director of community and economic development or other officials with different titles who perform the duties of said positions. Any member with an interest in a capital item before the committee shall recuse him/herself from deliberations regarding said items. The committee shall provide its recommendations in writing to the mayor and city council. Any capital funding request that is at variance from the committee's recommendation shall be accompanied by a written justification of the variance, including a comparison of cost-benefit analyses for the effected projects.

F. Except as required by an emergency, all approved capital projects must be part of the adopted capital improvement plan. Capital projects that were not included in the capital improvement plan may not be conducted unless an emergency has occurred and a written report explaining the emergency has been provided to the city council.

G. All capital expenditure decisions shall analyze the potential use of alternative energy and fuel/energy efficient technologies and devices, and the use of recycled materials and environmentally preferable products.

H. The capital improvement plan shall include a multi-year forecast of annual debt service requirements for items in the plan to permit the examination of the future implication of debt issuance.

I. Each capital item in the capital improvement plan shall be accompanied by an analysis that includes the identification and cost estimation of additional operational and personnel costs associated with that capital improvement.

J. All proposals for capital improvements shall include a proposed source of funding for each capital improvement. Pay-as-you-go capital funding shall be considered as a financing source for each proposed capital improvement.

K. As part of a comprehensive capital improvement program, the city shall maintain net tax-financed capital improvement expenditures (pay as you go) at a level of one and one-half percent of local source revenue.

L. The finance director shall review the finances and status of all capital projects no less than annually. For a non-construction capital expenditure, the city shall conduct project close out within six (6) months of project completion.

For a construction-related capital expenditure, the city shall conduct project close out within nine (9) months of the end of construction. The city shall release unexpended bond proceeds within six (6) months of project close out and may reuse said proceeds consistent with the provisions of Massachusetts General Law.

4.44.060 Financial reserve policies. A. The city shall maintain an undesignated fund balance of between five percent (5%) and fifteen percent (15%) of general fund revenues, less debt exclusions.

B. In the event that the city's undesignated fund balance falls below five percent (5%) of general fund revenues, less debt exclusions, a plan for specific expenditure reductions and/or revenue increases that will bring the city into compliance with the minimum fund balance requirement shall be submitted to the city council during the next budget cycle.

C. Pursuant to the provisions of Chapter 656 of the Acts of 1989, the city shall maintain a reserve for extraordinary expenses of at least one percent (1%) and not greater than three percent (3%) of the prior year's tax levy. No direct drafts shall be permitted from this fund, but transfers may be made from it in the same manner as required for other budgetary transfers.

D. The amount of money to be held in free cash shall not be less than three percent (3%) or more than six percent (6%) of General Fund operating revenue, less debt exclusions.

E. The city shall maintain a primary stabilization reserve fund equal to between five percent (5%) and fifteen percent (15%) of General Fund operating revenues, less debt exclusions. As prescribed by Massachusetts General Law, however, at no time may an appropriation into this fund exceed 10% of the previous year's property tax levy, nor can the fund balance exceed ten percent (10%) of the equalized value of the city.

F. Pursuant to the provisions of Chapter 169 of the Acts of 2004, the city shall annually fund a capital reserve of at least one and half percent (1.5%) of the committed property taxes from the prior fiscal year. Said fund may be expended on capital projects for which the city may issue bonds for a term of ten (10) years or longer as provided for in Chapter 44 of the Massachusetts General Laws.

G. Whenever the city is self insured for the purposes of property, liability and/or workers' compensation insurance, it shall maintain a Self Insurance Reserve Fund that may be expended to pay for the loss of or damage to municipal property, whose loss or damage would be covered by property and liability insurance had the city purchased it. Said Reserve may also be used to pay justified damage, liability and workers' compensation claims against the city and shall be in the amount of 5% of the aggregate assessed valuation of City Hall, Symphony Hall and the Campanile.

4.44.070 Debt policies. A. The city shall comply with debt limitations as detailed in Massachusetts General Law.

B. The City shall manage the issuance of debt in line with the following debt ratios:

1. General Fund debt service as a percentage of general fund revenues, net of debt exclusions – not to exceed eight percent (8%).

2. Enterprise fund debt service as a percentage of enterprise operating revenue – not to exceed fifteen percent (15%).

3. Percentage of total debt that will be retired at the end of ten (10) years – at least sixty-five percent (65%).

C. Short-term debt, such as bond anticipation notes, tax anticipation notes, or grant anticipation notes, may be used when it provides immediate financing and an interest rate advantage, or if there is an advantage to delaying long-term debt until market conditions are more favorable.

D. The city may use inter-fund and inter-account operating loans rather than outside debt instruments to meet short-term cash flow needs. Such loans may only occur if the affected fund or account has excess funding available and the use of these funds will not impact the fund's or account's current operations. All such loans shall be repaid by June 30th of each year.

E. Any bond anticipation debt will be retired within six (6) months after completion of the project it financed.

F. Short-term debt will not be rolled over beyond two (2) years without a principal pay down or as prescribed by state law.

G. The term of debt issued to finance capital improvements or procurements may not exceed the useful life of the asset or improvement so financed.

H. The city shall conduct debt financing on a competitive basis unless, for reasons of market volatility, unusual financing structure or a complex security structure the city would be better served through a negotiated financing.

I. In all instances in which the city issues bonds or notes of a term exceeding twelve (12) months, the city shall utilize the services of a financial advisor firm to advise it on structuring the transaction, issues related to the compensation paid to firms involved in the transaction and other items. Said firm may not have served as underwriter for a city debt transaction during the thirty-six (36) months prior to the issuance of the bonds or note then being financed.

J. The finance director shall annually conduct and release to the public a report on the amount and affordability of debt issued by the city, using established and generally accepted benchmarks as a basis for comparison.

K. The city shall establish and maintain a debt schedule that avoids large increases in debt service on a year-to-year basis, and shall seek to use an "equal principal" repayment structure rather than level debt service structure.

L. The City may issue refunding bonds if the savings associated with the refunding are at least twice the cost of issuing the refunding bonds, there are positive savings in each year of the refunding bonds so issued, the present value of the savings is at least three percent (3%) of the par amount of the refinancing issuance, and the refunding bonds do not extend the term of the debt to be refinanced.

M. The city may not use bond proceeds to finance operating expenses other than those certified by the chief administrative and financial officer as being specifically related to implementation of the project. The city may not use bond accounts or bond proceeds as a source of inter-fund or inter-account operating loans.

N. The City shall comply with all Federal and State government laws and polices with regard to arbitrage earnings on bond proceeds.

4.44.080 Policies regarding cash management. A. The city shall manage its cash resources in a prudent and diligent manner with an emphasis first on safety of principal, second on liquidity and third on financial return on invested cash. The treasurer/collector shall ensure investment managers who invest municipal funds operate in a manner consistent with these requirements.

B. Except when cash is invested in the Massachusetts Municipal Depository Trust, the city shall not invest cash in instruments with a term exceeding three hundred sixty-five (365) days. Cash invested outside of the Massachusetts Municipal Depository Trust shall only be invested in cash, money market funds and certificates of deposit, with a preference for insured certificates of deposit where appropriate. The city shall not invest in derivatives of cash products or any structured financial vehicle.

C. The treasurer/collector shall submit a written report with regard to the city's cash investments to the office of internal audit no less than quarterly. Said report shall be in the form required by the director of internal audit and shall document the city's cash investments in detail to ensure compliance with Massachusetts General Law and relevant policies and ordinances.

D. Except as otherwise provided for in Massachusetts General Law, all fees, fines and other revenue shall be collected by the office of the city collector. The finance director may permit individual departments to collect fees, fines and other revenue if, in his/her judgment, said department has established proper policies, procedures and controls and that said controls are followed at all times. All receipts collected by any department shall be forwarded to the city collector on a daily basis or on another schedule as may be approved in writing by the finance director.

E. The finance director shall develop, document and publish a system of internal controls for cash management, including but not limited to receipt of money, safeguarding of assets, verification of accuracy, use of financial computer systems, promotion of operational efficiency, proper segregation of duties and others.

4.44.090 Policies regarding financial reporting and reconciliation. A. All department heads shall notify the chief administrative and financial officer in writing within one (1) week of becoming aware of non-compliance with any financial ordinance or policy of the city of Springfield. The chief financial officer shall provide a written report to the city council when the city fails to comply with any financial policy of the city of Springfield. Said report shall occur within three weeks of the failure to comply, and shall be updated no less than annually. This shall explicitly include instances of intentional non-compliance, such as the use of non-recurring revenue (reserves) to support the operating budget, failure to maintain minimum reserve fund levels, and others.

B. The comptroller shall produce and present to the mayor and chief administrative and financial officer a statement of monthly revenues and monthly expenditures, both of which shall be compared to budget estimates and historical trends.

C. The treasurer/collector shall reconcile the city's revenues and bank accounts on a monthly basis, within fifteen (15) business days of the close of each month.

D. The city shall reconcile revenues and expenditures for each fiscal year within two (2) months of the end of the fiscal year.

4.44.100 Policies regarding financial responsibilities of departments. A. All departments authorized to collect receipts by the finance director shall remit them to the city collector on a daily basis, or on another schedule approved by the finance director in writing on a case by case basis.

B. All departments shall utilize the city's central accounting system and shall post all financial transactions thereto in a timely manner.

C. No department shall open an account in any financial institution or maintain a checkbook or other means of receiving or making payments without the prior written approval of the finance director and may not make any payment outside of the city's central financial system.

D. No department shall be permitted to over-expend a line item in its budget unless authorized to do so by Massachusetts General Law, and then only after following the procedures established in said Laws. Pursuant to Chapter 656 of the Acts of 1989, any department head who over-expends their budget may be held individually and personally liable and required to make payment to the city in the amount of the over-expenditure, with determination of said liability made by the mayor.

E. No department may seek procurement for any capital project for which funding is not legally available via appropriation, bond funding, grant funding, gift or other legal source unless specifically permitted by law. In instances where law permits procurement without a previously-identified funding source, said department must seek and receive the approval of the finance director prior to initiating procurement activity.

F. All departments that issue fines and tickets under law and city ordinance shall provide written monthly reports to the finance director of the number and dollar value of tickets issued and paid. Said report shall be reconciled prior to submission so as to provide an accurate accounting of collections and outstanding unpaid balances to date.

G. The city shall commence and actively pursue collections activities against properties which are delinquent on their property taxes and personal property taxes at the earliest timeframe permitted by law.

4.44.110 Policies regarding grants. A. The grant director shall oversee all grants for the city of Springfield and, to the extent permitted by law, for the Springfield public school department. With the approval of the chief administrative and financial officer, he/she shall establish policies and procedures regarding the management and administration of grants, including the submission of grant applications for funding.

B. Departments shall be encouraged to pursue all available grants funding consistent with the mission and strategic direction of the department and the city.

C. All grant applications shall be reviewed by the grant director prior to submission. Departments shall provide all information requested by the grant director in a timely manner to allow proper oversight and reporting to grantors and others.

D. To the extent allowed by the granting entity, all grant applications which seek to fund personnel costs shall request funding for fringe benefit costs. A department applying for a grant which can not pay for fringe benefits shall stipulate to the grant director in advance how the department will pay for the related fringe benefit costs.

E. Grant funds shall be expended prior to the expenditure of general fund operating budgets whenever possible. Grant reimbursements shall be submitted in a timely manner; a schedule for submitting grant reimbursements, which shall be binding on all parties, may be established by the finance director if he/she finds that reimbursements are not taking place in a timely manner.

F. Department heads shall notify the finance director no later than three (3) months prior to the expiration of a grant if they reasonably believe grant funds may be returned unspent to the granting agency.

G. All employees, entities, boards, commissions or others which submit grant applications requiring a city match shall identify an available source of funding which shall serve as the matching funding for the grant, prior to submitting the grant to the grant director for review.

H. No employee paid in whole or in part from the General Fund shall be moved to being funded by a grant without the prior written approval of the finance director. No employee who is paid in whole or in part from a grant shall be moved to being funded by the General Fund without the prior written approval of the finance director.

Approved as to Form

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Associate City Solicitor