CITY OF SPRINGFIELD, MASSACHUSETTS

MULTI-YEAR FINANCIAL PLAN (FY17-FY20)

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Message from the Chief Administrative and Financial Officer Timothy J. Plante

Mayor Sarno, City Councilors and Springfield Residents, and Businesses:

The City's most important task is developing the annual budget. The budget sets priorities, addresses the needs of City residents and businesses, and allocates limited resources to provide services in the most efficient way possible. I am happy to report that as a City, we continue to take ownership and accountability for our finances and am proud of the fact that during this these trying financial times we have maintained vital services, financially weathered natural and man-made disasters, and continue to maintain our commitment to financial integrity.

I am proud of the City's overall financial strength. This year we attained the largest reserve levels in City history, $40M, and continued to manage both our revenue and expense budgets to generate free cash. This is highlighted by the fact that we ended FY15 with a $4.17M surplus. We continue to maintain the discipline that is vital to the City's overall fiscal health and has prompted the Standard and Poor's upgrade to our bond rating, with a revised positive outlook from Moody's.

As we plan ahead for the coming budget cycle, it is important to understand how the decisions we make today will effect tomorrow. It also is important to focus on the guiding principles of budget development. For me these principles include:

- ✓ Providing core services to residents, businesses, and visitors that will require an evaluation of everything we do to determine our priorities and to be leaders in the services we can afford to provide.

- ✓ Preserving and maintaining our assets while making strategic economic development investments that will grow our City's tax base and in turn strengthen the services we are able to provide.

- ✓ Treating the City workforce fairly, this will require honest conversations with employee unions, and weighing the costs and benefits of providing salary increases while maintaining benefits at current levels.

- ✓ Continued implementation of our financial policies that require us to maintain reserves, reducing our structural deficit, and maximizing revenue collection when possible.

These guiding principles are important as we navigate through the budget development process, and will be reflected on as tough decisions are made. We face many challenges that include maintaining our bond rating by ensuring that fiscal integrity is preserved, dealing with the challenges that all urban centers face and the demands put on City resources, and funding core services while our levy ceiling continues to threaten the City's ability to raise revenue.

Fiscal Challenges

Meeting the demands of an urban center is difficult while recovering from Springfield's $1 billion decline in property values since FY09. The City continues to manage long-term scheduled liabilities such as Pensions, Other Post-Employment Benefits (OPEB), and infrastructure needs, yet over sixty (60) percent of the City's budget is a pass-through of state aid directly to the School Department. The remainder of the budget derives from local source revenue such as property taxes, motor vehicle excise, and other fees and permits.

Because we are so heavily reliant on state aid, and the fact that we continue to operate at our levy ceiling, we do not control our own budgetary destiny. We do not have the ability to seek Proposition 2½ overrides if we sought to do so, and being at levy ceiling prevents the economic development benefits of "new growth" from being fully realized. Specifically, in FY2016, even with an annual 2.5% increase, the City was only able to capture $1.38 million in new growth, despite having over $5 million certified in new taxable values. This left a gap of $3.6 million in "potential" new growth unavailable to be taxed. Without being able to grow this local revenue, we are forced to rely on increases in State Aid to fund increasing non-discretionary costs, which are continuing to crowd out other budgetary needs and affecting the City's ability to provide core services.

As shown in the chart attached to this report, the City's operating costs continue to grow at a faster rate than our revenue sources. Between FY17 and FY18, expenses are projected to grow 2.5%, while revenue projections only increase by .9%. Even with the introduction of MGM revenue in FY19, as outlined in the Host Community Agreement, the City still faces projected deficits averaging $20M in future years.

The City, therefore, must continue to focus on economic development opportunities and seek the "spin-off" effect they produce. Continuing to focus on economic development will lift up property values on the commercial side of the budget equation, and increase homeownership on the residential side. These are both benefits to the City because rising economic and job opportunities will lead to improved neighborhoods and higher property values.

In spite of limited revenue available to budget, the City will focus on two core areas for investment: public safety and maintaining our commitment to education. Springfield is trying to combat the public perception of increased crime in the City, and education plays a central role in the quality of life of our neighborhoods. Improvements in education will only help the workforce and increase jobs.

Policy Priorities: Public Safety

In FY17, Springfield will make the largest investment in public safety since the 1990's. Sixty (60) Police recruits will enter an academy, filling forty-five (45) positions vacant because of retirements and attrition. Five (5) Sergeant positions will be created, and in total, 15 officers will be added to the department compliment. The Police Department will establish a new "metro" crime unit in an effort to increase police visibility, and allow residents and visitors to enhance their feelings of safety as they enjoy downtown. This unit's focus on downtown Springfield will allow the department to increase its current focus on quality neighborhood policing.

Policy Priorities: Education

Currently, there is a major policy debate at the state level about proposed legislation to lift the cap on the number of charter schools allowed in a community. If passed, Springfield anticipates the number of charter schools will increase. While the Administration is not opposed to an increase in the number of charter schools, we want to see the Commonwealth fulfill its commitment to the current cap. If the cap is to be raised, we want it done strategically, taking into account the impacts on local communities.

The Governor's proposed budget increased funding for both Chapter 70 and Unrestricted General Government Aid (UGGA), but it falls short in the area of charter schools, where the FY17 assessment for attending students increased $3.3M while the revenue only increased $1.8M. This forces the City and School Department to absorb the difference and make difficult choices in order to balance the budget.

According to current Massachusetts General Law (M.G.L. c. 71 § 89), the school district in which the charter school is located, is required to provide transportation to the charter school on the same terms and conditions as transportation provided to children attending local district schools. However, charter school calendars and schedules are approved independently from the Springfield Public School system, and often charter school transportation schedules make for less efficient transportation service plans. Without being able to schedule a tiered transportation schedule, the City is exposed to increasing costs over which it has no control, and in recent years, school transportation costs have been increasing at an unsustainable rate.

Overall, the Commonwealth's investments in Chapter 70 funding are making our schools stronger; our graduation rates are growing and our dropout rates are shrinking. The Mayor and I support the report issued on October 30 2015, by the Chapter 70 Foundation Budget Review Committee. Their findings included a review of the Chapter 70 formula, along with their recommendations for foundation budget changes. The study found that some of the assumptions contained in the formula for calculating the foundation budget have become outdated. Some of the actual costs have surpassed the assumptions built into the formula, significantly reducing the resources available to schools. Of particular importance are the resources for low-income pupils, as well as our English Language Learners (ELL), and Special Education students. Springfield Schools have a disproportionate share of the students in these categories, and current funding structures are inadequate.

Other Considerations

In addition to these two major priorities, the City also must account for long-term liabilities including funding the City's underfunded pension and Other Post-Employment Benefits (OPEB), debt service, and the needs of our infrastructure as outlined in our Capital Improvement Plan.

- Pensions - The City's pension system, funded at a 27% ratio is the lowest funded ratio in the State and continues to make up for FY08 market losses. The annual contribution for the entire City has increased from $47 million to $50.5 million to account for $731 million of unfunded liability. This must be paid before any other costs as a non-discretionary expense.

- OPEB - In addition to our pension liability, the City is currently undergoing an OPEB valuation, which when last completed showed that the liability has decreased from over $1 billion to $873.4 million. The City will again request the State pass a home rule petition allowing Springfield to use reserve funds as dictated by Chapter 656 of the Acts of 1989 to begin to address this. Currently, $5.6 million is set aside in the reserve fund, and a committee is considering policy changes that would annually allocate a percentage of available free cash to the OPEB trust account.

- Debt Service: Along with Pension and OPEB, debt service payments are non-discretionary, meaning the City must make these payments above anything else, including employee salaries. In recent years, the City restructured its debt service payments in order to have declining payments in future years. The declining debt schedule is designed to allow more for new debt service costs to be added on, as older debt service payments "fall off." As a result, we were able to issue $50.4M in debt, and are planning to issue more in coming fiscal years. Currently our long-term debt liability stands at $284.0M, and annual payments follow a pre-determined schedule, with a current budget is $40.8M.

Continuing to address these liabilities—whether on a schedule as the pension and debt service liabilities are, or when funds are available, as the CIP liabilities have more recently been addressed—is just as important as maintaining core programs and services.

It is important to all of us that we do all that is necessary to that tax payer dollars are spent in the most efficient, effective, and legal manner, and I take my role in this very seriously. This plan is meant to provide an honest outlook of the City's finances and the struggles we are facing. It also is meant to share the ideas being considered to help us achieve our guiding principles within the limited resources available. I have also released a detailed capital improvement plan that highlights the City's capital needs and debt capacity, and their impact on yearly operating budgets.

This plan will continue to be updated as new information becomes available. I look forward to working with you on the FY17 budget planning process and am open to all ideas that will positively benefit our City.

Sincerely,

Timothy J. Plante,
CAFO

Multi-Year Financial Plan (FY17-FY20):

	FISCAL 2015 ACTUAL	FISCAL 2016 ADOPTED*	FISCAL 2017 MYFP - PROJECTED	FISCAL 2018 MYFP - PROJECTED	FISCAL 2019 MYFP - PROJECTED	FISCAL 2020 MYFP - PROJECTED
SPENDING ASSUMPTIONS						
Administration and Finance Division	10,895,862	10,859,610	11,076,802	11,148,339	11,221,305	11,295,731
Development Division	3,403,253	3,646,220	3,719,145	3,793,528	3,869,398	3,946,786
General Government Division	4,334,659	3,108,779	3,170,954	3,234,373	3,299,061	3,365,042
Non-Mayoral Division	1,231,831	1,403,119	1,431,182	1,459,805	1,489,002	1,518,782
Health and Human Services Division	10,250,695	10,383,664	11,101,338	11,323,364	11,549,832	11,780,828
Public Safety Division	61,111,192	64,493,609	69,770,598	71,426,010	73,114,530	74,836,821
Public Works Division	14,722,761	14,029,642	14,310,235	14,596,439	14,888,368	15,186,136
Parks & Facilities Division	10,901,014	10,607,583	10,819,734	11,036,129	11,256,852	11,481,989
School Department	384,865,943	378,730,282	392,360,793	404,131,617	416,255,565	428,743,232
Debt	36,734,208	36,395,462	40,820,027	38,547,429	38,263,792	38,263,792
Health Insurance & Fringe	24,909,004	26,254,817	27,624,555	28,907,749	30,253,704	31,665,535
Pensions	26,749,744	28,357,819	30,059,288	31,862,845	33,774,616	35,801,093
Other Spending	6,256,485	6,802,804	8,636,243	8,812,150	8,992,348	9,176,942
TOTAL	**596,366,650**	**595,073,411**	**624,900,895**	**640,279,778**	**658,228,373**	**677,062,709**
REVENUE ASSUMPTIONS						
Property Taxes**	168,431,087	177,910,553	182,458,317	187,119,775	191,897,769	196,795,214
Local Receipts	45,351,709	43,041,834	41,704,467	41,704,467	41,704,467	41,704,467
State Aid	358,636,209	367,121,024	378,560,643	380,671,304	388,825,750	397,907,745
Reserves	2,856,130	-	-	-	-	-
Net School Spending	18,571,226	-	-	-	-	-
Other Financing Sources	6,692,065	-	-	-	-	-
Casino Revenue	-	7,000,000	5,500,000	4,500,000	20,422,857	21,242,857
TOTAL	**600,538,426**	**595,073,411**	**608,223,427**	**613,995,546**	**642,850,844**	**657,650,283**
SURPLUS / (GAP)	**4,171,776**	**0**	**(16,677,468)**	**(26,284,232)**	**(15,377,530)**	**(19,412,426)**

Summary

The City of Springfield is governed by strict financial policies adopted as ordinances in September of 2009. Section 42.29 (G) stipulates that *"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."*

The following pages represent adherence to this requirement and show actual spending in FY15, the Adopted budget for FY16, and the draft projected budgets for FY17, FY18, FY19 and FY20. The projected budgets for F17 through FY20 were estimated by using appropriate and conservative assumptions for revenues and spending based on Governor Baker's FY17 proposed state budget:

- A 4.3% increase in Non-School State Aid, and 3.46% increase in Chapter 70
- A 2.5% increase in property tax revenue
- Level Local Receipts revenue with a reduction in revenue for one-time revenue built into the FY16 budget.
- No use of one time resources / reserves
- Departmental spending growth ranging up to 2.0% and other known growth costs, including an increase to Fire and Police department compliments
- Scheduled growth for pensions, 5% assumptions for health insurance, and adherence to the City's debt schedule:

It should be noted that of the entire City budget only a small portion (approximately 20%) is discretionary in that it is not mandated by law or ordinance. Therefore, the discretionary portion of the budget must assume all of the reductions to achieve a balanced budget. *Based on these assumptions, spending growth will continue to outpace revenue growth in the coming years, which will force the City to develop creative solutions, to reduce or eliminate programs and services, and to ask the State for additional assistance simply to meet core service needs (public safety, parks, public works, etc.) that City residents, businesses, and visitors expect.*

Section 1, titled "Multi-Year Financial Plan (FY17-FY20)" includes the assumptions used to develop this plan and provides a graphic representation of recent history of actual expenditures and revenues, the FY16 adopted, and the four-year financial forecast for FY17 through FY20. This graph shows that the City, despite a strong Stabilization Reserve balance and strict financial ordinances, continues to face major budget gaps from FY17 through FY20. This demands a proactive approach to budgeting and policy decision-making that will have impacts on the programs and services that the City can provide.

Section 2, titled "Steps to Resolve the Projected Gap" discusses specific steps that govern the decision making process.

Lastly, this document includes 2 appendices; an overview of the City's Reserve Funds and an overview of the City's long-term liabilities. These informational pieces provide important context for this financial plan.

MULTI-YEAR FINANCIAL PLAN FY17 THROUGH FY20

The following assumptions were used for FY17 through FY20. These assumptions consider historical revenue collections and spending and the current economic climate.

Revenue Assumptions

State Aid – In January, the Governor released his proposed budget, the MYFP utilizes these estimates for FY17.

- *Chapter 70* - The City's largest source revenue is state aid from Chapter 70 funds, which is devoted exclusively to education. Created from the Education Reform Act of 1993, the Commonwealth determines every municipality's required local contribution. A municipality's local contribution, combined with its Chapter 70 aid, equals the school district's net school spending requirement, the minimum the district must spend on education each fiscal year. The projection assumes a 3.46% increase consistent with the Governor's budget and a 3% increase in the remaining years of the plan based on pupil estimates.

- *Charter School Tuition Reimbursements* - The Commonwealth 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 for the first year, and 25 percent for each of the next five years. The projection assumes a $1.8M increase in Charter School reimbursements based on enrollment information for FY17. The remaining years of the projection assume an annual 25% decrease.

- *Unrestricted General Government Aid (UGGA)* - Unrestricted General Government Aid is undedicated revenue provided by the State for municipal services. The Governor's budget includes an allocation of $36.4 million, an increase of 4.3%, and future years are projected to be level.

- *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. These are the final projects statewide being funded under the "old" MSBA method. The official reimbursement schedule has been supplied by MSBA therefore the amounts included in the plan are based on that schedule.

- *Other State Aid* - The following are the assumptions for the other state aid categories Springfield receives:
    - Quinn Bill – The State eliminated its portion of funding for this program in FY12 therefore the City has been paying the full amount of the $3.4M annual program.
    - Veterans' Benefits - The City receives a 75 percent reimbursement on all eligible spending towards veterans' financial, medical and burial benefits. The projection assumes the Governor's FY17 budget recommendation for Veterans' benefits.
    - Tax Exemptions - Chapter 59 of Massachusetts General Laws set a series of exemptions for Veterans and their surviving spouses, persons over 70 years old and legally blind persons. Those who meet the requirements as stated by

Chapter 59 receive exemptions from their property taxes, ranging from $175 to $500. The State reimburses municipalities for these exemptions. The projection assumes the Governor's FY17 budget recommendation for tax exemptions.

- The State reimburses municipalities for a portion of the taxes lost on state owned land. The projection assumes the Governor's FY17 budget recommendation for PILOT payments.

Local Source Revenue - The remainder of revenue collected by the City is through 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. For the purpose of the plan, all local source revenue remained level with the current year budget with the exception of PILOT payments to the City from non-profit entities based on the expiration of the PILOT agreements.

- *Property Taxes* – Based on initial estimates completed by the City's Board of Assessors, property values are finally increasing after six straight years of declines. The City continues to remain at its primary levy ceiling, and is constrained from further growth under the rules of Proposition 2½.

- The City's values have experienced over $1 billion in decline since FY09. Because of this decline, the City's levy ceiling has been significantly constrained. As such, growth to the levy, even the annual 2.5% or the benefit of economic development known as "new growth" has not been able to be fully captured. Springfield, for some time, was the only community in the Commonwealth that was having this experience; however other communities have hit or are close to hitting their ceiling and will soon face the same issues. Without being able to grow local revenues and without increases in State Aid, non-discretionary costs are crowding out all other budgetary needs and impacting the City's ability to provide core services.

Total Taxable Value	2008	2009	2010	2011	2012	2013	2014	2015	2016
Residential	6,036,956,400	5,484,722,870	5,252,153,800	5,155,722,500	5,038,856,200	4,858,355,700	5,025,199,000	5,079,607,100	5,225,634,600
Commercial	1,079,322,350	1,072,958,950	1,052,016,750	1,045,580,000	1,009,971,300	1,047,246,800	1,064,979,700	1,156,136,600	1,200,394,800
Industrial	246,327,200	242,991,100	229,288,700	184,851,100	166,822,500	159,725,600	162,566,500	168,230,700	173,773,800
Personal	444,536,550	440,601,660	461,359,650	463,175,130	560,357,950	631,025,200	665,647,970	640,954,110	678,618,930
Total Taxable Value	**7,807,142,500**	**7,241,274,580**	**6,994,818,900**	**6,849,328,730**	**6,776,007,950**	**6,696,353,300**	**6,918,393,170**	**7,044,928,510**	**7,278,422,130**
Levy Ceiling (Value x 2.5%)	**195,178,563**	**181,031,865**	**174,870,473**	**171,233,218**	**169,400,199**	**167,408,833**	**172,959,829**	**176,123,213**	**181,960,553**

- *New Growth* – Some new growth is anticipated, but like in FY16 where we were able to capture $1.38M of the $5M in certified new growth, the City cannot capture the full value of economic development projects in the first year of construction, because we are at our levy ceiling. Instead, the revenue is lost for the first year and absorbed in the overall base in the second year.

	Certified New Growth	New Growth added to Levy	Lost New Growth
FY11	3,482,214	-	**3,482,214**
FY12	4,526,534	-	**4,526,534**
FY13	5,868,281	-	**5,868,281**
FY14	5,796,076	984,343	**4,811,733**
FY15	3,893,490	-	**3,893,490**
FY16	5,047,901	1,384,260	**3,663,641**
	LOST NEW GROWTH FY11-FY16		**26,245,893**

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

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

- *Reserves* – For the purposes of the initial forecast, it is assumed that no funding from one-time revenues (reserves and overlay) will be used. However, the City is going to be strategic on the amount of reserves or one time revenue used to balance that does not jeopardize our bond rating. We believe we are at the base core services and do not want to decimate services while we wait for the revenue from MGM Springfield.

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

- *City Departments* - The projection assumes a 0-2.0% increase for all City Departments which encompasses all settled collective bargaining contracts and those currently being negotiated.

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

  The current projection assumes a 3.6% increase for FY17 and 3% thereafter, with approximately 80% of the School Department spending increase being offset by State Aid. The difference will be a direct cost to the city. In addition to the City's contribution to meet NSS, it also is responsible for non-NSS costs such as transportation, leases and adult basic education (ABE), and must be funded by the City without any support from State Aid. Transportation costs alone are projected to increase 3% in FY17, and the costs are highly dependent on the amount and operation of local charter schools.

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

- *Health Insurance* - The City has annually saved millions by receiving its health insurance through the Group Insurance Commission. Nonetheless, in FY16 the commission has estimated between a $165M and $190M deficit and an estimated 7% increase in the average premium for FY17. This financial forecast assumes an overall increase of 5% associated with this projection. The City's contract with the GIC does not allow the City to opt out until the following October and therefore the City must incur these increases this fiscal year. Depending on the size of the increases in both premiums and deductibles, the City will look at all its options for health insurance next year.

- *Retirement* - The retirement projection is based on the City's most recent actuarial report which assumes annual increases to get to full funding by 2035. The most recently adopted schedule continues to account for FY08 market losses which require significant increases annual to appropriately fund the schedule within the scheduled period. The FY17 payment is 6% over the FY16 payment and another 6% increase over the FY17 payment for FY18. Beginning in FY19, the payment increases will jump to 8% through FY24, if the current schedule is maintained

Steps to Solve the Projected Gap

The process for developing the fiscal year budget begins in the fall of each year and continues to be updated until July 1st as new information becomes available. Annually, the City completes a fiscal year budget process that consists of the following steps:

- October - February - Develop initial draft of Multi-Year Financial Plan (MYFP)
- February - Send Fiscal Year budget planning exercise to departments
- March - Hold Mayor's public budget hearings to better understand impacts of suggested revenues and budget reductions and additions
- March - April - Evaluate revenue and budget submissions from departments
- March - April - Evaluate tax levy and overlay account
- March - May - Make updates based on Legislative budgets from State and other new information
- April - May - Finalize decisions on spending and revenue to balance the budget
- May - Publish Mayor's budget recommendations and implement all revenue and spending changes.

Develop initial draft of Multi-Year Financial Plan (MYFP):
In the fall of each fiscal year, the initial review of spending and revenue for the next fiscal year begins based on assumptions made by the OMB team. These assumptions, based on both history and current information, help develop that initial budget gap so that the problem that needs to be solved can be estimated. This initial gap is then used to develop the request that the OMB department makes of departments for revenue maximization and spending reduction ideas usually with a targeted amount that will help solve the overall projected budget gap. For FY16, when the initial draft of the MYFP was completed, the gap was estimated at $14.1M. For the current plan developed for FY17, the initial gap was projected at $16.7M.This gap continues to be updated throughout the budget development process as new information becomes available.

Send Fiscal Year budget planning exercise to departments:
In February, a request is sent to all City departments for their level service budget requests along with a reduction target. The goals of the exercise are:

- Determine the cost of providing the same level of programs and services as provided in the current year;
- Determine the options for revenue increases or spending reductions; and
- Determine the impact of those revenue increases and spending reductions on residents and FTEs.

By the beginning of March, departments provided this detailed information to the OMB department who spends the next several weeks analyzing the numbers and gathering additional information in preparation for the Mayor's public budget hearings.

Hold Mayor's public budget hearings to better understand impacts of suggested revenues and budget reductions:
Each March, the Mayor holds public meetings with each of his departments so that he can hear directly from his departmental experts on the impacts of revenue enhancements and spending reductions. Even though the departments provide written impact statements and notes, this face to face meeting allows for dialogue and a review of ideas for helping to resolve the budget

gap. These public hearings take place over a two-week period so that members of the City Council and the public can take part, hear directly from departments, and ask questions that they may have.

Evaluate revenue and spending reduction submissions from departments:
As soon as departmental budget information is available, the OMB team works with the departments to understand the requests including the explanation of any increases or decreases in the level service request and the program and service impacts on revenue enhancements and service reductions. At this point in time, the MYFP is updated based upon the level service request of departments. For example, in the development of the MYFP for FY17, spending was projected at $624.9M. However, based on departmental submissions, spending grew to $629.9M, which increases the gap that needs to be solved to balance the budget. The increases are attributed to the knowledge that departments have of their operations or changes in information that were not available when the initial assumptions were made.

Evaluate tax levy and overlay account:
While other revenue proposals and spending reductions are being evaluated, the Board of Assessors continues through their process of reviewing residential and commercial values. The Assessors are then able to provide an update on the gross and net tax levy estimates for the coming fiscal year.

Make updates based on Legislative budgets from State and other new information:
The House Ways & Means Committee releases their budget in mid-April and the full House finalizes their budget by the end of April. Then the Senate Ways & Means Committee releases their budget in Mid-May to be finalized by the end of May. Based on these budgets, a Conference report is developed which compromises on the differences between the two budgets. Normally, the two branches are consistent in their treatment in local aid and sometimes publish a local aid resolution that delineates early on what the local aid budgets will be for the coming fiscal year. The goal, however, is to get as many requests into one if not both versions of the Legislative budgets to ensure they are at least discussed in the conference committee.

Develop request to the State for assistance and meet with key stakeholders:
In addition to determining the spending and revenue items that the City can locally control and change, the OMB team, with the help of departments, reviews areas where the State can provide assistance and develops a request. The OMB team meets with delegation staff to educate them on the financial situation of the City and initiates meetings with State legislative leadership at both the staff level and the Legislator level. The City continues in this effort during the FY17 planning process and utilizes every opportunity to discuss City issues with policy makers. In FY16, the City signed the Governor's Community Compact, participated in the Lieutenant Governor's Listening Tours, and sought out numerous opportunities to engage State stakeholders in the issues we are facing and the decisions that need to be made without further State support.

Finalize decisions on spending and revenue to balance the budget:
Based on all of the information provided by the departments and the updates on revenue provided by the Board of Assessors and the State, the Mayor must then make decisions on

which spending reduction and revenue increases to implement. Some of the ideas to help reduce costs or enhance revenue are:

- Eliminating vacancies – The City is evaluating all positions that are vacant and working with departments to determine if a restructuring or reallocation of duties is appropriate for a cost savings.
- Analyzing programs – All departments have been asked to review programs to ensure they meet the City's core mission and are consistent with the Mayor's priorities.
- Analyzing fees – All departments have been asked to review fees that are charged to ensure they are up to date, consistent with the cost of providing the service and comparable to surrounding communities.

All of these proposals will be evaluated and discussed with departments and the Mayor makes the final decision on what will be implemented to balance the budget.

Publish Mayor's budget recommendations and implement new revenues and spending reductions:
Based on all final decisions, the Mayor's budget recommendations are published and departments can begin their work on implementing them for the fiscal year which begins on July1st. The City Council has a chance to review the budget, hold their own public hearings and reduce the budget where they see fit. The budget cannot be increased by the Council. All of the information that has been made available over the course of the preceding 6 months is what is used to finalize the budget recommendations. Although sometimes it may look as though a gap is identified and then miraculously solved, there are many meetings, requests for information, review of details, follow-up meetings and alternatives proposed before getting to the final decision making point in the process. None of the recommendations are taken lightly and the City works to maximize all sources of revenue before cutting into the core of its City services through spending reductions.

Appendix 1: Reserve Funds

The City has various reserve funds some of which are designated for specific purposes and others that can be used for operational expenses upon action by the Mayor and City Council. After decades of certifying negative reserve fund balances, the City has certified eleven consecutive years of positive reserve fund balances.

Stabilization Reserve Funds

The City's Stabilization Reserve Fund (Fund 8213) currently has a balance of $40.3 million. 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 $5.6 million.

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 (Fund 8219) 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 $228K.

Appendix 2: Long-Term Liabilities

As with any large organization, long-term financial liabilities are evaluated regularly, and help drive decisions about current year services.

- *Property Tax Limitations* – Property values are continuing to decline in the City. In addition, the City is against its levy ceiling which will not allow for annual 2.5% increases or new growth to be counted into the budget.
- *Personnel* - One of the largest costs in the City's budget is personnel. 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. Union positions make up the majority of the City's FTEs along with the need to address their annual contractual pay increases.
- *Benefits* - Prior to Fiscal Year 2007, the City's health insurance costs were increasing at a rate of 18 percent annually. 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 3.7% annually since FY09 which is significant growth but much more controlled than under the previous situation.
- *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 to 2040 were adopted in FY11. The City must revalue its schedule every 2 years and adjust the schedule accordingly. Springfield's most recent actuarial valuation estimated the City's unfunded actuarial accrued liability (UAAL) at $731 million as of January 1, 2014. Our funded status is 27%.
- *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's OPEB unfunded actuarial accrued liability is estimated at $873.4 million as of June 30, 2014.
- *Debt Service and Capital Needs* - The City has a $855 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. In spite of this, the City is planning for a declining debt schedule.