# CITY OF SPRINGFIELD, MASSACHUSETTS

# MULTI-YEAR FINANCIAL PLAN (FY15-FY18)

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**MESSAGE FROM THE CHIEF ADMINISTRATIVE AND FINANCIAL OFFICER TIMOTHY J. PLANTE**

Mayor Sarno, City Councilors and Springfield Residents and Businesses:

Developing the annual budget for the City of Springfield is the most important task of the City as it sets priorities, addresses the needs of our residents and businesses and allocates limited resources to provide services in the most efficient way possible. I am happy to report that we as a City have not only taken ownership and accountability for our finances but also pride in the fact that during this great recession we have maintained vital services, financially weathered natural and man-made disasters and continue to maintain our commitment to our financial policies.

As we plan ahead for the coming budget cycle, it is important to understand how the decisions we made as a City today will effect tomorrow. It is also critical to set guiding principles to keep the budget development task focused. For me these include:

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

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

- ✓ Treating the workforce fairly which will require honest conversations with employee unions and weighing the cost/benefit of providing salary increases and maintaining benefits at current levels.

- ✓ Continued implementation of our financial policies which requires us to maintain reserves, reduce our structural deficit and maximize revenue collections where ever possible.

These guiding principles are important and a reminder as we navigate through this process and will be reflected upon as tough decisions are made. We face many challenges which include maintaining our bond rating by ensuring that fiscal integrity is maintained, dealing with the challenges that all urban centers face and the demands put on City resources, and funding core services when our levy ceiling continues to threaten the City's ability from raising venues.

***Fiscal Challenges***

Meeting the demands that the City faces is proving to be a difficult task when accounting for facts such as recovering from a $1 billion decline in values for the past two years that brought Springfield against its levy ceiling, long-term scheduled liabilities such as Pensions, Other Post-Employment Benefits (OPEB) and infrastructure needs and a 2% increase in our State Aid after a 30% reduction since FY08. All of these factors compress the availability of funds for other core services that residents tend to more easily see and feel. However meeting our financial obligations and maintaining a balanced budget must be treated equally as important as providing core services such as police and fire.

The City's property values experienced over $1 billion in decline since FY11 but are stabilizing. Because of this significant 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 captured. Specifically in FY2014, the City was able to capture the annual 2.3% growth in the levy but only $4.2 million in new growth. Another $1 million was not able to be captured. Until recently, Springfield was the only community in the Commonwealth that was having this experience. For the first time this fiscal year other communities such as neighboring Holyoke have reached or are close to reaching their levy ceilings 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.

Setting the improvement of our Schools as a priority will ensure overall economic success of our City. The State has made investments in C.70 throughout the current Administration which in turn have been used to make our system stronger. It should be noted however, that these investments have not been equal on the City-side of local government therefore maintaining non-School programs and services at current levels is impossible. However, the Legislation has tried to address this issue during the FY15 State budget process through a joint resolution offered by the House and Senate Ways and Means Committee, granting the City an additional $900 thousand in local aid. This increase helps offset the growing costs of public safety, public works and other non-school programs.

The City must also account for long-term liabilities including funding the City's unfunded pension and Other Post-Employment Benefits, debt service and addressing the needs of our infrastructure as outlined in our Capital Improvement Plan.

- Pensions - The City's pension system, funded at a 29% 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 is over $42 million which must be paid before any other costs as a non-discretionary expense.
- OPEB - In addition to our pension liability, the City recently updated its OPEB valuation learning that the liability is over $1 billion. To date, the City has requested the State to pass a home rule petition allowing it to use its reserve funds as dictated by Ch656 of the Acts of 1989 to start to address this issues. Currently, $5.6 million is set aside in the reserve fund.
- Capital Improvement Plan - Consideration must also be given to the City's long-term liability for capital costs as described in our $532.6 million capital plan which identifies the entire infrastructure and equipment needs of the City. Without investments in capital, our City's infrastructure will deteriorate and equipment will become outdated.

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 ensure that tax payer dollars are being 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 is also meant to share the ideas being considered to help us achieve our guiding principles within the limited resources available to us.

This plan will continue to be updated as new information becomes available. I look forward to working with you on the FY15 budget planning process and am open to all ideas that will positively benefit our City.

Sincerely,

Timothy J. Plante,
CAFO

**EXECUTIVE 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 FY09 - FY13 and the Adopted budget for FY14 and the <u>draft</u> projected budgets for FY15, FY16, FY17 and FY18. The projected budgets for F15 through FY18 were estimated by using appropriate and conservative assumptions for revenues and spending including:

- Level Non-School State Aid revenue except Ch. 70 and local aid
- Level property tax revenue
- Level Local Receipts revenue with some loss in revenue for one-time revenue assumptions
- Declining use of one time resources / reserves
- Departmental spending growth ranging from 1 – 2.5% and other known growth costs
- Scheduled growth for pensions, assumptions for health insurance, debt

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, it is clear that spending growth will continue to outpace revenue growth for the coming years forcing the City to develop creative solutions, reduce or eliminate programs and services and ask the State for additional assistance to meet the core service needs that the City provides to residents, businesses and visitors.***

Section 1, titled "Multi-Year Financial Plan (FY15-FY18)" includes the assumptions used to develop this plan and provides a graphic representation of recent history of actual expenditures and revenues, the FY14 adopted, and the four-year financial forecast for FY15 through FY18. This graph shows that the City, despite a strong Stabilization Reserve balance and strict financial ordinances, continues to face major budget gaps from FY15 through FY18. 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 FY15 THROUGH FY18**

The following assumptions were used for FY15 through FY18. These assumptions consider historical revenue collections and spending and the current economic climate.

*Revenue Assumptions*

State Aid – In March, the House and Senate Ways and Means Committee passed a joint resolution for the State's FY15 budget to increase funding for Chapter 70 and local aid. The MYFP utilizes these estimates.

- *Chapter 70* - The City's largest source revenue is state aid from Chapter 70 funds, which is devoted exclusively to education. Created from the Education Reform Act of 1993, the Commonwealth determines every municipality's required local contribution. A municipality's local contribution, combined with its Chapter 70 aid, equals the school district's net school spending requirement, the minimum the district must spend on education each fiscal year. The projection assumes a 2% increase consistent with the Committee's resolution 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 increase for the first year, 60 percent in the second year, and 40 percent in the third year. The projection assumes a $600 thousand increase in Charter School reimbursements based on enrollment information for FY15. 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 Committee's resolution recommendation includes an allocation of $33.6 million augmenting another $900 thousand to the Governor's budget recommendation.
- *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 $3.8 million 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 FY15 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 FY15 budget recommendation for tax exemptions.

- o The State reimburses municipalities for a portion of the taxes lost on state owned land. The projection assumes the Governor's FY15 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 the primary levy ceiling and is constrained from all growth by the rules of Proposition 2½. The chart below illustrates the constraints and the revenue lost due to the law:

| | FY11 | FY12 | FY13 | FY14 | FY15 | FY16 | FY17 | FY18 |
|---|---|---|---|---|---|---|---|---|
| | **Levy Calculation** | **Levy Calculation** | **Levy Calculation** | **Levy Calculation** | **Levy Calculation** | **Levy Calculation** | **Levy Calculation** | **Levy Calculation** |
| Prior Year Levy Limit | 170,824,032 | 171,233,218 | 169,400,199 | 167,408,833 | 172,959,829 | 172,959,829 | 172,959,829 | 172,959,829 |
| 2.5% Increase | 4,292,701 | 4,318,594 | 4,452,106 | 4,185,221 | 4,323,996 | 4,323,996 | 4,323,996 | 4,323,996 |
| **Subtotal** | **175,116,733** | **175,551,812** | **173,852,305** | **171,594,054** | **177,283,825** | **177,283,825** | **177,283,825** | **177,283,825** |
| New Growth | 3,482,214 | 4,526,534 | 5,868,281 | 4,289,851 | 4,000,000 | 4,000,000 | 4,000,000 | 4,000,000 |
| **Potential Levy Limit** | **178,598,947** | **180,078,346** | **179,720,586** | **175,883,905** | **181,283,825** | **181,283,825** | **181,283,825** | **181,283,825** |
| | | | | | | | | |
| **Levy Ceiling (Actual Levy Limit)** | **171,233,218** | **169,400,199** | **167,408,833** | **172,959,829** | **172,959,829** | **172,959,829** | **172,959,829** | **172,959,829** |
| **LOST REVENUE To Support Operations** | **7,365,729** | **10,678,147** | **12,311,753** | **2,924,076** | **8,323,996** | **8,323,996** | **8,323,996** | **8,323,996** |
| | | ***Total lost to date FY11-FY13:*** | **30,355,629** | | | ***Total estimated lost FY11-FY18:*** | **66,575,688** | |

The City's values have experienced over $1 billion in decline since FY11. Because of this significant 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.

- *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 $5.5 million in one-time revenues (reserves and overlay) will be used. This is about one-half of what was used in reserves in FY14.

*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 0-2.5% increase for all City Departments which assumes that all collective bargaining contracts will have 2-2.5% built into FY15.
- *School Department* - The School Department projection is based on a projected enrollment increase and the required funding rate per student. The projection assumes a 2% annual increase. The majority of the School Department spending increase is offset by State Aid revenue for Schools. Net School Spending (NSS) is the required amount of annual spending on schools that the C.70 formula dictates and is a combination of the state aid for schools and the district's required contribution. The NSS amount is the minimum that must be spent on the School department and only costs related to education can be included. This rule restricts paying for certain costs such as transportation, leases of buildings after a certain period of time and adult basic education (ABE), capital expenditures above $100K and debt service. Therefore, all of these costs associated with Schools must be borne by the City and therefore reduces the amount available for other City services. To put this into context, the FY14 NSS requirement is $331M, or $10M more than FY13. Of that, $295M is allocated by the State through C.70 and $35M is the City's required contribution. In FY14, the State provided $32M in unrestricted State Aid (non-school aid that is intended to fund City services). Based on the required contribution, all of this unrestricted aid plus some additional locally generated revenue is dedicated to the schools. On top of all that, other non-NSS eligible costs such as transportation, leases and ABE, which total $24M, must be funded by the City without any support from State Aid. *Again, this takes locally generated revenue away from other City services that are vital to residents.*
- *Debt Service* - The City's debt service assumed to be level through each year of the projection. The current schedule has debt service declining 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. This financial forecast assumes an overall increase of 2% associated with health insurance annually. The GIC recently went out to bid for plans and based on its selection rates are expected to increase by less than 2% for the City.
- *Retirement* - The retirement projection is based on the City's most recent actuarial report which assumes annual increases to get to full funding by 2039. 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.

## MULTI-YEAR FINANCIAL PLAN (FY15-FY18):

| | FY12 ACTUAL | FY13 ACTUAL | FY14 ADOPTED | FY15 MYFP PROJECTED | FY16 MYFP PROJECTED | FY17 MYFP PROJECTED | FY18 MYFP PROJECTED |
|---|---|---|---|---|---|---|---|
| **REVENUE** | | | | | | | |
| Property Taxes | 159,593,039 | 154,049,565 | 165,624,697 | 167,366,826 | 167,066,826 | 167,066,826 | 167,066,826 |
| Local Receipts | 43,659,289 | 44,390,730 | 41,825,762 | 43,496,872 | 43,496,872 | 43,496,872 | 43,496,874 |
| State Aid - Schools | 278,696,150 | 289,957,287 | 300,449,250 | 306,977,329 | 314,677,222 | 322,985,469 | 331,825,980 |
| State Aid - Non-Schools | 49,810,276 | 50,230,158 | 51,684,109 | 52,004,247 | 49,493,793 | 47,501,428 | 47,501,428 |
| Reserves | 6,454,644 | 10,375,000 | 7,000,000 | 1,000,000 | - | - | - |
| Other Sources - Schools | 18,636,202 | 18,629,047 | - | - | - | - | - |
| Other Sources - Non-Schools | 6,458,300 | 6,633,244 | 5,295,020 | 1,500,000 | 1,500,000 | 1,500,000 | 1,500,000 |
| Casino | - | - | - | - | - | - | - |
| ***Total*** | ***563,307,900*** | ***574,265,031*** | ***571,878,838*** | ***572,345,274*** | ***576,234,713*** | ***582,550,595*** | ***591,391,108*** |
| | | | | | | | |
| **EXPENDITURES** | | | | | | | |
| **City Non-Discretionary** | | | | | | | |
| SCHOOLS | 348,740,600 | 363,564,098 | 357,868,724 | 369,452,373 | 380,535,944 | 391,952,023 | 403,710,583 |
| MUSEUM | 1,320,000 | 1,320,000 | 1,320,000 | 1,320,000 | 1,320,000 | 1,320,000 | 1,320,000 |
| DEBT SERVICE | 38,107,918 | 37,059,058 | 38,128,115 | 38,128,115 | 38,128,115 | 38,128,115 | 38,128,115 |
| STATE ASSESSMENTS | 2,898,344 | 3,016,394 | 3,245,637 | 3,288,772 | 3,370,991 | 3,455,266 | 3,541,648 |
| CONTRIBUTION RETIREMENT PENSION | 23,531,632 | 24,176,077 | 25,380,802 | 26,524,120 | 28,115,567 | 29,802,502 | 29,802,502 |
| Unemployment | 292,405 | 213,897 | 253,069 | 255,600 | 258,156 | 260,737 | 263,345 |
| Workers Compensation Indemnity | 721,593 | 509,221 | 935,069 | 953,770 | 972,846 | 992,303 | 1,012,149 |
| Workers Compensation Medical Claims | 962,017 | 1,175,983 | 1,000,000 | 1,010,000 | 1,020,100 | 1,030,301 | 1,040,604 |
| Health Insurance | 22,623,848 | 21,342,045 | 22,998,252 | 23,458,217 | 24,427,381 | 24,915,929 | 25,414,248 |
| Medicare - Employer Match | 967,452 | 1,036,925 | 939,077 | 948,468 | 957,952 | 967,532 | 977,207 |
| NON-CONTRIB. PENSIONS | 293,641 | 297,964 | 285,000 | 285,000 | 285,000 | 285,000 | 285,000 |
| CAPITAL RESERVE FUND | 2,459,738 | 2,500,995 | 2,500,995 | 2,500,995 | 2,500,995 | 2,500,995 | 2,500,995 |
| PARKING CONTRACT | 1,656,936 | 1,299,416 | 1,048,522 | 1,069,492 | 1,090,882 | 1,112,700 | 1,134,954 |
| PAY-AS-YOU-GO CAPITAL | 1,974,271 | 2,861,178 | 2,095,020 | 3,162,955 | 3,158,455 | 3,158,455 | 3,158,456 |
| DIF Debt Service Payment | 130,000 | 130,000 | 130,000 | 130,000 | 130,000 | 130,000 | 130,000 |
| ***Subtotal (Non-Discretionary)*** | ***446,680,395*** | ***460,503,250*** | ***458,128,282*** | ***472,487,878*** | ***486,272,386*** | ***500,011,857*** | ***512,419,804*** |
| *% of Total* | *80%* | *81%* | *80%* | *80%* | *80%* | *80%* | *81%* |
| | | | | | | | |
| ***City Discretionary*** | | | | | | | |
| City Departments | 110,803,463 | 108,574,747 | 113,750,556 | 116,031,562 | 118,660,791 | 121,200,070 | 123,797,785 |
| M.C.D.I. CONTRACT | 625,023 | - | - | - | - | - | - |
| ***Subtotal (Discretionary)*** | ***111,428,486*** | ***108,574,747*** | ***113,750,556*** | ***116,031,562*** | ***118,660,791*** | ***121,200,070*** | ***123,797,785*** |
| *% of Total* | *20%* | *19%* | *20%* | *20%* | *20%* | *20%* | *19%* |
| | | | | | | | |
| ***Total Expenditures*** | ***558,108,881*** | ***569,077,997*** | ***571,878,838*** | ***588,519,440*** | ***604,933,177*** | ***621,211,927*** | ***636,217,589*** |
| | | | | | | | |
| **MYFP - Surplus / (Gap)** | **5,199,019** | **5,187,034** | **(0)** | **(16,174,165)** | **(28,698,464)** | **(38,661,332)** | **(44,826,481)** |
| | | | | | | | |
| Actual Stabilization Balance | 40,069,869 | 27,894,869 | | | | | |
| Estimated Stabilization Balance | | 36,008,405 | 29,008,405 | 28,008,405 | 28,008,405 | 28,008,405 | 28,008,405 |
| % of Budget | 7.11% | 4.86% | 5.07% | 4.89% | 4.86% | 4.81% | 4.74% |

**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)
- March – Send Fiscal Year budget planning exercise to departments
- March - April – Evaluate revenue and spending reduction submissions from departments
- April – Hold Mayor's public budget hearings to better understand impacts of suggested revenues and budget reductions
- 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 new revenues and spending reductions

*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 FY14, when the initial draft of the MYFP was completed, the gap was estimated at $20M. For the current plan developed for FY15, the initial gap was projected at $16.1M.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 March, 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:

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

By the middle 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.

*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 FY15, spending was projected at $567M. However, based on departmental submissions, spending was $584M 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.

*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 be of assistance and develops a request. For the FY13 budget, the City developed a list of nine policy options for the State to consider. Feedback received from the State last year was that our request was too late in the process. For the FY14 planning process, the City began meeting with the local delegation in the fall of 2012 to provide an overview of the City's finances. In addition to discussing the situation with delegation members, the OMB team met with delegation staff to educate them on the financial situation of the City which initiated a meeting with State legislative leadership at both the staff level and the Legislator level with the Mayor. The City has continued this effort through the FY15 planning process and utilizes every opportunity to discuss the issues with policy makers. The goal of these meetings is to educate as many State stakeholders as possible of the issues we are facing and the decisions that need to be made without further State support.

*Hold Mayor's public budget hearings to better understand impacts of suggested revenues and budget reductions:*
Each February, 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. The hearings take place over a 2 week period and are published so that both the public and members of the City Council can take part, hear directly from departments and ask questions that they may have.

*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.

*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. For context, departments submitted a total of $5.8M in spending cuts from their FY15 level service requests and $400K in revenue proposals. 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 five consecutive years of positive reserve fund balances.

**Stabilization Reserve Funds**

The City's Stabilization Reserve Fund (Fund 8213) currently has a balance of $29 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 $568K.

**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 (Fund 3267). 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 $23K.

**APPENDIX 2: LONG-TERM LIABILITIES**

As with any large organization long-term liabilities are continually evaluated and help drive decisions on 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 3 years and adjust the schedule accordingly. Springfield's most recent actuarial valuation estimated the City's unfunded actuarial accrued liability (UAAL) at $657 million as of January 1, 2012. Our funded status is 29%.
- *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 $1.0 billion as of June 30, 2012.
- *Debt Service and Capital Needs* - The City has a $532.6 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.