



*City of Springfield, Massachusetts
Multi-Year Financial Plan (FY24-FY27)
March 30, 2023*

CITY OF SPRINGFIELD, MASSACHUSETTS MULTI-YEAR FINANCIAL PLAN



**FISCAL YEARS
2024-2027**

PREPARED BY:
CITY OF SPRINGFIELD, MASSACHUSETTS
OFFICE OF ADMINISTRATION AND FINANCE



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

I am pleased to present to you the City of Springfield’s Multi-Year Financial Plan (“MYFP”) for Fiscal Years 2024-2027. In compliance with City ordinance, the MYFP is meant to highlight projected revenue and expenditures for the next four years, using conservative assumptions. This plan serves as a vital tool that allows the City to see the long-term impact of its financial decisions and avoid future fiscal stress.

As the City’s Chief Administrative and Financial Officer, it is critical for me that we make strategic and appropriate budgetary decisions that provide core services to our residents while maintaining continued fiscal sustainability. I am proud of the fact that through strategic planning, the City has successfully balanced the budget each year since the disbandment of the Financial Control Board in 2009, and notably, for the past eight years, without the use of any stabilization reserves. Currently, our reserves equal \$50.2M with a goal to grow this number by transferring free cash to reserves each fiscal year.

We continue to manage both our revenue and expense budgets to generate free cash. This is highlighted by the fact that we ended FY22 with a \$69M surplus, and were able to certify \$67.8M in free cash in FY23. This unprecedented accomplishment was a direct result of the City’s strong fiscal management, and our ability to hold the course and fight for the taxpayers in a decade-long property tax dispute with Eversource resulting in a \$41M settlement for the City. The City further leveraged this success into future earnings by investing \$45M from the City’s stabilization reserve account into 1-year U.S. Treasury notes, capitalizing on interest rates of approximately 5%, which will bring the City more than \$2M in returns to be directed towards lowering tax bills, providing financial relief for our citizens. The City of Springfield, the first community in the Commonwealth to take advantage of this innovative financial investment strategy, was able to do so thanks to sound and prudent fiscal management policies. Furthermore, the combination of strong fiscal policies and our ability to maintain the discipline essential to the City’s overall fiscal health has prompted Standard and Poor’s to maintain our AA- bond rating and encouraged Moody’s to reaffirm our A2 rating.

Multi-Year Financial Summary

Based on conservative assumptions, the City is projecting to have budgetary deficits ranging from \$21.9M in FY24 and growing to \$40.5M in FY27.

	FISCAL 2023 ADOPTED	FISCAL 2024 PROJECTED	FISCAL 2025 PROJECTED	FISCAL 2026 PROJECTED	FISCAL 2027 PROJECTED
<i>Expense</i>	819,017,747	889,406,796	921,765,486	958,070,370	996,126,800
<i>Revenue</i>	819,017,747	867,457,361	897,151,091	926,790,295	955,667,021
SURPLUS / (GAP)	-	(21,949,435)	(24,614,395)	(31,280,075)	(40,459,779)

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

Fiscal Challenges

Meeting the demands of an urban city with limited revenue is always a challenge; specifically, when nearly 60% of the City’s budget is a direct pass-through of State Aid to the School Department. The remaining City budget relies heavily on property tax revenue, however Proposition 2 ½ sets strict limitations to the amount that we can levy each year. In 2009, Springfield’s property values declined \$1B, which severely dropped our levy ceiling, which is the maximum amount that we can levy in property taxes. Despite property values having increased, Springfield was capped at our levy ceiling for several years, resulting in a loss of millions of dollars in new growth revenue. From FY12-FY19 alone, the City lost approximately \$50M in property tax revenue due to these levy limitations. Thankfully, the last few years have allowed some breathing room between the City’s tax levy and the levy ceiling. As property values continue to grow, it’s important that we maximize any opportunity to capture revenue associated with that growth.



Another challenge the City faces is a continual rise in operating costs. Non-discretionary spending amounts to 80% of the City's overall budget and includes net school spending, debt service, health insurance, and the annual appropriation to the Springfield Retirement System. We are strongly committed to addressing Springfield's low pension funded ratio, as evidenced by an aggressive payment schedule that increased the FY18 and FY19 appropriation by 14% and 15%, respectively, with annual increases of 9% that began in FY20. Additionally, in FY23, the City transferred \$15M of certified free cash into the Springfield Pension Reserve Fund, bringing the fund total to approximately \$17M. The City will invest these funds in 1-year U.S. Treasury Notes, with an estimated yield of \$769K to be used towards future pension payments. An additional \$6.7M was transferred in FY23 into the Springfield Other Post-Employment Benefits (OPEB) Trust, bringing the total trust amount to approximately \$13M, which will also be invested in the 1-year U.S. Treasury Notes, for an estimated return of \$590K. As long as we continue to maintain the current payment schedule, Springfield's unfunded actuarial accrued liability (UAAL) will be fully funded by FY34. A recent actuarial valuation, which was performed in 2022, helped the City assess the best strategy for proactively addressing this liability.

COVID-19

Regardless of these fiscal challenges, the City's administration is dedicated to maintaining core services for our residents by using a balanced approach that relies heavily on managing our annual budget growth, accomplished through expenditure reductions and revenue maximization, with the intention of providing vital programs and services to the City without implementing any layoffs. In the face of the challenges posed by the COVID-19 Pandemic, the City has been able to place continued emphasis on public health and safety, education, healthy neighborhoods and community services all without the use of City's stabilization reserve fund.

The City is being strategic in offsetting COVID related expenses to grants, largely due to federal funding in response to the public health emergency provided by the Coronavirus Aid, Relief, and Economic Security Act ("CARES Act") and from the Federal Emergency Management Agency (FEMA) that will be providing funding through the Public Assistance Grant Program. In FY22, the City was able to replace revenue lost or reduced as a result of the pandemic and continues offsetting expenses from the American Rescue Plan Act (ARPA) funding, which was signed into action by President Joe Biden on March 11, 2021.

Budget Priorities

The City will continue to make strategic investments in public safety to combat the public perception of crime. In FY20, the Police Department made significant strides toward the successful implementation of its body-worn camera program. This initiative has helped to increase transparency, improving the safety of citizens and officers alike, making Springfield the largest police department in Massachusetts to have a full-scale program of this kind. In FY21, funding was provided for the personnel needed to administer this program, as well as the storage of data recorded by the cameras. In FY23, we invested in a state-of-the-art Computer-Aided Dispatch and Records Management System. These changes allow for enhanced efficiency across all facets of departmental operations. While these are additional expenses within the operating budget, the department will strategically utilize grant funding to offset as much of the cost as possible.

Despite its best efforts, the Police Department struggles to stay ahead of attrition. The department welcomed thirty-four (34) recruits to the academy in December, and will begin strategically planning for the next class after the current recruits graduate in June. Even with this proactive approach, however, the department continually operates at staffing levels that are less than desired. This can be attributed to veteran officers retiring earlier than ever before, as they recognize the dangers and stress of their profession and leave as soon as they are eligible to receive their full pension. This amounts to decades of experience lost, which is detrimental when trying to train a newer force of officers.

Through the strategic planning of more frequent police academies, the department hopes it can maintain a healthy balance of veteran and newly trained officers throughout its various divisions. To that end, the City plans to continue funding the successful North End Initiative, four C-3 Policing Units, the Ordinance Squad, and the Metro Policing Unit in Downtown Springfield. These initiatives are highly effective in crime reduction, as evidenced by FBI crime statistics which demonstrate a 45% decline in violent crime over the past several years. Investing in the Springfield Police Department will ensure it is operating at its full capacity in order to improve residents' and visitors' perceptions of safety in downtown areas, while continuing the concentration on quality neighborhood policing.

We will also continue our efforts towards enhanced public safety within the Springfield Fire Department, as well as Springfield Emergency Communications. Highlights of these investments include:



- Continued funding of full staffing for firefighters, which allows for additional firefighters per shift and ensures proper manpower when responding to calls for service.
- Funding for new fire apparatus', allowing the department to maintain its proactive replacement schedule and avoid costly repairs associated with an older fleet.
- Funding for new SCBA air bottles, which align with NFPA standards and hold an additional 15 minutes of air capacity, giving firefighters more time to handle fires without interruption.
- Continuation of a health & wellness program that helps to decrease work-related injuries and sustain the overall health of the department.
- Funding for a fully-staffed Emergency Communications Department including a Deputy Director, along with four (4) supervisor positions to allow for proper oversight on every shift.
- Continued funding for Smart911 software, which provides Dispatchers a more effective method of obtaining information for emergency 911 calls.

Continuous investments will also be made to help improve the quality of life in our neighborhoods. The Downtown Cleaning Crew, introduced in FY19, will continue its upkeep of all downtown area parks that serve as “gateways” to the North & South End. The popular Sidewalk Crew, also introduced in FY19, continues to address the extensive list of much needed sidewalk repairs and replacements as well as stump grinding which was added in FY22 throughout Springfield. An additional \$1.5M of free cash was appropriated in FY23 to address the backlog of converting private ways. These two crews, which never previously existed, are crucial to ensuring healthy neighborhoods that are inviting to all those who live, visit, and work in the City of Springfield.

In addition to the exciting initiatives introduced in recent years, we will maintain funding for other critical services as well. We will continue to fund the care and maintenance of all City parks, traffic islands and terraces. Funding will also be provided to maintain a full staff of Code Enforcement Inspectors in both the Building & Housing Divisions, along with increased hours for Building Inspectors to accommodate the demands of large-scale commercial projects throughout Springfield. Furthermore, funding will be provided for the continuation of the Mayor’s Clean City Program.

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

Beyond the investments highlighted in the preceding paragraphs, the City continues to strategically invest in other crucial services such as education, new and improved school facilities, and many others. Moving forward, we will carefully evaluate the most critical needs of each City and School department to ensure key operations are maintained and that the residents, businesses, and visitors of Springfield receive the quality services they deserve.

Conclusion

This plan is meant to provide an honest outlook of the City’s finances and the struggles we are facing. Despite the projected deficits summarized in this plan, the City has faced similar budget gaps in the past and has been able to successfully balance the budget each year with little to no use in reserves. It is important to all of us that we do what is necessary so that taxpayer dollars are spent in a manner that is most efficient, effective, and legal and I take my role in this very seriously.

I look forward to working with you on the FY24 budget planning process and I am open to all ideas that will positively benefit our city.

Sincerely,

Timothy J. Plante,
Chief Administrative and Financial Officer



City of Springfield, Massachusetts
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Financial Forecast (FY24-FY27)

	FISCAL 2023 ADOPTED	FISCAL 2024 PROJECTED	FISCAL 2025 PROJECTED	FISCAL 2026 PROJECTED	FISCAL 2027 PROJECTED
SPENDING ASSUMPTIONS					
Administration and Finance Division	14,973,463	22,171,171	22,624,752	23,127,913	23,601,670
Development Division	4,469,836	4,719,330	4,813,717	4,909,991	5,008,191
General Government Division	4,298,211	4,801,353	4,897,380	4,995,328	5,095,234
Non-Mayoral Division	1,844,374	1,940,646	1,979,459	2,019,049	2,059,430
Health and Human Services Division	11,554,296	12,474,406	12,723,894	12,978,372	13,237,939
Public Safety Division	79,477,369	88,998,594	90,812,057	92,662,799	94,551,596
Public Works Division	18,137,866	18,546,211	18,917,135	19,295,478	19,681,388
Parks & Facilities Division	14,213,639	14,765,296	15,055,254	15,351,011	15,652,684
School Department	544,863,270	587,023,349	610,526,861	634,976,995	660,412,126
Debt	27,535,488	27,885,488	25,217,167	24,778,959	24,368,539
Health Insurance & Fringe	31,136,788	33,135,190	35,268,243	37,545,108	39,975,569
Pensions	56,439,166	61,917,398	67,608,845	73,823,757	80,610,288
Other Spending	10,073,980	11,028,364	11,320,720	11,605,610	11,872,146
Total	819,017,747	889,406,796	921,765,486	958,070,370	996,126,800
REVENUE ASSUMPTIONS					
Property Taxes	245,054,925	255,406,705	265,379,372	272,013,857	278,814,203
Local Receipts	64,952,938	66,607,691	66,007,183	67,894,711	68,026,723
State Aid	505,509,884	545,442,965	565,764,536	586,881,727	608,826,095
Reserves	-	-	-	-	-
Net School Spending	-	-	-	-	-
Certified Free Cash	3,500,000	-	-	-	-
Casino Revenue	-	-	-	-	-
Total	819,017,747	867,457,361	897,151,091	926,790,295	955,667,021
SURPLUS / (GAP)	-	(21,949,435)	(24,614,395)	(31,280,075)	(40,459,779)

Summary

The City of Springfield is governed by strict financial policies adopted as ordinances in September of 2009, which dictate that the Chief Administrative and Financial Officer produce and issue a four-year financial plan by March 30th of each year. The purpose of this plan is to provide reasonable revenue and expenditure estimates that the City will experience in upcoming fiscal years (“FY”). This serves as a vital tool for the City as a way to see the long-term impact of its financial decisions while maintaining fiscal sustainability both now and in the future.

This Multi-Year Financial Plan shows the adopted budget for the current fiscal year (FY23), along with the projected budgets from FY24 through FY27. The projected budgets were created by using appropriate and conservative assumptions for revenues and expenses, including:

- 9.2% increase in the scheduled pension payment from FY24-FY27.
- 6.7% increase in projected health insurance costs.
- Adherence to the City’s debt schedule, which includes funding for a new issuance of debt in FY24.
- The MYFP uses the Governor’s proposed FY24 budget, which compared to the FY23 final state budget allowed for an 8.8% in Chapter 70 Aid, and a 2.0% increase in Unrestricted General Government Aid (“UGGA”).
- 2.5% increase in property tax revenue.
- No use of one-time revenue resources / reserves.
- Departmental spending growth ranging up to 2%.
- Level-funded local receipts.



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As demonstrated in this plan, Springfield’s operating costs are projected to outpace revenue during each of the next four fiscal years. Operational costs include legal and contractual obligations, employee salaries and benefits including our pension obligation, and citywide fixed expenses. With limited amounts in State Aid and property taxes, the City is unable to generate all of the revenue needed to fully support the operational costs desired. Even with the introduction of MGM Casino revenue in FY19, as outlined in the Host Community Agreement, the City still faces projected deficits ranging from \$21.9M in FY24 and growing to \$40.5M in FY27.

A challenge the City faces for FY24 is the impact of the Municipal Revenue Growth Factor (“MRGF”) on the projected budget deficit. The MRGF is a calculation which determines the percentage of revenue growth a municipality has recognized when compared to the previous fiscal year, and includes the following revenue sources:

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

Once this percentage is determined, it is then used to help to calculate the municipality’s “Required Local Contribution” in funding to be allocated towards education. Largely driven by increase in property values, Springfield’s Estimated Levy Limit for FY23 increased by approximately \$10M. As a result, this increased our MRGF, which in turn increased our Required Local Contribution. To quantify, our required contribution to the School Department rose from \$44.7M in FY23 to \$48.0M in FY24.

To better understand how the MRGF will negatively impact our projected deficit, it is most beneficial to view the numbers from a high level. The table below shows the amount of Unrestricted General Government Aid received by the City in FY22 and FY23 as well as the amount projected to be received in FY24 based on the Governor’s budget and compares it against our Required Local Contribution.

Municipal Revenue Growth Factor - FY22-FY24 Comparison			
Category	FY22	FY23	FY24
Unrestricted GG Aid	\$ 41,606,739	\$ 43,853,503	\$ 44,730,573
Required Local Contribution	\$ (43,175,654)	\$ (44,717,025)	\$ (48,026,085)
Total	\$ (1,568,915)	\$ (863,522)	\$ (3,295,512)

Based on the calculations shown above, the amount of UGGA we are projecting to receive in FY24 falls short of our Required Local Contribution. Because UGGA is directly “passed through” to the School Department to fund this contribution, any shortfall will result in the City having to identify additional funding within our operating budget in order to meet the requirement. As illustrated in the table above, the City will need to identify an additional \$3.3M from an already limited pool of discretionary funding.

Another challenge the City faces is the cost of recycling. For years, Springfield had not incurred a cost to dispose of recycled goods, only trash. Springfield is now required to pay for these services at a rate of nearly double what it costs for trash. We currently pay about \$97.30 per ton of trash, and \$125.02 per ton for recycling. Based on annual recycling tonnage amounts, this represents a nearly \$1M expense the City must now incur.

While Springfield allocates all trash-related services to a separate Enterprise Fund, the added cost of recycling directly impacts our General Fund budget. Each fiscal year we are required to supplement the Enterprise Fund, due to a shortage in revenue collection that does not meet operational expenses. The current supplement of \$6.2M, which is allocated from the General Fund, increased due to the recycling expense. By pulling additional funds away from an already-limited pool of money, we are forced to develop innovative solutions in order to balance our budget.

As illustrated in the preceding paragraphs, growing expenses and limited revenue sources force the City to make difficult budgetary decisions in order to maintain operations. It is important to note that over 80% of the City budget



is non-discretionary, meaning that the costs are mandated by law or ordinance. This means that approximately 20% of the entire City budget must assume all of the reductions required to balance the budget. This forces the City's administration to develop creative solutions in an effort to reduce costs in an effective and efficient manner.

Revenue Assumptions

The State Aid projections illustrated in this plan are based on Governor Healey's FY24 proposed budget, which was released on March 1, 2023.

Chapter 70

The City's largest source of revenue is State Aid from Chapter 70 funds, which is devoted exclusively to education. Created from the Education Reform Act of 1993, the Commonwealth determines every municipality's required local contribution. A municipality's local contribution, combined with its Chapter 70 Aid, equals the school district's net school spending requirement, which is the minimum the district must spend on education each fiscal year. The projection assumes an 8.8% increase in FY24 consistent with the Governor's budget and a 4% increase in the remaining years of the plan based on pupil estimates.

Charter School Tuition Reimbursements

The Commonwealth has committed to providing assistance to municipalities whose resident students attend charter schools. Sending districts shall be reimbursed a portion of the costs associated with students attending charter schools; 100% of the tuition for the first year, and 25% for each of the next five years. The projection assumes a \$3.8M decrease in Charter School reimbursements for FY24, based on the Governor's budget. The remaining years of the projection assume an annual 3.5% increase.

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 \$44.7M, an increase of 2%, with future years projected to grow by 1%. As mentioned earlier in this document, this revenue is directly passed through to the School Department to ensure Springfield meets its required local contribution, despite being "unrestricted" in how it can be spent.

Other State Aid

Listed below are the assumptions for the other State Aid categories Springfield receives:

- Veterans' Benefits - The City receives a 75% reimbursement on all eligible spending towards veterans' financial, medical and burial benefits. The projection assumes the Governor's FY24 budget recommendation for Veterans' Benefits.
- Tax Exemptions - Chapter 59 of Massachusetts General Laws sets a series of exemptions for Veterans and their surviving spouses, persons over 70 years old and legally blind persons. Those who meet the requirements as stated by Chapter 59 receive exemptions from their property taxes, ranging from \$175 to \$500. The State reimburses municipalities for these exemptions. The projection assumes the Governor's FY24 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 FY24 budget recommendation for PILOT payments.

Property Taxes

The Commonwealth of Massachusetts is unique in that it limits property tax assessments levied by its municipalities. Under Proposition 2 ½, Springfield cannot tax higher than 2.5% of the total and full cash value of all taxable property. This is known as the levy ceiling. Under the statute, the maximum amount that a municipality can levy in property taxes each year is referred to as the levy limit. There are only three avenues through which the levy limit can be increased; a 2.5% increase over the prior year levy limit, new growth recognized in the tax base, or a voter override. The levy limit must always be below or the same as the levy ceiling.

A side effect of Proposition 2 ½ is that it severely limits the revenue a municipality can collect when property values decline. From FY09 to FY13, Springfield experienced over \$1B in declining property values, which drastically reduced our levy ceiling. Although estimates from the City's Board of Assessors have shown that property values



continue to rise, the levy ceiling remains very low, which prohibits the City from fully capturing its levy capacity. Property values did not fully recover to FY08 levels until FY18. From FY12 through FY19, the City of Springfield lost over \$42.8M in property tax revenue due to these levy limitations. By not being able to capture this revenue, the City has been limited in its ability to enhance investments in current or new initiatives that may positively benefit our taxpayers.

Despite the lost revenue over those eight years, Springfield has now broken away significantly from its levy ceiling, with \$2.9M in excess levy capacity. This is an extremely positive change and can be attributed to a healthy rise in property values, a sign of economic strength that hasn't been this prominent since prior to the recession more than a decade ago. It is through this strong growth in our values that we are able to fund new services and address any structural deficits without the need to make major service reductions. The administration is ever hopeful that this trend will continue and that no money is being left on the table due to circumstances beyond our control.

The United States is currently in its longest economic expansion of the modern era. When a recession does occur, it will likely have a negative impact on property values. Since Springfield remains close to its levy ceiling, this could once again cause the City's tax levy to fall, even as expenses continue to rise. With this in mind, the City has been proactive in building strong reserves during this expansion, so that it can weather the next economic downturn without being forced to make major service reductions.

Although some new growth is anticipated in FY24 and future years, this MYFP takes a conservative measure by not building it into the revenue projections. The City will continue to monitor this closely and, if appropriate, seek legislative solutions to help capture new growth revenue in future fiscal years.

Local Receipts

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

PILOT

The Payments in Lieu of Taxes ("PILOT") revenue assumes a gradual decline based on the agreements in place and their expiration dates. Some agreements may be renewed which would positively impact revenue collections. As these PILOT agreements expire, the City should see the tax revenue proportionally increase as these entities cycle back onto the tax rolls. In FY23, prepayment credits against MGM's Host Community Agreement expired, which will result in higher payments from MGM in FY24 and future years.

Reserves

Reserve balance is one of the most important factors in determining a municipality's financial health. The general rule of thumb is to save in the good years and spend in the bad years – which promotes financial stability and sustainability. We have been fortunate to balance our budget without the use of reserves for the past 8 years. Our financial ordinances require a stabilization reserve balance between 5% - 15% of our general fund budget. Monetarily, that range is between \$41M - \$123M based on the FY23 Adopted Budget of \$819M. Currently our reserve balance of \$50.2M, or 6.1%, is at the low end of that requirement. Continuing to add to and preserve our overall reserve balance requires commitment and determination, but it is one of the most worthwhile decisions we can make in terms of financial responsibility.

Spending Assumptions

Overall, the projection represents level service funding for the entire forecast period. Even with this assumption, there are areas of the budget that continue to grow and will be accommodated with the revenue available. Listed below are the assumptions for spending within the largest categories of the City's budget.

City Departments



The projection assumes a 2% increase for nearly all City Departments, which encompass the cost of living increases for non-bargaining employees, settled collective bargaining contracts, and those currently being negotiated.

School Department

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

The current projection assumes a 7.7% increase for FY24 and 3.5% thereafter, with approximately 90% of the School Department budget being offset by State Aid. The difference will be a direct cost to the City. In addition to the City's contribution to meet NSS, it also is responsible for non-NSS costs such as transportation, leases and adult basic education ("ABE"), all of which must be funded through the City's operating budget without any support from State Aid. Transportation costs alone are projected to increase more than 7% in FY24, and these costs are highly dependent on the amount and operation of local charter schools.

Debt Service

The City's debt service projection uses the current debt schedule, which accounts for the City's most recent sale of bonds. The current schedule is designed to have the debt service number decline over the next several years. However, it is hoped that by maintaining a level debt service payment, the City can make strategic investments in its capital needs, as spelled out in the Capital Improvement Plan.

Health Insurance

The City of Springfield has annually saved millions of dollars by receiving its health insurance through the Group Insurance Commission ("GIC"). The GIC, which provides and administers health insurance for approximately 425,000 members throughout the Commonwealth, seeks to identify low cost plans that are affordable for not only for its members, but also the municipal agencies in which they work for. The City has seen a direct benefit from its collaboration with the GIC, recognizing \$6.4M of combined savings from FY19-FY21 when compared to initial budgetary estimates.

Despite the decrease in projected costs over recent fiscal years, this financial forecast conservatively assumes an overall increase of 6.7% for health insurance expenditures from FY24 to FY27. This is a strategic effort to ensure that the City is accounting for a large increase in insurance rates, should this occur during any given year. Due to the large budgetary cost associated with our health insurance benefit, it is vital that we always seek a fiscally responsible solution in order to preserve our limited financial resources.

Retirement

The City's municipal pension remains the lowest funded in the Commonwealth, with a current funding ratio of 35.6% and an unfunded liability totaling \$898.4M. Poor market and economic conditions are contributing factors that led to Springfield's low pension funded ratio. Pension funds rely heavily on growth of approximately 7.00% a year from investments; any return lower than this would have adverse effects on the unfunded liability amount. In 2008, the fund reported losing 28% of its value due to the stock market crash of that year. Although the market has since rebounded, limited revenue sources have made it challenging to contend with higher pension payments.

To address this issue, the City deliberately lowered its rate of return to reflect market rates and assumed an aggressive payment schedule with the goal to be fully funded by FY34, six years earlier than the state-mandated deadline. As part of this, the City increased its FY18 and FY19 pension appropriations by 14% and 15%, respectively. To further bolster our efforts towards addressing this liability, the City transferred in an additional \$2M from its Pension Stabilization Reserve Fund in October 2018, and \$1.1M in Free Cash in March 2019. This is a testament to the



administration's commitment to developing creative solutions that will continue to reduce the liability and thus improve the City's overall financial position.

Looking ahead, the payment projections for the upcoming fiscal years shown on this plan are based on the City's most recent pension funding schedule, which was evaluated and finalized in 2022. Annual Payment increases which equate to 9% over the previous year's amount continue in FY24, and will remain that way until the liability is fully funded in FY34. Developing this aggressive payment schedule certainly addresses the City's low pension problem; however, it also comes with concerning fiscal challenges.

The FY24 pension appropriation amounts to \$101.6M, which is divided amongst three separate entities; the City of Springfield, the Springfield Housing Authority, and the Springfield Water and Sewer Commission. Given that pension is currently the third largest expense in the City's operating budget, significant increases in annual payments will likely have an impact on City services if alternative revenue sources are not actualized. To avoid future risk, the City will continue to reassess its pension funding schedule every two years when the actuarial valuation is updated.

COVID-19 Relief

The City of Springfield has had to endure difficult financial challenges due to the unprecedented COVID-19 pandemic. Despite these challenges, the City will continue to work diligently to regain prosperity. Springfield is committed to producing a budget funding the core services its residents deserve by placing continued emphasis on public safety, public education, economic development, healthy neighborhoods, and community services. The newly developed Department of Recovery and Business Continuity (DRBC) will act as a centralized location for the public to receive information and give input on the City's use of American Rescue Plan Act (ARPA) funds, while researching interdepartmental needs as well. The DRBC understands that every department within the city has been directly impacted by the pandemic and will continue to encourage department heads to submit information outlining their department needs. Through these efforts, the City of Springfield plans to continue growth despite any adversity we may encounter.

Conclusion

Based on these assumptions, it is clear that spending growth will continue to outpace revenue growth for the coming years, forcing the City to develop creative solutions. It is important to note that the revenue assumptions in this document are conservative and will be updated as more information becomes available concerning property values or other revenue opportunities. In future years, we look towards the spin off effect of all the City's economic development projects, as this will continue to grow our tax base and generate new growth, allowing the City more financial flexibility.

Despite the projected budget gaps in the coming fiscal years, the City has overcome similar deficits in the past. We have successfully balanced and maintained the City's annual operating budget by making strategic and compassionate decisions that align with the administration's top policy priorities. This approach will not change, and we will continue to make thoughtful, sustainable financial decisions that are in the best interest of the City's taxpayers.