

Springfield, Massachusetts; General Obligation; Non-School State Programs

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city's finances through several initiatives, including implementing software to monitor payrolls and other costs, restructuring several administrative departments, consolidating its city and school business functions, delaying hiring, and enhanced financial reporting and monitoring as required by the SFCB. For fiscal 2010, the city is expecting a surplus of \$11.4 million. Management reports that it plans to transfer the majority of this surplus to its stabilization fund, with an ending stabilization balance of \$51 million net of transfers. The city's fiscal 2010 combined unreserved and stabilization reserve balance is projected to total about \$92 million, or what we consider a very strong 17% of projected fiscal 2010 general fund expenditures.

For fiscal 2011, the city's budget is balanced and reflects a 1% year-over-year spending increase from its adopted 2010 general fund budget. The budget also reflects the use of approximately \$12.5 million from its stabilization reserve for fiscal 2011.

The city's finances have improved significantly since 2005, when it had to issue deficit bonds and release local control over its finances to the state. For audited fiscal 2009, the city closed with a \$632,000 general fund surplus after transfers, including a \$47 million transfer to the Springfield Promise Fund in order to set aside cash to repay its loan obligation due to the commonwealth and generate some interest earnings for its Promise Scholarship Program. Its fiscal 2009 unreserved general fund balance totaled \$44 million, and its financial reserve stabilization fund balance equaled \$36 million. Combined available reserves amounted to what we consider a very strong 15% of general fund expenditures. The city's largest revenue source is state aid, which makes up 63% of general fund revenues.

Springfield's ordinances were amended to include multiple financial management policies first established by the SFCB. As such, the city's management practices are considered "strong" under Standard & Poor's Financial Management Assessment (FMA) methodology. An FMA of strong indicates that the city's financial practices are strong, well embedded, and likely sustainable.

The city's debt burden, including the current issuance, is moderate, in our view, with an overall net debt per capita of approximately \$2,200, or 4.8% of market value. The bonds will have a bullet maturity with a 15-year term, but the city has covenanted to set aside annual sinking fund payments with the paying agent in order to make the bullet principal payment at maturity. Management reports that it plans to appropriate the full amount of the sinking fund payment, with interest earnings on sinking fund deposits to be applied against the subsequent year's sinking fund amount. We understand the city has no plans for additional debt over the next two years.

Springfield (population, 150,775) is located in western Massachusetts, about 89 miles from Boston and 25 miles north of Hartford. The city is a regional employment center, with jobs focused in the education/health services sector as well as trade/transportation/utilities and professional/business services. The largest employer in the city is Baystate Health Systems (9,115 employees), followed by MassMutual Financial Group (4,319) and the U.S. Postal Service (2,700). Smith & Wesson (613 employees) is the city's largest manufacturing employer. The Springfield metropolitan area's unemployment rate has historically tracked above commonwealth and national averages, and, for February 2010 (not seasonally adjusted), was 11.0%, compared with 10.0% for the commonwealth. In addition, income levels are below average, but adequate, in our opinion. Median household and per capita effective buying income measured 70% and 66% of the national level, respectively, in 2008.

The city's tax base has experienced its second consecutive year of contraction, with a 3% drop compared to fiscal 2009. The assessed value for fiscal 2010 totaled about \$7.0 billion, or what we consider an adequate \$46,392 per

capita. The tax base is largely residential, with 19.6% comprising commercial/industrial land uses.

Outlook

The stable outlook on the program rating reflects that on the commonwealth rating. The stable outlook on the ICR reflects the city's strong reserve levels and our expectation that the restored financial controls and new management will allow the strong financial performance and reserves to be maintained over the near term. The outlook also reflects the city's moderate debt burden, with limited plans for additional debt.

Changes Enacted By The Springfield Finance Control Board

Springfield has had a history of chronic fiscal imbalance, which culminated in a \$41 million projected general fund balance deficit for the fiscal 2005 budget and the establishment of the SFCB. The accumulated deficits significantly weakened the city's cash flow and its ability to meet payroll obligations and other general fund operating requirements. The Massachusetts Legislature enacted Chapter 169 of the Acts of 2004 Laws to attempt to stabilize the city's fiscal condition and restore long-term fiscal stability. The act created the SFCB and gave the city access to a special trust fund of up to \$52 million for no-interest loans to address its deficit and budgetary needs. SFCB has the power to manage Springfield's budget and implement corrective budget action when necessary. From the time of the establishment of the SFCB, progress has been made on key budget and financial issues, including the following:

- An improvement in financial monitoring and planning was seen, including regular intrayear revenue expenditure reporting and an updated capital improvement program (CIP).
- Budgeting was improved, marked by the use of conservative revenue assumptions.
- City departments were reorganized following comprehensive assessments, and staffing was reduced.
- More than \$27 million in back taxes, plus interest charges, was collected.
- The city's management and financial management systems were overhauled and fully integrated with the school department.
- All collective bargaining union contracts were settled through the end of fiscal 2012, except the teachers' contract, which expires at the end of fiscal 2010, and the technical employees' contract, which expires at the end of fiscal 2013. The settlements eliminated a \$40 million liability associated with back-wage and health insurance-related litigation that had been filed by unions.
- The city became the first municipality in Massachusetts to participate in the state-run Group Insurance Commission, which has resulted in annual increases significantly lower than the city's previous history.
- The Springfield Contributory Retirement System's assets were transferred to the commonwealth's pension fund manager, called PRIM, effective 2005, which is expected to improve the city's rate of return to smooth year-to-year actuarially required contributions.

During fiscal 2005, the SFCB also initiated a series of cost-cutting measures, such as tighter expenditure controls and significant staff reductions, and continued a wage freeze.

Related Criteria And Research

- USPF Criteria: GO Debt, Oct. 12, 2006
- USPF Criteria: State Credit Enhancement Programs, Nov. 13, 2008

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Ratings Detail (As Of May 27, 2010)

Springfield (Non-School State Prog) (AGM)		
<i>Unenhanced Rating</i>	AA-(SPUR)/Stable	Affirmed
Springfield (Non-School State Prog) (FGIC)		
<i>Unenhanced Rating</i>	AA-(SPUR)/Stable	Affirmed
Springfield (Non-School State Prog) (MBIA) (National)		
<i>Unenhanced Rating</i>	AA-(SPUR)/Stable	Affirmed
Springfield Non sch st prog		
<i>Unenhanced Rating</i>	AA-(SPUR)/Stable	Affirmed
Springfield Non Sch St Prgm		
<i>Unenhanced Rating</i>	AA-(SPUR)/Stable	Affirmed
Many issues are enhanced by bond insurance.		

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