CITY OF SPRINGFIELD, MASSACHUSETTS

MULTI-YEAR FINANCIAL PLAN

FISCAL YEARS

2018-2021

PREPARED BY:

THE CITY OF SPRINGFIELD, MASSACHUSETTS'

OFFICE OF MANAGEMENT AND BUDGET

TABLE OF CONTENTS

March 30, 2017

To the Honorable Mayor, Members of the City Council, and Citizens of the City of Springfield:

I am pleased to present to you the City of Springfield's Multi-Year Financial Plan (MYFP) for Fiscal Years 2018-2021. One of the City's most important tasks is to develop 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. This MYFP is a vital tool that allows the City to see the long term impact of its financial decisions. Having a long term plan allows us to strategically set priorities and goals that are achievable, while maintaining fiscal sustainability.

I am pleased to report that as a City, we continue to take ownership of and accountability for our finances. Furthermore, during these trying financial times we have maintained essential services, financially weathered natural and man-made disasters, and continue to maintain our commitment to financial integrity.

The City has made a concerted effort to replenish our reserves that were used during the recession in 2008. This year our reserves level is $43.2 million. We also continue to manage both our revenue and expense budgets to generate free cash. This is highlighted by the fact that we ended FY16 with a $4.9 million surplus. We continue to maintain the discipline that is essential to the City's overall fiscal health and which has prompted Standard and Poor's to maintain our AA- bond rating and encouraged Moody's to reaffirm our A2 rating.

Fiscal Challenges

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

Since we are heavily reliant on State Aid, and 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, and being at the levy ceiling has prevented the economic development benefits of "new growth" revenue from being fully realized. As an example, in FY16, even with the annual 2.5% increase in the levy ceiling, the City was only able to capture $1.2 million in new growth, despite having certified over $5 million in new growth revenue. This left a gap of $3.8 million in potential new growth revenue unavailable to be collected through our tax levy.

Fortunately in FY17, for the first time since FY10, the City was able to capture all of the $4.9 million in certified new growth revenue due to an increase in property values, which increased our levy ceiling. While this is great progress, we will likely not be met with the same good fortune in the coming fiscal years unless there are significant increases in property values. Without being able to grow local source revenue, we are forced to continually rely on increases in State Aid to fund escalating non-discretionary costs which crowd out other budgetary needs and affect the City's ability to provide core services.

As discussed later in this document, the City's operating costs continue to grow at a faster rate than our revenue sources. Even with the introduction of MGM Casino revenue in FY19, as outlined in the Host Community Agreement, the City still faces projected deficits averaging over $20 million in future years. Therefore, the City must continue to focus on economic development opportunities and seek the "spin-off" effect they produce. Continuing to focus on economic development will raise commercial property values and increase homeownership. These will both benefit the City because rising economic opportunity will lead to improved neighborhoods and higher property values. Projects currently in the works include the new South End Community Center at Emerson Wight Park and a new Senior Center at Blunt Park, along with school building upgrades and the replacement of Brightwood Elementary School.

Policy Priorities

The City will focus on two core areas for investment: public safety and 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 in our neighborhoods. Improvements in education will help our workforce and increase access to jobs.

In FY16, Springfield made the largest investment in public safety since the 1990's. Sixty (60) Police recruits entered the academy, filling forty-five (45) positions that were vacant due to retirements and attrition. Five (5) sergeant positions were created, and in total fifteen (15) officers were added to the department compliment. In FY17, Springfield anticipates forty five (45) Police recruits to enter the academy in spring to stay ahead of attrition. In an effort to maintain a healthy balance of veteran and newly trained officers, the City is strategic in planning more frequent police academies. The City will continue to invest in the Police Department in FY18 and in future years to ensure they are operating at their full capacity, in order to improve residents' and visitors' perceptions of safety in downtown areas, while continuing the concentration on quality neighborhood policing.

The Governor's proposed budget increased funding for both Chapter 70 and Unrestricted General Government Aid (UGGA). However, it falls short in the area of charter schools, where the FY18 assessment for attending students increased $5.3 million, while the revenue only increased $1.2 million. This forces the City and School Department to absorb the difference and make difficult choices in order to balance the budget. 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.

Other Considerations

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

- Pensions – The City's pension system, funded at a 27% ratio, has the lowest funded ratio in the State and continues to make up for FY08 market losses. In an effort to address this, the City has taken an aggressive approach to fully fund its pension liability by FY34, six years prior to the State's requirement. To account for the $826.4 million of unfunded liability, the City will increase its annual contribution in FY18 from $30.1 million to $34.4 million, a 14% increase. Pension obligations are a non-discretionary expense and must be paid before any other costs.

- OPEB – The City underwent an OPEB valuation in 2016 that showed that our liability has decreased from over $1 billion to $936.5 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 situation. Currently, $5.7 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 – Like Pensions 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 for more new debt service costs to be added on as older debt service payments "fall off." As a result, we were able to issue $44.3 million in debt this February, and are planning to issue more in coming fiscal years. Prior to the February bond sale, our long-term debt liability was at $204.9 million, and the scheduled payment for FY18 totaled $32.4 million.

It is important to all of us that we do all that is necessary so that tax payer dollars are spent in a manner that is most efficient, effective, and legal 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's also meant to share the ideas being considered to help us achieve our guiding principles with 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.

I look forward to working with you on the FY18 budget planning process and am open to all ideas that will positively benefit our City.

Sincerely,

Timothy J. Plante,
CAFO

Multi-Year Financial Plan (FY18-FY21):

	FISCAL 2016 ACTUAL	FISCAL 2017 ADOPTED	FISCAL 2018 MYFP - PROJECTED	FISCAL 2019 MYFP - PROJECTED	FISCAL 2020 MYFP - PROJECTED	FISCAL 2021 MYFP - PROJECTED
SPENDING ASSUMPTIONS						
Administration and Finance Division	10,343,232	13,025,718	12,841,195	13,098,019	13,359,979	13,627,179
Development Division	3,472,561	3,868,681	3,946,054	6,024,975	6,145,475	6,268,384
General Government Division	3,420,480	3,172,818	3,514,077	3,584,359	3,656,046	3,729,167
Non-Mayoral Division	1,394,053	1,391,514	1,419,344	1,447,731	1,476,686	1,506,219
Health and Human Services Division	9,393,201	10,641,495	10,854,325	11,071,411	11,292,840	11,518,696
Public Safety Division	62,023,119	66,392,461	69,122,461	70,504,910	71,915,009	73,353,309
Public Works Division	13,531,097	13,340,665	14,384,047	14,671,728	14,965,162	15,264,465
Parks & Facilities Division	10,616,247	10,933,366	11,152,033	11,375,074	11,602,575	11,834,627
School Department	387,807,273	391,176,970	407,492,148	423,255,547	439,690,758	456,830,903
Debt	36,183,041	34,070,027	32,724,190	34,330,189	30,281,354	29,371,905
Health Insurance & Fringe	25,641,207	26,803,851	28,914,980	30,768,499	32,749,217	34,865,993
Pensions[+]	28,319,804	30,244,288	34,645,425	39,469,884	42,612,675	46,006,889
Other Spending	7,592,958	8,499,106	9,316,861	9,002,502	9,192,673	9,387,488
TOTAL	**599,738,273**	**613,560,960**	**640,327,141**	**668,604,828**	**688,940,449**	**713,565,225**
REVENUE ASSUMPTIONS						
Property Taxes	174,932,849	185,958,317	192,220,757	197,126,276	202,154,433	207,308,294
Local Receipts	45,327,467	46,680,481	40,830,481	40,830,481	40,830,481	40,830,482
State Aid	366,840,842	375,422,162	383,979,380	392,151,693	401,268,095	410,828,498
Reserves	350,184	-	-	-	-	-
Net School Spending	9,513,484	-	-	-	-	-
Other Financing Sources	494,238	-	-	-	-	-
Casino Revenue	7,000,000	5,500,000	4,000,000	19,922,857	20,742,857	20,742,857
TOTAL	**604,459,064**	**613,560,960**	**621,030,618**	**650,031,308**	**664,995,867**	**679,710,131**
SURPLUS / (GAP)	**4,720,790**	**0**	**(19,296,523)**	**(18,573,520)**	**(23,944,583)**	**(33,855,094)**

Summary

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

- ✓ Providing core services to residents, businesses, and visitors. This 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.

As shown in the chart above, the City's operating costs are projected to grow at a higher rate than projected revenue sources. On average, expenses are projected to be over 3% higher than projected revenue. Even with the introduction of MGM Casino revenue in FY19, as outlined in the Host Community Agreement, the City still faces projected deficits averaging over $20 million in future years.

The following page shows actual spending in FY16, the Adopted budget for FY17, and the projected budgets for FY18, FY19, FY20 and FY21. The projected budgets for FY18 through FY21 were estimated by using appropriate and conservative assumptions for revenues and spending based on Governor Baker's FY18 proposed state budget:

- 2.3% increase in Non-School State Aid, and 3.8% increase in Chapter 70.
- 2.5% increase in property tax revenue.
- Level Local Receipts revenue with a reduction in one-time revenue built into the FY17 budget.
- No use of one-time resources / reserves.
- Departmental spending growth ranging up to 2% and other known growth costs, including an increase to Fire and Police department compliments.
- Scheduled growth for pensions, 8.7% 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, i.e. not mandated by law or ordinance. Therefore, the discretionary portion of the budget must assume all of the reductions required to balance the 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.

Revenue Assumptions

State Aid – On January 25, 2017, Governor Baker released his proposed budget, the MYFP applies these estimates for FY18.

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 3.8% 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% of the tuition for the first year, and 25% for each of the next five years. The projection assumes a $1.2 million increase in Charter School reimbursements based on enrollment information for FY18. 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 $37.8 million, an increase of 3.9%, 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, and 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 so the City has been paying the full amount of the $3.4 million program annually.
- 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 FY18 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 FY18 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 FY18 budget recommendation for PILOT payments.

Local Source Revenue

The remainder of revenue collected by the City is through local source revenue, including property taxes, motor vehicles excise, 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 for the removal of one time revenue sources.

Property Taxes

Based on initial estimates completed by the City's Board of Assessors, property values are finally increasing after declining for six straight years. 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 has experienced over $1 billion in declining values 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.

New Growth

From FY11- FY17, the City was unable to capture a total of $26.4 million in certified new growth due to the City operating at its levy ceiling. Instead, the revenue is lost for the first year, and absorbed in the overall base in the second year. Although some new growth is anticipated, this MYFP takes a conservative measure by not building it into the revenue projections.

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. The City will be strategic when deciding to use reserves or one time revenue to balance the budget and wants to avoid jeopardizing its bond rating. However, we 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 with 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% 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 3.8% increase for FY18 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 8% in FY18, and the 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 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 (GIC). Nonetheless, in FY16 the Commission estimated a deficit between $165 million and $190 million and a 7% increase in the average premium for FY17. This financial forecast assumes an overall increase of expenditures of 8.7% associated with this projection. The City's contract with the GIC does not allow the City to opt out until the following October, therefore the City must bear 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 FY34. The most recently adopted schedule continues to account for FY08 market losses, which requires significant annual increases to appropriately fund the plan within the scheduled period. The FY18 payment is 14% over the FY17 payment and another 14% increase over the FY18 payment for FY19 is scheduled. Beginning in FY20, the payment increases will be adjusted to 8%. These increases will continue through FY34 if the current schedule is maintained

Conclusion

It is important to keep in mind that for planning purposes, revenue assumptions in this document are conservative. These numbers represent a snapshot in time, and we continue to adjust projections 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.

In previous years, the City has overcome similar projected budget deficits. We have successfully balanced and maintained the City's annual budget by making strategic and compassionate decisions that align with the City'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.