CITY OF SPRINGFIELD, MASSACHUSETTS MULTI-YEAR FINANCIAL PLAN

FISCAL YEARS 2025-2028

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

TABLE OF CONTENTS

March 30, 2024

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 2025-2028. 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 nine years, without the use of any stabilization reserves. Currently, our reserves equal $68.9M 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 FY23 with a surplus, and were able to certify $19.3M in free cash in FY24. This accomplishment was a direct result of the City's strong fiscal management. The City further leveraged this success into future earnings by investing $44.9M 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. This is the second year that 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 $23.5M in FY25 and growing to $51.4M in FY28.

Expense vs. Revenue	FISCAL 2024 ADOPTED	FISCAL 2025 PROJECTED	FISCAL 2026 PROJECTED	FISCAL 2027 PROJECTED	FISCAL 2028 PROJECTED
Expense	**877,912,910**	**938,225,146**	**979,866,442**	**1,020,008,593**	**1,058,624,394**
Revenue	**877,912,910**	**914,722,598**	**947,383,786**	**976,713,747**	**1,007,206,602**
SURPLUS / (GAP)	**-**	**(23,502,548)**	**(32,482,657)**	**(43,294,846)**	**(51,417,792)**

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 over 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. In FY23, the City transferred $15M of certified free cash into the Springfield Pension Reserve Fund. The City then invested these funds in 1-year U.S. Treasury Notes, for a yield of $681K received in FY24, to be used towards future pension payments, bringing the total up to $17.3M. Due to the success of this strategy, the City reinvested, and expects a yield of $671K to be received in FY25. An additional $1.9M was transferred in FY24 into the Springfield Other Post-Employment Benefits (OPEB) Trust, and combined with a $6.8M 1-year U.S. Treasury Note investment return of $334K to bring the current balance to $15.1M. These funds were also reinvested, for an estimated return of $188K. 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.

Budget Priorities

The City will continue to make strategic investments in public safety to combat the public perception of crime. In FY20-FY23 the Police Department made significant strides toward the successful implementation of its body-worn camera program, and updated Computer-Aided Dispatch and Records Management System. The investment in these initiatives has helped to increase transparency and response, improving the safety of citizens and officers alike, making Springfield the largest police department in Massachusetts to have full-scale programs of this kind. In FY24, we invested in B-AGILE professional development training for supervisors, to drive a culture of creativity and innovation in decision-making and leadership skills. We also continued funding for the Co-Response and Peer-to-Peer programs, stressing the importance of supporting mental health through all aspects of public safety. 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 currently has twenty-five (25) recruits in the academy, 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 will continue its upkeep of all downtown area parks that serve as “gateways” to the North & South End. The popular Sidewalk Crew 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. The ROCA Clean Sweep Initiative was added as part of the FY24 budget process, and dedicates three five-member teams to respond to quality-of-life calls throughout the City to address litter and trash concerns. These three crews 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 FY25 budget planning process and I am open to all ideas that will positively benefit our city.

Sincerely,

Cathy Buono

Cathy Buono,
Chief Administrative and Financial Officer

Financial Forecast (FY25-FY28)

	FISCAL 2024 ADOPTED	FISCAL 2025 PROJECTED	FISCAL 2026 PROJECTED	FISCAL 2027 PROJECTED	FISCAL 2028 PROJECTED
SPENDING ASSUMPTIONS					
Administration and Finance Division	16,061,804	16,868,930	17,305,009	17,794,744	18,259,456
Development Division	4,643,332	4,784,953	4,880,652	4,978,265	5,077,830
General Government Division	4,488,137	4,709,147	4,803,330	4,899,397	4,997,385
Non-Mayoral Division	1,834,320	1,920,070	1,958,471	1,997,640	2,037,593
Health and Human Services Division	12,559,754	12,924,310	13,182,796	13,446,452	13,715,381
Public Safety Division	87,519,598	92,987,949	94,870,518	96,791,428	98,751,466
Public Works Division	19,736,663	20,641,396	21,054,224	21,475,309	21,904,815
Parks & Facilities Division	15,779,915	16,116,490	16,432,904	16,755,647	17,084,845
School Department	587,798,386	630,744,679	656,036,216	682,348,455	709,722,882
Debt	23,034,501	21,750,973	24,836,751	24,468,776	20,507,061
Health Insurance & Fringe	32,837,556	35,790,296	39,022,489	42,560,761	46,434,281
Pensions	61,837,509	67,489,816	73,698,879	80,479,175	87,883,259
Other Spending	9,781,434	11,496,138	11,784,203	12,012,544	12,248,140
Total	**877,912,910**	**938,225,146**	**979,866,442**	**1,020,008,593**	**1,058,624,394**
REVENUE ASSUMPTIONS					
Property Taxes	253,606,704	269,239,817	278,533,313	285,496,646	292,634,062
Local Receipts	**70,038,655**	**66,939,302**	**68,736,720**	**68,688,662**	**68,751,520**
State Aid	545,267,551	578,543,479	600,113,753	622,528,439	645,821,020
Reserves	-	-	-	-	-
Net School Spending	-	-	-	-	-
Certified Free Cash	**9,000,000**	-	-	-	-
Casino Revenue	-	-	-	-	-
Total	**877,912,910**	**914,722,598**	**947,383,786**	**976,713,747**	**1,007,206,602**
SURPLUS / (GAP)	**-**	**(23,502,548)**	**(32,482,657)**	**(43,294,846)**	**(51,417,792)**

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 (FY24), along with the projected budgets from FY25 through FY28. 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 FY25-FY28.
- 9.0% increase in projected health insurance costs.
- Adherence to the City's debt schedule.
- The MYFP uses the Governor's proposed FY25 budget, which compared to the FY24 final state budget allowed for a 5.8% in Chapter 70 Aid, and a 3.0% 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.

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 $23.5M in FY25 and growing to $51.4M in FY28.

A challenge the City faces for FY25 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 Tax Levy Limit for FY24 increased by approximately $13M. 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 $48.0M in FY24 to $51.5M in FY25.

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 FY23 and FY24 as well as the amount projected to be received in FY25 based on the Governor's budget and compares it against our Required Local Contribution.

Municipal Revenue Growth Factor - FY23 - FY25 Comparison			
Category	**FY23**	**FY24**	**FY25**
Unrestricted GG Aid	$ 43,853,503.00	$ 45,256,815.00	$ 46,614,520.00
Required Local Contribution	$ (44,717,025.00)	$ (48,026,085.00)	$ (51,503,174.00)
Total	**$ (863,522.00)**	**$ (2,769,270.00)**	**$ (4,888,654.00)**

Based on the calculations shown above, the amount of UGGA we are projecting to receive in FY25 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 $4.8M from an already limited pool of discretionary funding, a $2.1M increase over an already difficult gap to close the year before.

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 are expecting to pay about $109.73 per ton of trash, and $137.94 per ton for recycling in FY25. Based on annual recycling tonnage amounts, this represents a $1.1M expense the City must now incur.

In addition, in November 2022 the Massachusetts Department of Environmental Protection initiated a mandatory program for mattress recycling for all municipalities within the Commonwealth. The program required that all mattress recycling vendors must be registered and certified by the DEP. As a result, the City could no longer include mattresses in the standard bulk collection, and had to enter into a contract with one of the few approved vendors at the time. The cost for disposing of mattresses has now increased to $22 per mattress, with additional monthly fees of approximately $3,575 for the trailer and transportation, while our fee for residents remains at $8.

While Springfield allocates all trash-related services to a separate Enterprise Fund, the added costs of recycling and mattress disposal 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 FY25 projected supplement of $7.9M, which is allocated from the General Fund, increased due to the recycling and mattress expenses. 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. Non-discretionary expenditures include budget items such as school funding, debt service payments, employee health insurance, workers compensation claims, and the capital reserve fund. This means that the discretionary costs, which make up only 20% of the entire City budget, must assume all of the reductions required to balance the budget. While these budget items are not legally mandated, they encompass many essential functions for the City, including public safety forces, library operations, parks maintenance, road construction, veterans' support, and other key services. This forces the City's administration to develop creative solutions in an effort to reduce costs in an effective and efficient manner.

FY25-FY28 Projected Expenditures

	FISCAL 2024 ADOPTED EXPENDITURES	FISCAL 2025 PROJECTED EXPENDITURES	FISCAL 2026 PROJECTED EXPENDITURES	FISCAL 2027 PROJECTED EXPENDITURES	FISCAL 2028 PROJECTED EXPENDITURES
City Non-Discretionary					
SCHOOLS	587,798,386	630,744,679	656,036,216	682,348,455	709,722,882
MUSEUM	1,320,000	1,320,000	1,320,000	1,320,000	1,320,000
DEBT SERVICE	19,095,401	17,674,876	20,658,751	20,146,326	16,077,550
STATE ASSESSMENTS	3,687,213	3,806,570	3,901,734	3,999,277	4,099,259
CONTRIBUTION RETIREMENT PENSION	61,837,509	67,489,816	73,698,879	80,479,175	87,883,259
BENEFITS	32,837,556	35,790,296	39,022,489	42,560,761	46,434,281
CAPITAL RESERVE FUND	3,939,101	4,076,097	4,178,000	4,322,450	4,429,511
PARKING CONTRACT	1,072,177	1,326,881	1,353,419	1,380,487	1,408,097
PAY-AS-YOU-GO CAPITAL	4,652,045	5,042,687	5,209,050	5,312,780	5,420,784
Subtotal (Non-Discretionary)	***749,076,943***	***803,062,196***	***844,401,026***	***884,430,472***	***923,229,905***
City Discretionary					
CITY DEPARTMENTS	128,835,965	135,162,950	135,465,416	135,578,121	135,394,488
Subtotal (Discretionary)	***128,835,966***	***135,162,950***	***135,465,416***	***135,578,121***	***135,394,489***
Total Expenditures	***877,912,910***	***938,225,146***	***979,866,442***	***1,020,008,593***	***1,058,624,394***

Revenue Assumptions

The State Aid projections illustrated in this plan are based on Governor Healey's FY25 proposed budget, which was released on January 26th, 2024.

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 a 5.8% increase in FY25 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 $638K increase in Charter School reimbursements for FY25, 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 $46.6M, an increase of 3%, 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 FY25 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 FY25 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 FY25 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 property values eventually began to rise, the levy ceiling remained very low, which prohibited 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.

Despite the lost revenue over those eight years, Springfield has now broken away significantly from its levy ceiling, with $48.6M in override capacity. This substantial gap between our levy limit and levy ceiling 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 address structural deficits without the need to make major service reductions. The administration is 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. As seen before in 2008, 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 FY25 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
The category includes motor vehicle excise, rooms occupancy tax, fees and fines, interest income, license and permit revenue, among others. 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, or a new type of revenue. Most recently the City adopted the local option to tax 3% on the retail sale of adult-use marijuana. This introduced a new stream of revenue for the City, currently projected at over $1M for FY25.

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 resulted 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 $43.9M - $131.7M based on the FY24 Adopted Budget of $877M. Currently our reserve balance of $6.8M, or 7.7%, 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 5.9% 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 10% in FY25, 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 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 9.0% for health insurance expenditures from FY25 to FY28, which includes a 9.6% increase for health plan expenses based on the GIC projected FY25 growth. 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. In FY23, with an unprecedented amount of certified free cash, the City made the forward-thinking decision to move $15M into the Pension Stabilization Reserve Fund. These acts are 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 FY25, 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 FY25 pension appropriation amounts to $111M, 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.

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.