



Learning from Springfield Lessons in Effective Fiscal Management

by Steve Poftak

The Middle Cities Initiative seeks to develop concrete policies to help the Middle Cities grow. One foundational element for economic growth is effective fiscal management by the public sector. The Middle Cities Initiative includes a benchmarking program that would establish incentives for good municipal management, and also equip municipal leaders with the tools they need to succeed. This Policy Brief considers Springfield as a case study in effective fiscal management and reform, and as an example for other communities. It integrates specific policy proposals derived from Springfield's experience with Pioneer's work on benchmarking.

The use of Springfield as a positive example of fiscal management may surprise observers who are familiar with Springfield's past history of fiscal mismanagement, which culminated in a 2004 state intervention. However, this intervention – combined with the spirit of urgency generated by the threat of bankruptcy – has made Springfield a laboratory of municipal governance reform.

This Policy Brief summarizes Springfield's approach to sound fiscal management, and also presents strategies and tactics that are applicable statewide. It also proposes benchmarking criteria to measure the progress made by any municipal government that seeks to improve its fiscal health.

Background: Springfield's Road to Recovery

Since the mid-1980s, when a state bailout authorized deficit-financed bonds, Springfield struggled to avoid financial collapse. In addition to problems caused by mismanagement, the city faced a general economic

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Pioneer Institute's Middle Cities Initiative helps the state and cities to implement a comprehensive agenda for reviving urban markets and improving city governance. Pioneer is facilitating coalition meetings with mayors and city managers, making recommendations to the state for better oversight, and creating benchmarks for performance that can be used by the state and cities alike to gauge progress.

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malaise as jobs and middle-class families departed for other cities and states.

By 2004, these problems had become a crisis. In response, the state and city implemented a unique emergency management structure. Responsibility for the city budget was assigned to the Springfield Control Board, a five-member body consisting of three members appointed by the state (specifically, the Secretary of Administration and Finance), plus the Mayor and the President of the City Council.

Meeting in open session, the Control Board possesses all executive and legislative authority and had access to a \$52 million line of credit (which has since been drawn down and closed). Disbursements are subject to the approval of the Secretary of Administration and Finance, based on the city's ability to repay.

The new state-municipal partnership has had a profound impact on Springfield. The results are evident in the strong improvement in the city's budgetary position during the course of the Control Board's tenure. See Fig. 1.

Strategies: Guidelines for Urban Fiscal Health

Fiscal sustainability is a function of good management, plus maintenance of a residential and commercial property tax base sufficient to finance essential services. Some indicators of fiscal health include bond ratings, current-year budget surpluses

or deficits, and structural imbalances between city revenues and expenses, including long-term commitments such as health care benefits and pensions.

There are many obstacles to fiscal stability in our Middle Cities. Relatively weak economic growth has stunted the growth of property values and the tax base. Local leadership has frequently found it difficult to meet the demands of public employees in the face of limited revenue growth. Municipal officials also struggle with the "chicken and egg" issue of declining quality of life, due to the loss of residents and employers, which itself accelerates the exodus of people and economic activity.

In its Springfield intervention, the state made effective fiscal management a key plank in its reform efforts. The actions tested in Springfield provide a track record, in terms of potential policy tools and impact that should encourage other state and local government leaders to consider the "Springfield Model." In particular:

Primary Short-Term Strategies

1. Capturing cost savings and establishing long-term cost certainty
2. Rationalizing fiscal management
3. Creating transparency

Secondary Long-Term Strategies

4. Reorganizing operations

Figure 1: City of Springfield Budgets, 2005-2007

	FY2005	FY2006	FY2007
Budgeted Surplus (Shortfall)	(\$41,000,000)	(\$6,500,000)	Balanced
Actual Result	(\$21,000,000)	\$4,000,000	TBD
Improvement over Budget	\$20,000,000	\$10,500,000	TBD

5. Embedding accountability
6. Strengthening neighborhood development

Tactics: The Nuts and Bolts of Reform

Since 2004, Springfield has restructured all of its governmental operations. Key actions include the reorganization of City Hall; revised taxation, borrowing, and budgeting; reformed hiring, employment and compensation practices; and improved operations at each city department. These efforts have yielded tactics that could benefit all of the Commonwealth's cities and towns.

1. Capturing Long-Term Cost Certainty and Savings

Transfer pension assets to PRIM: 2006 returns on the City's pension investments were \$25 million higher than Springfield's prior experience, with significantly reduced management costs. A timing change in the release of the City's retirement appropriation will save the City \$11 million, or increase earnings in the retirement system by an estimated \$43 million.

Purchase health benefits through the state Group Insurance Commission: A number of actions were undertaken to capture cost savings in the area of health insurance, leading to savings of \$42 million in FY 08. Springfield's annual rate increases have been reduced from 18% to 4%, a minimum savings of \$7.5 million per year, plus employees are saving significantly.

Transfer all eligible retirees to Medicare: By adopting MGL Ch 32B Section 18, Springfield saved \$5.3 million per year for the City and \$2.5 million for retirees.

Remove ineligible participants from health and pension benefits: Particular scrutiny should be focused on grant-funded and part-time employees.

Settle workers compensation claims: Springfield was able to settle \$1.2 million in claims for \$203,000, some of which were up to 19 years old.

Enter into sustainable collective bargaining agreements: Springfield has settled contracts with all unionized employees that provide for an annual payroll increase of 3.1% at current employment levels. Settlements have eliminated a \$40.5 million liability from a 2003 wage freeze and other issues.

Examine energy costs for savings: Springfield implemented ESCO projects and improved utility management. The ESCO bonding structure saved \$1.2 million per year.

2. Rationalizing Fiscal Management

Collect back taxes: Springfield increased back tax collection by \$22.5 million and ended the prior (illegal) practice of selective property tax forgiveness.

Maximize returns from cash management: Springfield improved cash management by investing more money, increasing the term of investments, and increasing invest-able days from 3 to 6 per week. While sound in practice, this strategy involved the purchase of structured investment vehicles that ultimately cost the city millions of dollars. The broker for these products reimbursed the funds, but it offers a cautionary note about the importance of making suitable investments whose contents are understood by the municipality.

Systematize budgeting and payroll: Adoption of MUNIS (a financial budgeting and managing software package) and ADP automatic payroll service by Springfield resulted in millions of dollars in savings. Also, the city is currently engaged in the procurement process for a new time and attendance computer system. This will directly feed into MUNIS and the city's work order systems, allowing control and analysis of payroll costs for the first time while fully automating payroll.

Budget for expected expenses: Springfield ended the distortive practice of under-funding health insurance and charging deficits to operating departments without formal appropriation. This change avoided previous years' \$6.2 million deficit for health

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insurance, and a \$3.5 million deficit for payroll.

Account for collection issues: Springfield now bases budget projections at 95% - 97% of projected real estate taxes, which provides a more realistic basis for forecasts than the past practice of budgeting at 100%. The collections rate for property taxes prior to the Control Board averaged 92%, and the City had not sent a letter requesting payment of delinquent taxes for ten years.

Segregate funds: A health care trust fund was created to protect employee contributions.

Avoid Short-Term Borrowing: Springfield formerly used SBA reimbursement and bond proceeds to cover operating deficits. Poor debt-management practices resulted in two large spikes in the City's debt service schedule, including a 44% spike in one year.

Reconcile accounts: Springfield had not reconciled its accounts for at least 30 years.

Pay taxes: Paid multiple liabilities to the IRS for tax filing and withholding problems.

3. Creating Transparency

Provide regular, actionable reports: For the first time, the city now generates weekly and monthly financial statements.

Systematize and plan for capital needs: Springfield has developed management structures to identify needs, oversee projects and protect assets that are built – instituting a capital committee, budgeting by capital department, and increasing the prioritization of maintenance

Implement work order systems: One new system doubled the number of building maintenance work orders completed, reducing the backlog by 25%.

4. Reorganizing Operations

Streamline executive reporting: Springfield reduced the number of direct reports to the Mayor from 28 to 11.

Rationalize physical location of related departments: Springfield has placed key economic development departments near one another to encourage cross-function communication and ease application processes.

Scrutinize allocation of employees and organization of departments: Following comprehensive assessments of actual needs, Springfield eliminated 478 FTEs. In addition, the city civilianized administrative and dispatching positions in public safety, freeing up at least 35 police officers for patrol work.

5. Embedding Accountability

Develop performance contracts: Springfield implemented performance-based contracts for certain employees, including teachers and principals.

Use technology to track assets and performance: GPS is now installed in certain city vehicles, and cameras have been placed in public safety vehicles through a pilot program agreed to by the unions.

Enact drug/alcohol policies: Negotiate strict drug/alcohol policies with public employee unions, including conditional drug testing.

Implement CitiStat: This program provides a continuous review of the quality of municipal government operations and supports benchmarking services against industry performance standards.

Build 311 Capability: Springfield is currently implementing 311 to ensure collection of relevant performance data and to improve the efficiency of call answering. This will allow call takers to generate and track work orders for services, and will also redirect the estimated 70% of incoming calls that currently go to operating departments.

Evaluate performance: The city conducted a comprehensive review of non-bargaining salaries, establishing a grade and classification system, as well as performance evaluation and compensation tools.

6. Strengthening Neighborhood Development

In addition to the above steps, the City and Control Board have taken a number of actions to strengthen neighborhood development, including: enforcement of existing housing and building codes by hiring 13 code compliance inspectors and the use of interdepartmental code compliance teams; demolition of derelict buildings and the sale of municipal property to foster redevelopment; and planning for growth by conducting neighborhood redevelopment studies. The Control Board conducted an economic and community development study through the Urban Land Institute to guide economic development investments.

Next Steps

The following steps are important to secure and build upon the reforms outlined above:

Keep fiscal discipline: Springfield must continue to aggressively manage its costs and attempt to build its reserves.

Focus on economic growth: Improvements in the quality of life in Springfield are dependent on increased economic activity (which has the secondary effect of increasing the tax base). The City must continue to focus on fostering this growth.

Finish implementation of tools for management and transparency: Springfield is seeking to finish the implementation of a financial management system (over the next year), a payroll system (over the next 1.5 years), a 311/Citistat system (over the next year), and a multi-year financial planning process (within the next year).

Clean up laws, regulations, and policies: Over the next three years, Springfield will re-examine its charter and ordinances, particularly those related to

economic development.

Build the team: Springfield needs a better-trained and more effective municipal workforce. It plans to improve recruitment, training, policies, and human resource operations while placing a specific focus on developing middle managers. This is intended to ensure that governmental performance does not rely on specific individuals but rather is built on a high functioning organization in which individuals can perform essential services. Springfield will address performance management, hiring procedures and workforce diversity by examining civil service and residency requirements, particularly for non-public safety positions.

Keeping Score: Tools to Benchmark Fiscal Health

Springfield's experience shows how a disciplined approach to fiscal management can support a city's revitalization process. Pioneer's benchmarking program seeks to measure and incentivize fiscal discipline on a macro level, allowing municipalities the flexibility to improve day-to-day decision-making. The goal of the benchmarks is to encourage a long-term focus on improving key services, and to change the incentives so that it is easier for a reform-minded mayor or city manager to keep improving key services.

In a working paper on urban redevelopment, Pioneer proposed three measures of financial sustainability—bond rating, total debt to the total value of property, and the municipal stability factor. (See Fig. 2) Other observers have suggested shortcomings of the existing metrics and suggested others, including free cash position, reserve balance, and other measurements. The working paper's proposed benchmarks were intended to be the basis of a broad discussion of appropriate metrics, not a final decision. Feedback from stakeholders on the most appropriate metrics is welcomed.

Bond rating serves as an independently granted measure of the overall health and sustainability of a municipality's finances. Total debt to total value

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of property reflects the debt load of a community versus the underlying asset (property) that supports the debt. Lastly, the Municipal Stability Factor measures the level of increase in discretionary spending that a community can sustainably allow.

The Debt/EQV ratio also shows a positive trend. The debt load is becoming more sustainable, based on the value of the underlying asset. The Municipal Stability Factor, unfortunately, is incomplete – the values have not been calculated for FY05 and FY07.

Figure 2: Financial Sustainability Benchmarks, Springfield

	FY2005	FY2006	FY 2007
Bond Rating (Moody's/S&P)	Baa3/ n/a	Baa3/ n/a	Baa3/ BBB
Debt/EQV	5.0%	4.0%	Not Yet Available
Municipal Stability Factor		1.6%	

The bond rating, as an independent evaluation by an outside observer, reflects the improvement in Springfield’s fiscal management. Moody’s rating of Baa3 has been consistent over the past three years (and over the last 10 years). It did raise its outlook from “negative” to “stable,” a subtle but important change. More dramatically, Standard & Poor’s reinstated the city’s rating in 2007. In 2004, Standard & Poor’s downgraded the city from BBB to BB, then immediately suspended the rating based on a lack of financial transparency. In early 2007, Standard & Poor’s reinstated their rating of the city at BBB, reflecting improved financial conditions and transparency.

The goal of the benchmarking component of the Middle Cities Initiative is to provide incentives for municipalities to make the difficult decisions necessary to stabilize and improve their finances. As explained above, Springfield has made many of these tough decisions, particularly in the field of fiscal management, and benchmarks are demonstrating this progress. We invite stakeholders in our major cities to participate in an ongoing series of dialogues on the most appropriate benchmarks and incentives.