Against All Odds

How Springfield, Massachusetts
Built a Fiscally Sustainable Future
AGAINST ALL ODDS

That was Springfield’s unfortunate reality. Haunted by economic decline, poor school performance, crime, underfunded pensions, and underwhelming housing values, Springfield was simply a broken city.

Springfield’s problems started back in the early 1980s when budgets were cut following the passage of Proposition 2½, a Massachusetts law that limits property taxes and the ability to support core city services. By the early to mid 1990s, Springfield’s police force was down to 400 officers. In 2004, violent crime on city streets was nearly four times the national average. Businesses were decamping for nearby locations, hollowing out the downtown districts and leaving gaping economic holes throughout the city. It wasn’t long before Springfield lost control of its bottom line.

For a variety of reasons, a city with a $442 million budget simply wasn’t living within its means. After years of political inaction, a reckoning was long overdue. When the tab was tallied up in 2004, Springfield found itself staring down a $41 million deficit, with few prospects for getting out of the red.

State law prohibited the city from operating at a deficit, so Springfield essentially papered over its structural deficits. While the city prepared and submitted balanced budgets to the state, its account balances were negative. There’s no nice way to explain this away—it was extraordinary malfeasance for a city of this size.

When the smoke cleared—that is, when a full accounting reconciliation was completed in 2004—the Massachusetts state government moved in and created the five-member Springfield Finance Control Board in return for a $52 million no-interest loan to cover the city’s shortfall.

Over the following years, the Finance Control Board helped spearhead initiatives that got to some of the root causes of the city’s many problems. But to be effective, Springfield needed systems to collect, store, track, and analyze city data—and it had none. Everything from revenue and expenses to reconciliations was handled through paper-driven processes and paper-reliant systems. Unsurprisingly, nothing happened in real time. Procurement and payables were routed multiple times, and approvals could take weeks. Adjustments required months.

People were making day-to-day decisions using months-old data. From an analytics perspective, there was zero visibility. The only positive aspect of the formerly manual processes and terrible chart of accounts was that it gave the finance team tremendous motivation to make lots of changes, if only to escape the painful red tape that was in place.

If COVID-19 and the devastating events of 2020 had happened a decade earlier, the third largest city in the Commonwealth of Massachusetts would have completely gone under.

BY TIMOTHY J. PLANTE
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In July 2007, the city implemented a financial management software program called Munis, and the data started to trickle in. Things started improving when the finance department received data it could use to proactively manage the city. It was finally possible to see the vacancies, the savings, the surpluses. Back taxes started to roll in as the city pursued and collected on liens. The finance department could inquire about a purchase, intervene on non-standard procurements, redirect budget dollars, and take corrective actions. The city could aggregate purchases, determine economic order quantities, and finally negotiate volume discounts from suppliers.

These are hardly earth-shattering improvements for most major enterprises, but for Springfield, it was nothing short of revolutionary. Within that first year, the city generated more than $30 million in free cash. Soon, this number grew to $50 million, accumulated simply because the new data made it possible to control spending.

The next step was being able to see, understand, and control labor costs—which in the mid-to-late 2000s accounted for approximately 68 percent of what was then a $486.5 million annual budget. At the time, employees were using paper timesheets to log their hours, and labor expenses were entered into spreadsheets. Worse, each of the city’s 30 departments had its own payroll staff, making it virtually impossible to aggregate citywide data or detect actual trends. Instead, the finance department could only perform infrequent, basic spot-check audits, using data that was months old. Without an automated reconciliation process, data was inconsistent, payroll deductions were mismanaged, and internal controls were altogether inefficient.

When Mayor Domenic J. Sarno took office in 2008, he moved swiftly to address the situation, believing that automation and data analytics would provide real-time visibility into
flew like frisbees. Tens of thousands of citizens lost power, dozens of people were sent to hospitals, and hundreds of families were displaced. The tornado affected approximately 40 percent of Springfield's citizens. More than 500 buildings were destroyed, and property values suffered a loss of more than $428 million. The city was looking at an extraordinary unplanned cost, and for a city just regaining its financial footing, the tornado could have been a knockout blow.

In the aftermath, the finance team assumed the responsibility of tracking all expenditures related to the disaster: contractors, employee time, equipment, supplies, and so on. But New England isn't exactly Tornado Alley, so the city had no prior experience in disaster recovery at this scale. It also lacked sufficient time and resources to research and review every damage assessment in depth. As the Federal Emergency Management Agency (FEMA) and the Massachusetts Emergency Management Agency started denying claims, the city was authorizing expenditures of millions of dollars, unsure if it would recoup a penny in reimbursements.

The city hired a consultant to navigate the maze of federal and state regulations driving disaster recovery funding. Its team had spent years in New Orleans, Louisiana, working for cities and towns affected by Hurricane Katrina. They knew FEMA’s rules and regulations inside and out and helped the city realize that it could be more cost-effective to replace certain facilities than to repair them. For example, the original damage estimate for the State Armory in Springfield was $4.5 million. But the estimate for a full replacement of the building was $18 million—which FEMA agreed to pay.
Soon after, Springfield applied to enter a FEMA pilot program that would allow the city to reallocate recovery funds toward projects in other locations. Suddenly, those FEMA dollars represented an extraordinary opportunity. Rather than restoring damaged buildings to their former condition, we could invest in the community in ways we never previously had the financial means to do. Goals that had been languishing on the city’s to-do list became feasible for the first time, creating a pivotal moment for the city’s recovery.

In the end, Springfield only had to pay a small fraction—just 13 percent—of a $97 million rebuilding effort. The city’s recovery was successful largely because of the financial and workforce management systems it had put in place to provide real-time visibility into labor spending. This data was critical in allowing the city to secure the greatest amount of FEMA reimbursements available to it—funding that made it possible to restore the city and revive its neighborhoods.

In the last decade, Springfield has regained its footing in all key areas, bringing in major economic engines and creating a number of middle-class jobs. Springfield’s public schools are regaining their vibrancy as high school graduation rates rise and college acceptances increase. The city formed new and effective contracts with first responders, making streets and neighborhoods safer. And by driving forward market-rate housing initiatives and community engagement programs, the city is attracting new residents.

Instead of a $41 million deficit, Springfield city government created a $50 million surplus, paying back the entire multimillion state loan ahead of schedule and improving its credit rating. Springfield has seen more than $4.5 billion in new economic development—an unprecedented level of investment in the city’s vitality.

**Weathering the storm—again**

To say that the city’s technology upgrades, process improvements, and extensive collaboration with public and private leadership over the past decade put Springfield in a position to weather the greatest storm in modern history—the COVID-19 pandemic—is an understatement.

Emerging from the early months of the pandemic, Springfield closed its 2020 fiscal year on June 30 with an $8 million surplus. This was a remarkable feat and certainly unexpected, given the city’s financial history. For too long, the prevailing attitude throughout New England was simply *don’t do what Springfield does.* But this time,
Springfield was prepared for the storm because of all the other storms it had weathered.

After declaring a state of emergency on March 16, 2020, the mayor was thereafter in constant contact with Massachusetts Governor Charlie Baker to talk about the city’s needs. The governor called on legislators to ensure that federal funding came directly to Springfield, rather than being allocated through the state, and Springfield secured direct entitlements to any funding of more than $50,000.

By mid-April, Springfield had implemented a hiring and spending freeze. And, going against federal guidance, the city refrained from paying vendors for services not rendered, in an effort to minimize revenue losses. These companies had access to funding through the Paycheck Protection Program and had laid off their staff, in addition to not providing any services.

Making the most of its past experience, the city generated millions in cash, which it kept and reinvested. When cities and towns reached out to the state for help, this time they were told to go talk to Springfield.

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When Springfield brought in an industrial hygienist in spring 2020 to help its schools prepare for bringing kids back into the classroom, it learned that only six of its 60 public schools required HVAC upgrades. Eight of Springfield’s schools are new, having been built since 2007, and most others had received substantial updates. As a result, the total cost for air cleaning equipment was just $6 million.

The schools also benefited from a fully implemented technology policy, which meant there was no delay in transitioning students to remote learning. Every student in Grades 2–12 was already equipped with access to a take-home laptop. The city’s only additional expense was $3.5 million to purchase laptops for kindergartners and first graders, as well as iPads for pre-K students, and it coordinated delivery through one of its longtime transportation partners as part of a negotiation to keep their drivers employed, while also delivering meals to seniors and unhoused families throughout the city.

Today, Springfield is on track to generate $15 million in free cash by the close of FY2021, and it has plans to maximize those funds, jumpstarting many of the projects that were paused abruptly in March 2020. The city has already received an influx of money to revitalize its economy and create jobs. Springfield is working to address food insecurity across the city and delivering aid to its nonprofits, businesses, bars, and hospitality venues.

But challenges persist, like the extra costs associated with the massive rise in the volume of residential trash and looming concerns that companies might not return to their long-vacant downtown office spaces now that their teams have gotten accustomed to working from home. Springfield city government, however, has faced a decades-long uphill battle to revitalize the city, and no matter the challenge, it has no intention of slowing down.

**Perseverance pays**

When Springfield reluctantly fell under the control of the Finance Control Board in 2004, it was the culmination of decades of bad decisions, bad circumstances, and, yes, some bad luck. The decline of the manufacturing sector and the near-total erasure of blue-collar jobs throughout the latter half of the 20th century had gutted many once-vibrant cities and left them struggling financially. Springfield was not immune to these trends. It took many years to reach that low point, and the city government realized that it would take many more years to pull itself out.

Here we are again—this time, emerging from a global health and economic crisis. But Springfield is far more prepared and confident in its ability to recover quickly. It has rebounded from dark days before and is stronger for it. Here’s to a brighter, more prosperous future for Springfield and every midsize city in America.

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