



CHRIS GABRIELI
CHAIRMAN

The Commonwealth of Massachusetts
Springfield Finance Control Board
36 Court Street, Room 312
Springfield, MA 01103

February 7, 2008

Leslie A. Kirwan, Secretary
Executive Office for Administration and Finance
State House, Room 373
Boston, MA 02133

The Honorable Steven C. Panagiotakos, Chair
Senate Committee on Ways and Means
Commonwealth of Massachusetts
State House, Room 218
Boston, MA 02133

The Honorable Robert A. DeLeo, Chair
House Committee on Ways and Means
Commonwealth of Massachusetts
State House, Room 243
Boston, MA 02133

Dear Secretary Kirwan, Chairman Panagiotakos and Chairman DeLeo:

Pursuant to sections 2 and 9(a) of Chapter 169 of the Acts of 2004 (the "Act"), we are presenting this report to update the Legislature on the activities and expenses of the Springfield Finance Control Board since its last report. The Board has continued its commitment to encourage fiscal responsibility and accountability in the City of Springfield. During the first and second quarters of Fiscal Year 2008, the Board took the following specific steps to restore the City's financial health:

Governor's Springfield Plan

Governor Deval Patrick released the Partnership Plan for Springfield in which he detailed a number of programs to assist the City of Springfield. Included in this plan are economic development, public safety, homeless services and a number of other initiatives that are critical to the continued recovery of the City.

New Administration

The Finance Control Board welcomed two new Board members – Mayor Domenic Sarno and City Council President Bud Williams. The Board looks forward to continuing its close working relationship with the Mayor and City Council president.

Public Safety

With the resignation of Police Commissioner Edward Flynn, the Finance Control Board voted to conduct a search for a new Police Commissioner.

In response to continued concerns regarding public safety, the Finance Control Board approved the appropriation of \$1 million for additional police overtime. This appropriation will allow an immediate-term increase in police coverage while the recently graduated police recruit class enters service. The Finance Control Board is reviewing the City's request for additional police recruit classes to supplement the class funded by the Governor's Partnership Plan for Springfield. This would provide a permanent increase in police staffing levels in Springfield, augmenting additional staff funded in the past, as well as supporting the reallocation of dozens of police officers from administrative duties to patrol and investigative functions.

Education

The Control Board continued its work to improve the financial and administrative systems of the School Department. Most recently the Board also voted to conduct a national search for the position of Superintendent of Schools, a process which is expected to be completed by summer.

Working with the Massachusetts School Building Authority, Drummey Rosane Anderson, Inc. was selected as the design architecture firm for the construction of the new Putnam Vocational Technical High School. This \$120 million project is the first to proceed under the new school building construction laws and regulations. The Board has approved the use of the construction-manager-at-risk construction method to help improve the quality and reduce the cost of the project.

Finance

One of the City's cash management investment firms, Merrill Lynch, invested the City in inappropriate investment vehicles known as collateralized debt obligation. As a result of the sub-prime mortgage crisis, these investments dropped in value from approximately \$13.9 million to approximately \$1.2 million. The City and Finance Control Board worked with the Attorney General, Secretary of State, Executive Office of Administration and Finance and others to seek reimbursement as a result of these inappropriate investments. As of the writing of this report, Merrill Lynch has fully repaid the City for these investments, including lost interest, and has agreed to pay all legal fees incurred in this matter. In order to assure the security and appropriate management cash assets, the City and Control Board have shifted cash management investment services to the Massachusetts Municipal Depository Trust (MMDT) managed by the State Treasurer, and continues to examine and improve cash management and other related issues.

The Finance Control Board created the Office of Internal Audit to provide the City with an internal capacity to deter and detect inappropriate and illegal practices, as well as to train employees regarding proper systems and practices to prevent waste, fraud and abuse. The Office is charged with conducting financial and performance audits to help benchmark municipal services to generally accepted quality and efficiency standards. The Office has begun to conduct audit risk analyses as well as some preliminary audit work.

Retirement System

In order to improve operational and financial decision-making, the Finance Control Board modified the funding schedule for the City's contribution to the Springfield Retirement System from monthly to a single annual payment made each July. For the current fiscal year, the Finance Control Board authorized the full payment to the Retirement System be made in October.

The acceleration of funding approved by the Finance Control Board will allow the Retirement System to invest proceeds sooner than possible in previous years. This, in turn, should allow the City to reach full funding sooner than under the prior monthly payment system. The City will then have the option of either reducing its annual appropriation to the system or accelerating full funding of the system. If the latter approach is taken, the retirement system will experience an estimated \$39 million increase in actuarial value, a 6% increase in the City's funding ratio. If the City instead seeks to experience the savings itself, this change will allow the City to reduce its retirement system appropriation by more than \$11 million over the next 20 years.

Management and Operations

The City and Finance Control Board began implementation of CitiStat Springfield, a management system and structure that routinely analyzes all municipal services in a team-based approach to improve efficiency and effectiveness. CitiStat programs in Baltimore and Syracuse are credited with saving more than \$10 million in each city in their first year of operation. CitiStat Springfield is expected to be an effective management tool for continuously evaluating service quality, efficiency and ensuring the effective expenditure of City and State funds.

Utilities

Exercising its authority under Section 9 (b) of Chapter 169, the Control Board approved a contract extension for telephone services with Verizon. This agreement provides the City a more favorable cost structure than available under a comparable State contract, saving an estimated \$250,000 over the three year life of the agreement. As a result of the City's action, users of the State contract may also be able to receive the City's lower rate for these services, reducing their costs for telephone services as well. During the next year and a half, the City plans to investigate other options for telephone services, including such innovative approaches as Voice Over Internet Protocol (VOIP).

Housing and Human Services

As part of the City's Ten Year Plan to Eliminate Homelessness, the Finance Control Board appropriated \$2 million to fund the construction of a new homeless resource center on Worthington Street in Springfield. This center will centralize and modernize services not otherwise available to the homeless, such as a day center, medical and dental care, counseling and emergency shelter and transitional housing. This holistic approach has been shown to be a more effective way to provide stability in the lives of at-risk individuals and help them transition from homelessness to independent living. In addition the City has undertaken a Housing First program that has resulted in the placement of approximately sixty-one previously homeless individuals in permanent housing.

Economic Development

The City and Control Board have funded the demolition of two long-neglected structures that will result in vacant and developable sites, the York Street Jail along the Connecticut River and an abandoned industrial facility in the Indian Orchard neighborhood. Each demolition is currently underway and is expected to be complete later this spring.

The City and Finance Control Board, working in conjunction with the Springfield Redevelopment Authority, have undertaken the redevelopment of the 31 Elm Street property in historic Court Square in downtown Springfield; proposals for this key development parcel are due this February. Also in Court Square, the Finance Control Board and City acted quickly to secure the purchase of the historic First Church property, ensuring its preservation and re-use, and further anchoring this centerpiece of the downtown area.

Capital Projects

The Finance Control Board created the Office of Capital Asset Construction to centralize the management of construction projects. This will help the City improve the quality of construction management by hiring full-time, professional construction managers. It will also free operating departments from managing construction projects, allowing them to focus instead on their core missions of service delivery.

The Finance Control Board funded the first round of Federally-mandated capital improvements to the system of levies and dikes in Springfield. This work – centering on the Connecticut River area – is expected to cost \$1.1 million.

The Finance Control Board authorized the purchase of a piece of property on White Street in Springfield to host a new fire station. This site will consolidate two existing fire stations – one operational and one closed – to improve fire protection in Springfield. The new station is currently being designed and will be financed through the issuance of bonds in the coming months. The City also re-opened the newly renovated Massreco Street fire station. This station adds one engine-company and a number of firefighters to the City's fire protection force.

Departmental Studies

The Finance Control Board has completed one departmental study, initiated another and is assisting in a third. The Board is currently reviewing the processes and management of grants in all departments and is assisting the Springfield Retirement System in studying its operations. The grant study is expected to result in significant management and operational improvements, such as a reduction in annual grant turn-backs and the receipt of additional grant funding for a number of important municipal purposes. The Control Board recently completed its study of the code enforcement and permitting operations of the city. Over the course of the next year we anticipate installing software to integrate all operations and provide more effective management and improved interdepartmental coordination.

Personnel

During a prior period of financial difficulty, the City of Springfield created an employee furlough program in which employees agreed to forego pay in exchange for future vacation time. The Finance Control Board voted to fund the deferred furlough costs, allowing employees who went without pay for up to two weeks to receive that compensation in lieu of taking vacation by June 2008. This has provided employees the opportunity to use furlough-related vacation time or receive compensation for the time for which they were not paid in 2003.

Control Board Expenditures

Details of the expenditures of the Board for the first and second quarters of Fiscal Year 2008 are shown in the table below. This table reflects expenses processed through the Commonwealth's account system as of December 31, 2007.

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|----------------------------|----------------------|
| Personnel Services | \$ 224,974.52 |
| Equipment & Administrative | \$ 12,342.73 |
| Contracted Services | \$ 443,397.38 |
| Total | \$ 680,714.63 |

Sincerely,

Chris Gabrieli
Chair