

SPECIAL COMMITTEE ON THE SCHOOL DEFICIT

March 27, 2000

3:00 PM

Mayor Baines called the meeting to order.

The Clerk called the roll.

Present: Mayor Baines, Alderman Cashin, School Committee Member Cook & Garrity, Linda Heath, R. MacKenzie, K. Clougherty, M. Hobson and N. Tanguay

Messrs: Alderman Gatsas

Mayor Baines advised that the first purpose of the meeting is to discuss a potential deficit on the School District bottom line allocation for FY2000.

Mr. Clougherty stated as you know Superintendent Tanguay informed us that he was in a situation where he thought he would be needing \$1,449,000. We went to the Board a few meetings ago and laid out what we thought was a plan that would allow for the City to take some corrective actions on its side so that in the event that there were that type of a problem on the School side we might be able to have the wherewithal to help address that at year end. We are still working on that. We put out the directives to the departments. The departments are fully cooperating. We are seeing some good results there, I think. We are going to continue to do that and continue to monitor it through the next several months to make sure that on our side we try to meet the goals that we had talked about with the Mayor.

Superintendent Tanguay stated we have done the same thing basically in not hiring more staff or additional staff, particularly replacement teachers. Also, we have made changes in the tuition account, tutor account and educational assistant account. We will continue to monitor that and review all IEP's and reduce some of the tutors that we have. We have also cut back the tutor times for ESL from six hours to four hours to impact our budget.

Mayor Baines stated why don't we discuss some of the history of this because even though we have been discussing this on our side for some time I am sure our two representatives from the teacher's union may not be fully apprised of the circumstances that got us to where we are today. Again, if you could review from your perspective why this disagreement exists between the School District and the

City and then some of us who have some additional information could interject at appropriate times to present some clarity.

Mr. Clougherty stated the recommendation of the Finance Department to the Mayor for the last couple of years has been that there should be a separate Resolution for School and that it should be broken out and appropriated separately. As part of this past year's considerations, that wasn't done. The Mayor decided to keep everything together through the budget preparation process.

Ms. Healy asked are you speaking about the benefits side.

Mr. Clougherty answered everything. You know how it has always been done in the past, our recommendation has always been that School should be separated out but there was discussion about that. Superintendent Tanguay thought it should be together. That was his recommendation. Mine was that it should be separated out.

Mayor Baines asked was that prior to the Declaratory Judgement.

Mr. Clougherty answered yes; it would have been because it was prior to the Mayor submitting his budget. Our recommendation was that it be separate.

Mayor Baines asked basically, Kevin, it has been your feeling all along that it should have been a separate Resolution just based on the Charter and the way the Charter read, right.

Mr. Clougherty answered yes. Again, under the Charter it is the Mayor's decision as the budget officer and that is how it works. Because it wasn't broken out and everything was put together as it had always been in the past, when you got to the last minute after the court ruling the City was faced in the last few minutes of the budget having to break it out. There was a best effort made to try and do that. That was done in the afternoon of June 7.

Mayor Baines asked who was at that meeting.

Mr. Clougherty answered Alderman Cashin, Alderman Wihby, the Mayor, a couple of his assistants, Superintendent Tanguay, Dick O'Shea, Brad Cook, I was there and I had some people from my office there.

Mayor Baines asked who was there from your office.

Mr. Clougherty answered Randy Sherman.

Mayor Baines stated so at that meeting were Alderman Cashin, Alderman Wihby, Superintendent Tanguay, Mr. O'Shea, Mr. Cook, yourself and Randy Sherman.

Mr. Clougherty replied the Mayor and two of his aides were also there.

School Committee Member Cook stated at least one of his assistants was there. I am not sure they were both there.

Mr. Clougherty replied I am pretty sure that they were both there.

Mayor Baines asked and at that meeting what was discussed.

Mr. Clougherty answered at that meeting, my recollection was that we had then the court decision and it said you have to separate out the School so in the last few minutes you are trying to go through a process that should have been done all along and you do your best job to try and separate that out. The Mayor's Office was asked to do that and they didn't do it. They asked Finance to step in and do what we could to break out the Resolution and we did that. It came back up, the sheet, and it would have been something like this that would have been prepared for those who have never seen one before. You would have the total City and the tax implication and then the School broken out. That is what was done in a short time. Then there was discussion about each one of those items. Before this was done, there was some discussion about how that would be done and there was a discussion about chargebacks. The way chargebacks had been discussed previously...we had a five-year history of what the chargebacks were from the City to the School. That had been provided and there was also a letter from the people over at PBS because you will recall that this year was the year that the new custodian contract went in so what you have to do is take the difference between the new custodian contract and what the chargeback was for PBS and add that additional \$1.2 million and that is what got you to approximately \$6.8 million. At that point, I think that the people in the room said the number will be \$6.8 million as we get through this transition year and that is what was keyed in.

Ms. Healy asked those were the chargebacks.

Mr. Clougherty answered yes. I think it was people's best estimate at that time based on the new contract. There also had to be a reallocation of the debt service. There also had to be a reallocation of the restricted items. So, Randy went downstairs, did his best, ran off a sheet and brought it back up and went through it. About a half an hour later, that is what was presented to the Board in the Aldermanic Chambers.

Mayor Baines stated also there was a discussion that there would be a 1%. Is this where the discussion of 1% came in?

School Committee Member Cook stated to add to what Mr. Clougherty said, in that meeting, the issue that was before everybody was there were three competing budgets. Two of which Alderman Wihby's and the Mayors had a commonality of cutting all of the departments, but not the School District, 1%. The issue was how much was going to be cut from the budget request from the School District. Alderman Wihby wanted \$3 or \$4 million and the Mayor agreed that the School District would have a cut commensurate with the cuts that the other departments had, which would result in our budget going from about \$1.2 to \$100.5 which was the bottom number that we were focusing on. The major concern when we came into that meeting was how do you interpose a Declaratory Judgement that came down in the middle of May, which is right in the middle of the budget process, with all of the findings that the Judge Nadeau made in the Declaratory Judgement as to the fiscal operations between the City and the School District and the budget, pointing out what Kevin said which was that there weren't separate allocations for several items which were separately detailed in the Declaratory Judgement, namely chargebacks where the Declaratory Judgement says literally if you don't have a bill don't pay it. We recognize for the year in question we focused for quite a while in this room at that meeting whether the \$6.8 million number was in fact going to be enough, too much or how it was going to come out knowing that we had never had bills that had to be paid when invoices were received before and that is what the Declaratory Judgement said. Prior to that time, chargebacks were a mechanism for allocating costs in the City to see what was really spent in Schools because it went in the School tax rate. I mean \$1 is \$1, but which tax rate it comes from and whether it is part of the reimbursable cost for tuition or whether it is part of school cost is all complicated. This was the first time that we were operating under the situation where the judge said you have to have a bill before you can pay it. What we all said was the \$6.8 million won't be exceeded and \$6.8 million will be paid. In other words, the \$6.8 million is the number for next year. If the bills that come in are \$6.9 million, they won't be presented at \$6.9 million and if they are \$6.0 million the School District isn't going to say to the City see you around we are not going to give you \$800,000 and throw the City into an \$800,000 deficit. It is just going to come out.

Mayor Baines asked if a Declaratory Judgement, a judge's order, says that you have to have bills to back-up chargebacks, how can this group meet in this room and say we agree not to follow that aspect of the judgement.

School Committee Member Cook replied we didn't say that we weren't going to follow the judgement. The judge also indicated in his order that he recognized this was going to have to be eased in. One of the issues that came up in the Declaratory Judgement was notwithstanding the legal issues that are being presented, do you want this to be retrospective or prospective. In other words, if somebody has done something wrong, if the School District wins on one of these points, do you want to go back as long as the Statute of Limitations will let you go back and recoup the money from the City and our response was of course not. That is not what we are here for. We are not trying to say...let's say debt service had been off by \$1 million for 10 years. The judge asked us are you going to make a claim against the City for \$10 million and our answer was of course we are not. We are not here to screw up the City and we are not here to destroy the City. The judge also recognized in the order that there was some transition that needed to be done, which is why we got into the transition discussions because this is a new relationship and the decision came in May. The budget was going to pass on June 7 to be effective July 1. There was no way. We could have taken what I consider to be an impractical position which was we are going to implement this thing right this second, but that would have hurt the City and we said from the outset that the School District wasn't going to hurt the City because at the end of the day the School District and the City are the same tax base. That was chargebacks. Chargebacks were far and away the biggest item. There were also reports that Finance had said in anticipation of what was going to happen and this isn't a criticism of Finance, this is just Finance had said to all of the departments do the very best you can to find all the expenses that are going to come in so that you know exactly what you are charging so we can comply as fast as we can. We were concerned that the \$6.8 million number, which we hadn't invented and hadn't had a chance to test, which may in fact have been higher than it turned out to be, but be that as it may, that is the view. That is how that discussion went. The Declaratory Judgement said that on debt service to the City...the City had one solidified consolidated debt prior to this time. Some of which is attributable to City buildings and some of which is attributable to School buildings. The Declaratory Judgement said a balance sheet will be established in the School District and the City will supply the School District with information that says what its debt service is because it had to pay its debt service from here on in. Likewise, in this meeting that we had, as Kevin just said, they had not separately allocated this stuff. They were doing the best that they could. The estimate they came down with was \$8 million or \$7.8 million...

Mr. Clougherty interjected \$8,594,620.

School Committee Member Cook replied okay, \$8.5 million worth of debt service. That was subject to further verification. That was subject to further annunciation. It has been revised a couple of times, but that was the best we could do that day.

Mr. Clougherty and that is, Brad, as you recall because we were issuing bonds...we hadn't had the refunding balance yet.

School Committee Member Cook responded it was a very complicated matter and it still is. We had discussions about it today which I will not get into. Debt service we said okay, that is fine. On benefits, which had been one pooled item for the City because we are a self-funded thing we said the same thing. The concept that we understood, what we thought was we would fix these three numbers, we wouldn't press the Declaratory Judgement which was not the first place that said we had a bottom line budget, the State law says that and the prior Charter said it and the present Charter says it. It was not new news in the Declaratory Judgement, but we weren't going to stick it to somebody and say on these three items if we get a bottom line and you haven't come up with absolute verification, bills and whatnot, we are just not going to pay it because we have a bottom line; take a hike. We won't do that to the City. We can't. It wouldn't be practical. It would be idiotic. So, the concept we had was these three items, no matter how they may have to shift during this transition year budget will not end up hurting the City and will not end up hurting the School District.

Mayor Baines asked why do you suppose...we have three issues here. Chargebacks, debt service and benefits. Why do you suppose there was such good understanding relative to chargebacks and debt service and a less clear understanding in benefits? Can anybody respond to that?

Mr. Clougherty answered my recollection is that we didn't have a discussion on the restricted items because we didn't think that was a problem at that time. We talked about the chargebacks and we talked about the debt, but we didn't talk about the restricted items. Again, you go back and you do the calculations and you run the separation. We brought that out. Mr. Clougherty passed out a sheet showing the City and School numbers. So, you didn't have a discussion on that item. When we came back in, we were told to prorate this so what we were looking at for Finance was to make sure that this number didn't go up City wide, the \$27,744 and to make sure that things added across and down. School expenditure, nobody picked up apparently at that meeting or the meeting afterwards that this allocation wasn't what School wanted.

Mayor Baines stated just so there is some clarity here, at this meeting that Mr. Cook just explained, they had discussions about chargebacks and debt service and there was also a bottom line number. When Randy Sherman went downstairs, he deducted that \$1.4 million out of this one line item associated with benefits, correct?

Mr. Clougherty replied it sounds like it.

Mayor Baines stated the question that all of us have asked for three months is why did that \$1.4 million come out of that one particular account. There must have been some rationale. Why not take it out of salaries?

Mr. Clougherty replied I think what he did is he was trying to get to that bottom number and we had, prior to the Mayor's budget being developed, we were trying to get the Mayor to look at different scenarios. Whenever he came out with a number, we tried to break that out so we would understand what he was saying. We had those discussions with the budget team because we were advocating that we should go that way.

Mayor Baines asked go which way.

Mr. Clougherty answered with a separate Resolution so you could get all of this stuff on the table. When Randy did the break out, that was the only thing he really had at the time and when he took those numbers I think he took the restricted lines from the Mayor's lower amount. That is what happened there.

Mayor Baines stated since Mr. Hobson wasn't there and he is basically in charge of the benefits, I will ask him for his understanding of this whole scenario and why this \$1.4 million problem lingers today.

Mr. Hobson replied the reason we weren't invited to the late afternoon meeting is earlier in the day the Mayor had called myself and Deputy Howard Tawney and asked us to come up with several different benefit numbers based on scenarios of what School might hire. When we talked about the restricted items, I think it is also important to remember that there are a few restricted items that are pretty large tickets that HR does not control, such as worker's compensation and CGL. We gave him a few scenarios. One that fit into Option 2, I believe and that is pretty much what he ran with. We were always under the impression that our number for their benefits would remain intact somehow, someday. Based on what they would hire and who they had, we were under the impression that the benefits number would pretty much hold true at the end of the day. That benefits number, from our standpoint, was around \$13.5 million. Right now, it is coming in at around \$13.25 million, but we are close.

Mayor Baines asked why did this problem linger unresolved from the beginning of July until January 2 when it was put in front of me. Why for six months did this problem go unresolved?

Mr. Hobson answered we found out in November from a combination of reports that mostly were coming to us from the Mayor's Office, but also from the School District based on some meetings that they were having that they were going to have an issue. This came up because we were costing contracts.

Mayor Baines asked this was in November.

Mr. Hobson answered yes. So, in November...we know that both of these...from my perspective and what I have heard at meetings Kevin and Mr. Tanguay may have known it earlier than that, but the sirens went off in our department when we started doing some cost accounting for contracts and we started taking a look at how that was really allocated and what the perception was going to be in terms of making that whole. That is when we knew about it.

Mr. Clougherty stated that is when Mark brought it to my attention.

Mayor Baines asked was it brought at that time to the attention of the Mayor.

Mr. Hobson answered absolutely.

Mayor Baines asked what happened when it was brought to the attention of Mayor Wieczorek.

Mr. Hobson answered from my perspective he pretty much told me that I had to fix it with Kevin and Mr. Tanguay and that I had to work with the people involved, the managers involved, to try to resolve the issue because as I have said privately and publicly, those bills still have to be paid. The health insurance has to be taken care of and the prescription has to be taken care of. I still have to pay those bills. We were in a transition mode also through January 1 or so and I think the mentality was that we would have it worked out by the end of the calendar year.

Mayor Baines asked during that time did you give any assurances to the School District that the City had enough money to take care of that problem.

Mr. Hobson answered I certainly gave that to the Mayor. I went to a School Finance Committee meeting on some contract items and I told them that we had funding in the salary adjustment account and the benefit account for their contracts. That was the impression I had.

Superintendent Tanguay stated that is my recollection. The \$15.5 was the number that we used throughout the budget process. When we realized that we had been shortchanged or that there was a \$1.4 million difference in the benefit account, we discussed it during the transition plan in July.

Mayor Baines replied yes. A letter went to the Mayor on July 2, 1999 outlining some concerns in this area.

Superintendent Tanguay stated in discussion with Kevin and Randy and I think Dick O'Shea and Brad were also at some of those meetings, it was agreed upon in the transition plan that whatever the cost of the debt service and benefits, as well as chargebacks, would not be relevant in the sense that if, in fact, the budget amount was less than what we had in our budget then that money would go back to the City. If it was more, the City would pick up that deficit. That was discussed early on in July. We had several discussions after that and we were told not to worry.

Mayor Baines asked told by whom.

Superintendent Tanguay answered Kevin and Randy.

School Committee Cook stated with one caveat. The \$13.4 million benefit number was calculated on the basis of the projected number of employees that we were going to hire and we had said throughout the process and I want to make it clear because there have been a lot of questions about how many employees we have, if we hired more than that number of employees so that the calculation on which the \$13.4 million was based, we weren't expecting a blank check from the City to pay any amount of benefits that would come on any amount of employees. If we hired more for whom City benefits had to be spent, we had to find the money in our budget to do it. We have some federally funded employees and we have some employees without benefits. We have all kinds of categories of employees, but to the extent we exceeded the...I guess what I am saying is Option 2 that was our budget plan that we asked to have funded which is a spending plan and not a line item budget was a plan based on what we knew, when we knew it at the time we were proposing the budget. When you get actual enrollments and you get actual special education people, when you get actual everything else you get more and we recognized that if we had to hire more people than we had asked to have calculated for benefits, we had to find the money to pay the people and the benefits of the people if they exceeded those folks that represented the \$13.4 million.

Mr. Clougherty stated we had discussions as I said with the two items, but with respect to the discussions we had on the benefits, our understanding was when we read through the transition and when you had asked me this originally I told you that when we were having those discussions on the transition plan our understanding was that we were talking about the prior year and not this year. Superintendent Tanguay may have thought that he was communicating it to me, but what I was reading at the time because I had just been handed that rather suddenly, was the focus on the prior year. I don't think it was intentional on his side maybe.

Mayor Baines asked so his assumption was that he was talking about one fiscal year and you were thinking another fiscal year. You would have been assuring him not to worry about that roughly saying FY99 as opposed to FY2000. I know that, I just want everyone else to know that.

Mr. Clougherty stated some of this misunderstanding is that they perhaps were assured that something was going to happen and we just miscommunicated.

Superintendent Tanguay replied if you look at the last paragraph of the transition plan...I think the paragraph that he refers to in terms of FY99, it is very clear that it speaks to the School District and the City not being hurt by this process in terms of excess revenues.

Mr. Clougherty responded it was just a misunderstanding and those things happen.

Mayor Baines stated it is a \$1.4 million misunderstanding which the Aldermen are having a hard time understanding and I am having a hard time understanding.

Mr. Hobson stated it became abundantly clear to me that the Finance Officer and the Deputy Finance Officer were thinking along those lines versus what Superintendent Tanguay and Dick O'Shea, the Business Administrator, were thinking as we started to pull together some of the information for fund transfers and budget transfers for the contracts. It was very clear to me that their perspective was you can deal in FY99, but from our perspective the letter does not refer to FY2000. Therefore, I then wrote a letter to Mayor Wieczorek and said I need some resolution to what I am doing in terms of these salary adjustments because I am supposed to be sending, I thought, the School District funds for their salaries that we had hoped had been agreed to on July 1 and they didn't. We wanted all of our contracts to be agreed to on July 1, but they didn't come into play until whenever.

Mayor Baines stated since the scenario has been laid out to everybody, I would like to open it up to questions or comments from other members of the Committee.

School Committee Member Cook stated the interplay of the three items, I think, is important. I have my own perspective on why it took so long when we started on July 2. I think it took so long because everybody was busy doing other things and these were tough issues and you do the easy ones first unfortunately. You should do the hard ones first and it dragged and it dragged and it is in the nature of tough issues to drag and we are all sorry it did and I am not particularly anxious to say it was his fault because it was probably our fault. Be that as it may, the debt service number which also was the best that could be done at the time taking a stab at something is a large number as well. The chargeback number clearly was the largest number we had to deal with in terms of variables because it involved the most parties, but the debt service number was a large number and we have been dealing with it and working on it and I think we have a suggested solution to at least move that process along. If, in fact, when we got done with the debt service number or when we get done with the debt service number sometime in the future...I mean Kevin has done his darndest to give us everything he has got. That is clear. We have done our darndest to get information on what is behind it and that is clear. As I said to all of you at one time or another, I am sick and tired of gave it to you, no you didn't, gave it to you, it is not enough. We have to resolve that issue because if that issue in fact says that of that total debt of the City, Schools owe X minus 200 or X plus 200 or whatever it is, that is also going to adjust the number because someplace within that 100% is the line on percentages and we have, and we can do it later, but we have a suggestion on moving that process along. It is critically important because this is a two-year problem. This is a how do we figure out what is going on in 2000 so that we know how to properly construct a budget for 2001 or we get to do this again and you guys may like it, but I am kind of tired of it. Whatever we resolve for this is also going to have an affect on that. It is very important to do it. I know that Wayne has been trying to bill the chargeback number to make it accurate. We have to come up with a debt service number that is accurate. It is not just the benefits number. The benefits number is one of the three numbers.

Mayor Baines asked does everyone understand the debt service number.

Ms. Healy stated it is prior debt.

School Committee Member Cook replied no. It is the total debt of the City. The bonded debt of the City has paid for the City's physical resources and a couple of other things. That was always paid by the City as its debt service. Some of it was attributable to School buildings and some of it was City Hall and some of it was a parking lot here and a parking lot there. It was whatever we bonded and because Kevin's office has been reasonably sophisticated at getting the best interest rates we can to keep the interest statement amounts down, there has been refinancing of debt so you may have a 20 year old mortgage on your house, but you have

refinanced your house three times and by the way you added your summer camp to it and the problem is what portion of that was paid off when you did it and what portion of it wasn't and what did it go for and sometimes the items get homogenized so there are items in there that say parking lot debt. We have them, you have them, which ones are they? They have done the best they can to come up with the debt service schedules and we have to create a balance sheet that goes behind it. We have talked to one of the employees of the accounting firm who does municipal finance who says that this probably isn't the most difficult job that she has ever heard of in her life and she is prepared to do it, but we need resolution of that to know where we really are too.

Superintendent Tanguay stated I think the short of it is that the day the budget was approved, that evening, the numbers were changed. \$1.4 million was taken from the benefit account and put into debt service. If that number had not changed, we wouldn't be sitting here today saying we will be short \$1.4 million in the benefit account. That would not be happening. I think now we are in a position where we all should be looking at the debt service, benefits and chargebacks in total. We know the benefit costs now. We don't know if the chargeback cost is going to be \$6.8 million and we don't know the debt service number. We need those pieces and then we have to look at them in total. We may not have a problem. I don't know, but we need those pieces.

Mr. Clougherty replied what happens is you have the pieces that lay out the debt. It says okay here is the debt and here are all of the projects. What Superintendent Tanguay wants to do is go back 20 years and reconcile all of those items to make sure that if there was a project done in the early 80's or late 80's that is a 20 year bond you may have a couple of payments left on it and he wants to make sure he is being charged properly. That is a very difficult reconciliation to do. As Brad was saying, we can give you what happened in the School District. The information in terms of what your current debt service is and it ties in more or less to the number we have and tells you which projects are on there but then you have to go back through the Joint School Buildings Committee where you have all of the projects. You can go back and do that, but Superintendent Tanguay doesn't have the time or the staff to do that type of reconciliation that should have been done 20 years ago and I certainly don't have it, but we are providing the information to have somebody look at and come back with a solution in terms of this is the right number so that they are okay going forward. On the chargebacks and when I used to go over and sit at the Finance Committee meetings I said to you then Brad and I will say the same thing today that the City is making an effort to try to get all of that information through our work order system. I talked to Mark this morning and most of the departments are doing that. In fact, we have gotten help from the Board and gone back to them and asked them to tell the departments how important this is. We are going to give a full court press on that in the next couple

of weeks here and get that number to the Superintendent and say here is where we are on that \$6.8 million and get a better feel on where we are on that.

Mayor Baines stated let's say for the sake of discussion that it comes out to be \$5.8 million in actual chargebacks. Would the School District have a realistic statement to the City then that is \$1 million that in fact goes against this \$1.4 million deficit?

Mr. Clougherty replied it gets back to the spirit of the meeting that day and whether you are still going to abide by that. In my opinion, Mayor, I am...

Mayor Baines interjected from a legal viewpoint we don't lose it. That would be a subject of debate.

Mr. Clougherty responded it could be. Again, before you get to that we need to get those numbers.

Mayor Baines stated I gave that responsibility to Mr. Clougherty officially last week and we are going to be talking about how to reconcile the debt service in a minute, but Mr. MacKenzie seems to want to offer some words of wisdom.

Mr. MacKenzie stated I have a question. There was, in theory, an agreed upon price, that \$100.5 million. What you are saying now in theory is that the amount of benefits was roughly \$12 million versus \$13.4 million. In theory, you would actually have more money in discretionary at the School District because \$88.5 million versus \$87.1 million. That would be money, in theory, that you would have discretion over. Of that, the money was already switched into debt service at the same time. Did that occur at the same time? So, you do not have discretion over that so you did lose \$1.4 million in your discretionary money.

Superintendent Tanguay replied yes.

Mr. Clougherty stated the money wasn't switched into debt on that day. The debt had always been there. It had to be there. The debt is what it is and the School and the breakout. The problem is and again had the Resolution been broken out to start, you would have seen that the number that the School had...what School put in their original budget request was simply the number you had from the prior year, right. You just carried over the debt service from one year to the other and didn't make an adjustment for new bonds to be issued to the extent that it was going to impact. You have to make that adjustment. When the Mayor was considering his items in early March, the way it was explained to us and to the budget team, he was considering what the real debt service number was in his, but that may not have been communicated to the Superintendent because it wasn't

broken out on a separate Resolution. That added to the confusion. The debt service number has been out there and has been what it is right along, but you are right. When you come to that final five minutes and you put that debt service figure where it should be and you put in the bottom line of \$100.5 million, which is what was a concern of some of the Aldermen in meeting the tax rate, that is how that gets adjusted. It is not the easiest thing to follow.

Mr. MacKenzie stated let me go back to the bottom line. Was there anyway to compare the \$80.7 million.

Mayor Baines asked which number are you on.

Mr. MacKenzie answered what I would consider the discretionary part of the budget.

Mayor Baines asked define discretionary. What does it say? This is School Expenditures under Agencies. That is not in restricted. That is not in non-departmental, but those items that the School Board can say they want to switch. Was it clear that day? Was the decision made that it was \$1.4 million less than anticipated?

Mr. Clougherty answered no, that is the problem.

School Committee Member Cook stated that is the issue. We were sitting in here and again I hate this who went downstairs and did what because it makes it sound like wonderful intrigue instead of a problem to be solved. We sat in here and focused on two things primarily. How much are we going to get cut? Is Wiczorek going to win or is Wihby going to win, frankly, and what is going to happen with those chargebacks. We didn't have this final document ever in this room.

Mr. Clougherty replied yes we did.

School Committee Member Cook responded no we didn't. We went outside and you guys went downstairs or whoever went downstairs. We went in there and it came back upstairs and was handed to us sitting in the pews.

Mayor Baines stated that is what I have understood to have happened since Day 1 and Alderman Cashin confirmed that. The elected officials didn't receive it until they went back in for the meeting.

Alderman Cashin stated somebody went downstairs and then it was given to us at the Board. It never came back to this room.

Deputy Clerk Johnson stated I recall this form being handed out at the Board level. I believe we were sitting there waiting for it at one point.

Mr. Clougherty replied when it came up, we went through it quickly in here before it went out.

Mayor Baines stated if I were a judge on this, the preponderance of testimony would say that it did not come back into this room with the parties involved.

Deputy Clerk Johnson stated I can't speak to whether it came in here before it went out there, but I know it was handed out.

Mayor Baines stated most of the people involved say it was handed out there, but the issue is that the people didn't understand what they did and what the ramifications were of what they did. That is why we are here again nine months after the fact.

Alderman Cashin stated I sit here and hear that there was a misunderstanding so we have a deficit of \$1.4 million and I get nervous. It appears, and correct me if I am wrong, there was a meeting with Mark and the Mayor and whatever happened Mark wasn't invited to the later meeting. Were you, Kevin, at the meeting when Mark met with the Mayor?

Mr. Clougherty asked regarding the benefits in November. I don't think so. I found out after that.

Mr. Hobson stated to the best of my recollection, it was myself, Howard, Superintendent Tanguay, Dick O'Shea, the Mayor and one of his assistants.

Mayor Baines asked was it in the Mayor's Office.

Mr. Hobson answered yes. We were going over...they specifically wanted to talk to me about payroll and benefits. If we had this amount of teachers, how much would the benefits be? If we do this with the contract, what will the cost be? Those were the questions. I do have another comment. I don't want to interrupt the Alderman, but I would like to make one other comment.

Alderman Cashin stated speaking as a person who was here, I would have really appreciated your being here at the meeting we had because it kind of puts us all in a pretty precarious position I think. We can talk about this and we can point fingers and do whatever we want. There is only one way we are going to straighten this out. Let's have an audit. Let's find out what is going on and let's

have that auditor hired by this Committee and let the audit come to this Committee and put this to bed once and for all. I am tired of sitting here listening to this guy did that, etc. I don't know what happened. Evidently, there were meetings between you people and the Mayor and things were discussed that went to the Board of Aldermen. Some of the letters that evidently went between your office never went to the Board of Aldermen. I don't know what has been going on, but I don't think the Board of Aldermen should be held in any responsible position because they don't know. Neither should the School Board because they didn't know what was going on either.

Mr. Clougherty stated as soon as we talked about it, we brought it before the Board and said this is the recommendation.

Alderman Cashin stated when this Mayor was in, but nothing ever came when...

Mayor Baines interjected the purpose of this meeting today is there is a record now of exactly what happened in accordance with the people who were all there. That is why this meeting is very important, because there hasn't been an official record of any discussions on this matter relevant to discussions we had on January 2, the second day I assumed office and subsequent meetings that I had with Finance and Human Resources to try and resolve this issue. For the record, it must be clearly understood that Human Resources had a passion that it was always the understanding that the benefits number was to be taken care of, any problems were to be taken care of by the City side and Finance had an opposite opinion and it was a very emotional meeting that particular day that I finally called off because of the dispute between two departments in City government that have different perspectives on it. It was after that frustration that I had with all of these meetings that led up to that that I finally asked Alderman Cashin and Alderman Wihby to come in and bring their perspectives because they were the other two parties on the elected side that were part of this discussion. Having said that, and I don't know if there are any questions from the two union presidents to help you understand it with your constituencies as this could become a major issue when we deal with budgetary matters.

Ms. Healy stated I would like to know what the purpose of the audit is. Is it to determine where the blame should be placed? I think we are done with the blaming here.

Mayor Baines replied basically what would happen if we agreed to secure the services of an auditor is that this auditor would go back and reconcile all of the debt service and would come up with a report, and indications today in talking to the auditor were that he did not feel that this would be a significant undertaking, that would tell us exactly what the debt service is that is the actual responsibility

of the School District. That is what we would get. For example, whatever the number is will be the number. Secondly, at the same time the debt is occurring, I have instructed the Finance Officer to take charge of the chargeback issue so we are working with every department in the City, including the Mayor's Office. For example, the Mayor's Office charged back under the projected budget this year, \$60,000 in services to the Schools. There is a formula that I would figure out that the time I devoted to this issue or any issues that I am dealing with for the School are charged back to the Schools. The same thing with Wayne and the same thing with Lorraine and the same thing with David. That is what chargebacks are so that everybody understands chargebacks. That is on a very small scale to be honest with you in terms of the scope that we are talking about here. For example, any services that Mark might provide to the Schools, there is a chargeback. The same with Finance. The same thing with the City Solicitor. The same thing with Parks and all of the other departments. That is what the chargeback issue is.

Mr. Clougherty stated the way that works like in my office I keep an hourly...every fifteen minutes I keep track of just like a lawyer's office or an accountant's office you are charging your time to a particular job. Sometimes I am working for the Airport. Sometimes I am doing stuff for Water and I charge that. That is what we are supposed to be doing is keeping track of the time we spend on Schools. That gets allotted to that project.

Mayor Baines replied that is important for people to understand because being new to this and having to learn a new vocabulary it is very important that we don't just assume that everybody understands the concept of chargebacks. It is kind of an interesting concept to be honest with you. To think that as Mayor of this City and my salary being what it is that I have to take in accordance with Federal reporting standards a 40 hour week, which I would like to work sometime and I don't think it is ever going to happen, that I would take an average 40 hour week and divide it into my salary and come out with an average per hour and then every hour that I devote to School District issues I would charge that to the School District. That constitutes a chargeback.

Mr. Clougherty responded that is important for you because debt service is the basis for your out-of-town tuition billing and a lot of the revenue that the School District counts on so you want that number to be right and you want the City to chargeback for all of their services whether it is Officer Friendly or Fire or whatever because that gets based into the tuition payment.

School Committee Member Cook stated we want it to be right. Let's be clear on the chargebacks. We want it to be correct because it should be correct. We want it to be correct so we can justify what is in our budget so that when we charge the surrounding towns they are paying the right number, but we don't want it to be so

inflated that it keeps us from hiring teachers and buying books because we are paying whatever number one of the City departments is charging and I am not saying they do...

Mr. Clougherty replied that is why you want the detail.

School Committee Member Cook stated the point of the matter is if...I remember when we were doing the recycling thing as I recall the Highway Department got to bid on it and if someday we find that some City department is not providing the services as well as somebody else can, we may do that.

Superintendent Tanguay asked could we agree on this being a high priority because the budget has to be set.

Mayor Baines answered I just want to make sure that all of the issues are understood and then we are going to talk about the process to get us to where we need to be to bring clarity to this issue.

Mr. Hobson stated I just have one more item. You mentioned earlier, Mayor, the fact that we were passionate about the benefits number from our perspective and the reason for that if I can enlighten the group is that the number that was in the restricted items on that sheet was actually less than the amount that would have been covered for the 77 new teachers, which gets back to your point. In other words, we were looking at just health and dental. The amount of money that School had in their health and dental would not meet the budgetary figures from budget proposal #2. They were going to be short a rather substantial amount of money to pay for those 77 new teachers so that was one of the reasons why we were concerned because we could see that it wasn't going to fly. I just wanted to state that is why we were passionate about it because we thought that in the end it would still be reconciled from the \$27.744 for all benefits for the City.

Mr. MacKenzie stated just to be clear, the benefits themselves though were not given over to...the \$12 million was it given over to the School for them to handle.

Mr. Clougherty replied it is not restricted like it is on our side. It is full discretionary on their side. That is where you are misunderstanding. It is fully to their discretion and they can move it up and down.

Alderman Gatsas stated there is roughly \$5 million in School benefits. \$5.1 million. You keep talking about benefits that we never put an employee number to and I think that is an important issue because \$5 million could accommodate 1,000 employees or \$5 million could accommodate 1,400 employees.

School Committee Member Cook asked where do you get \$5 million.

Alderman Gatsas answered the dental insurance and medical insurance comes out to \$5.1 million. We always throw numbers around for benefits, but we never tie it to an employee base, which in my business we are driven by employees and you have got to have a number.

Mr. Hobson stated the answer to that question is that based on budget scenario #2...

Alderman Gatsas replied this is based on budget scenario #1. This number that you are talking about, \$5.1 million, is the number that we are obviously looking for audits on.

Mr. Hobson responded when we were asked that day about 77 new staff...

Alderman Gatsas interjected I am saying this number here that is on this sheet has to be a number associated with employees.

Superintendent Tanguay stated that is correct.

Alderman Gatsas stated it has to have an employee number attached to it. It just can't be done. What is that number? If you budgeted \$5.1 million on 1,000 employees and that didn't relate to another 77 hires then obviously the \$1.4 million that they are looking for is not there and the 77 new teachers that were hired is not part of that budget.

School Committee Member Cook replied I think the point that the \$11.951 million, however that reduced the \$4,675,000 and the 490,000 wasn't Mark's number.

Alderman Gatsas responded when you take the other numbers, the worker's compensation and the fixed teacher's state pension is a fixed number.

School Committee Member Cook replied Mark's number wasn't \$11.9 million.

Alderman Gatsas responded I agree with what you are saying. The number for pension is a fixed number. That can't be altered by any numbers. The worker's compensation number is fixed. The other numbers in there for City pension is fixed, so the number we have to talk about is obviously when he says to me...and using benefit numbers if very difficult, you have to use what a monthly cost supposedly on a COBRA rate is and if you say to me there are 1,000 employees

and we are averaging \$500 in COBRA, you are going to come out to \$5 million. It has to relate. Now if you say to me those are the employees that you have September 1, assuming that is what this budget was for, then that should tie. If that number...the number of employees doesn't tie to that number than it must be greater and that was created by more staff being hired, not based on this number.

Mr. Hobson stated the number of \$11.9 million does not even deliver the status quo of FY99. So, it was below...that \$11.9 million was below FY99 and would never meet the extra 77 teachers.

Alderman Gatsas asked how much was your benefit below FY99. Where were your benefits related to FY99?

Mr. Hobson answered I am not following.

Mayor Baines stated can I try to bring some clarity to this because the number as I understood through all of these discussions, the \$3.4 included all of the present School District employees plus 77 so they had an exact number that that connected to and what Mr. Hobson had said was that \$1.4 million cut out of that would have brought the complement of teachers below that number. They did have a fixed number, whatever the employees were in the School District, plus the 77 budgeted. That was tied directly to that number.

Alderman Gatsas asked what was the number for FY99.

Mr. Hobson asked full-time equivalents. I don't have an answer.

Alderman Gatsas stated the next question that ties to that is what was the benefit number for those employees.

Mr. Hobson replied I have that information.

Alderman Gatsas asked so what you are saying is that the \$5.1 million is less than FY99.

School Committee Member Cook answered that can be checked.

Mayor Baines stated I understand there has been a meeting today with the auditors and I would ask Superintendent Tanguay to report on that so we can decide where to go and get the scope of services for the auditor and then we have to figure out how we can authorize whatever we need to authorize to take care of that.

Superintendent Tanguay stated we met with the auditors from Melanson & Heath.

Mayor Baines stated Melanson & Heath are the auditors who recently did the auditing for the School District and the City just for the record.

Superintendent Tanguay stated we discussed verifying the debt service number of \$8.5 million. The task ahead of them would be to meet with Kevin's office and to reconstruct the information and bring it together from different sources. The information would include the bonds that were issued, Resolutions from the Aldermen, any refinancing of those bonds as well as Resolutions, how the appropriations were spent for Schools, what specific projects were done for schools, were there any balances left over as a result of that, did they overspend...

Mayor Baines interjected basically it is a reconciliation of the number.

School Committee Member Cook stated this is construction of the debt from the bottom up.

Superintendent Tanguay stated I think it is an auditing function too. I don't want to shortchange the audit team. You cannot just look at the information and put it together. There is a certain auditing function involved in putting it together I think. When you go through a reconstruction of information that is taken from different sources and come up with a debt service schedule, there is certainly an audit function in there.

Mayor Baines replied I understand. Let's say that is basically the scope of services. I need to ask two questions. Approximate cost and time length.

Mr. Clougherty stated after our discussion last week, Mayor, I called on this and Brad and I said is this something we should do that might bring some resolution to this. I said fine I will call and see if Melanson has somebody that doesn't deal with the City that would be independent that could come in and do this reconciliation. They came in today and I believe they met with Norm and then they came into our office and they wanted to start today, but our issue is we never start without an engagement letter. We want to make sure there is a letter that lays out what the scope is going to be and what the cost is before people start running up the clock on you and I hope Superintendent Tanguay agrees with me on that. They were supposed to, this afternoon, give us an engagement letter.

Alderman Gatsas stated going back to that engagement letter and I didn't mean to interrupt you but we are back to having the fox checking the hen house. The engagement letter should be coming from us and not somebody that is doing the audit. That is the way an engagement letter is written.

Mr. Clougherty replied I understand that. My understanding is that Superintendent Tanguay is pulling together that engagement draft and we will get a chance to look at that because this is something that the School District feels they need and it is not something that we should be pulling together on the Finance side and once we have a chance to look at this engagement letter we can find out what the cost is going to be because that is going to be important. If there is a cost in there and a time of hours and all of the things that we would be concerned about before we could go back to the Board and say okay we recommend our share.

Mayor Baines asked how could we move this along.

Mr. Clougherty answered I think we are. We talked to them today and asked them to pull that together.

Alderman Cashin stated I agree with Alderman Gatsas. I want to know who is going to sign the agreement letter. I think you should, Mayor. That is my personal opinion. I think the auditor or whoever should be hired by this Committee and not by Finance or School or anybody else and is going to report back to this Committee.

Mr. Clougherty replied it should say what they are going to deliver to you, how much it is going to cost and when it will be done.

Alderman Gatsas stated just so everyone understands, it will be to this Committee and not to Finance, School or anyone else.

School Committee Member Cook stated when we met with Ms. Scalante who is a municipal finance person and impressed us this morning with her objectivity in terms of not having been involved in any city because we have the same outside accounting firm which does audit, which is a different function, both the City side and the School side and give us our management letters to our mutual discomforts and does a good job and I pressed them because I don't want professionals to ever be in a conflict of interest situation or in a situation where they feel awkward and they can't perform. I pressed Frank on that fact because he has been, in my judgement, very objective in terms of his analysis of finance both on the City side and School side to the benefit of both because that is what a management letter is. He was comfortable with it. She was encouraging in her belief that while this was somewhat complex, it wasn't the biggest deal she had ever seen and she thought she could get it done rather expeditiously so I gave them a chance to say go find another firm and I gave them a chance to say this is going to take too long and it will be too expensive.

Alderman Gatsas asked are you talking about this person working for the auditors that the City employs.

School Committee Member Cook replied she is an employee of Melanson & Heath. She has never been involved...

Alderman Gatsas interjected there has certainly got to be a conflict here. We are talking about audited numbers on the table. God forbid Melanson & Heath came back with some numbers that were wrong. I would say that if I was on the School side and they came back and said that debt service is \$5.1 million, I would say that certainly opens up their E&O insurance with a Pandora's Box as big as you can get.

Mayor Baines stated I raised the question about a procurement issue, Alderman Gatsas.

Mr. Clougherty stated if you wanted to do an RFP, we could write up what the scope of the audit would be.

Alderman Cashin stated if you go through an RFP, you are never going to get it done in the length of time you need it. This is something that you either do now or...

Deputy Clerk Johnson stated there are emergency provisions in the Ordinance that basically would allow, if the Board so directed really because I think in this instance the Committee is asking for authority to do something and the money is going to have to come from somewhere so the Board is going to have to authorize it first of all down the line here somewhere, but it could be done by merely making a phone call as long as you have three quotes on record, but you really need to get your engagement letter together and you really need to know what your scope of service is before you can call or fax out information and ask for three quotes. You have to have three quotes. I guess the Clerk wants to be very clear because there has been so much confusion on these issues...but I guess the suggestion has been that the Mayor sign an engagement letter but the engagement letter, I think, needs to come from both the School and the Finance Officer's side. I guess Superintendent Tanguay is drafting one and I think that Kevin should look at it and then present it to the Mayor if the Committee is comfortable with that. I think that needs to be part of the clear record as to how that engagement letter gets put together. The Clerk's Office can certainly get copies out to the membership of the Committee that this is the preferred way, but we need clarity.

Superintendent Tanguay stated just a point of clarification. Melanson & Heath made an appointment to meet with Brad and I this morning at 9:30 AM and that resulted from a call from Kevin to Frank of Melanson & Heath asking if he was interested in doing this work. I think Frank's initial response was no because how can I be objective but I guess on second thought he decided maybe he should do it so I got a voicemail from Frank late Friday afternoon stating that he would like to meet with me and Brad at 9:30 AM this morning to review what they could do. They also talked to Kevin. I had not talked to Frank at all up to this point. So, when we did meet with them they brought in an auditor who could do the work. I think it is important to point out that auditors and accounting firms should be hired by Boards, not on my recommendation of Kevin's quite frankly. They should meet with you and you should decide who you want to do it. That is the way it should be done. It is up to you.

School Committee Member Garrity stated where is the money going to come from. Do we have any idea what it is going to cost at all?

Mr. Clougherty replied that is one of the things that I asked Mr. Melanson to do was to come in and take a look at this to get an idea of what the cost and timeframe might be so that as we were working on an engagement letter we would have some idea of what the costs would be so that I could start to prep the Board. Again, you have some options here. If you want us to, we can pull together a scope of services and give you some idea of the number of hours and get that to a couple of different firms. We can do that.

Mr. MacKenzie stated I just want to clarify that this audit is not in any way changing the City's total debt responsibility. The only thing that this will do is draw the line between the School portion and the City portion. It is not going to say that it is any more money. I guess I am not sure how there would be any conflict of interest here if the total amount stays the same. This really provides us a springboard going forward. In the future, we will use this basis number when we talk about debt service. I don't see, in my own mind, how there could be any conflict of interest here.

Alderman Cashin moved to have Wayne Robinson be the point man and have the auditors report to Wayne and he can report to this Committee.

Mayor Baines stated I would think right now we need some authorization or a recommendation from this Board.

Alderman Cashin moved to go to the full Board for funding and that it be done by a phone poll.

Deputy Clerk Johnson stated I wasn't saying that it couldn't be done that way, I was saying that it has to be done.

Mayor Baines stated we have to have authorization for them to proceed with a scope of services agreement and an approximate cost. They should draw that up and present it to me for review and final approval and then at that point in time we could poll this Committee for a recommendation to go to the Board of Mayor and Aldermen for approval and Superintendent Tanguay can do the same thing on his side for the School District because my assumption would be that it would be a shared cost. That is my assumption.

Alderman Cashin stated the approval of the full Board could be done with a phone call.

Deputy Clerk Johnson replied we could do a telephone poll to authorize the expenditure and follow it up with a transfer.

School Committee Member Cook stated Mr. Biron stated in our discussion that he would feel much more comfortable if the cost of the engagement, given that both the School District and the City were his clients, be borne 50/50.

Mayor Baines replied I agree with that. Basically, the essence of the motion that I would ask be made would be to authorize Superintendent Tanguay and Mr. Clougherty to define a scope of services and come up with an approximate cost and present that to me for final sign-off and approval, at which time we will then poll both Boards and move ahead with authorization.

Deputy Clerk Johnson responded you stated two separate...in the first instance you said that you wanted us to go back to the Committee with it and get approval first before we go to the Board or before it goes to the School Board. I just want to clarify whether we want to come back to this Committee first or go directly to the Board.

Mayor Baines stated directly to the Boards.

Alderman Cashin moved to authorize Superintendent Tanguay and Mr. Clougherty to define a scope of services and come up with an approximate cost for an audit of the City's debt service to be presented to the Mayor for sign-off and approval and then presented to the Board of Mayor and Aldermen and Board of School Committee for approval. Ellen Healy duly seconded the motion.

Superintendent Tanguay asked just for clarification, does that go to one firm or is it open to everybody.

School Committee Member Cook stated my understanding is that this request for specifications because of the emergency nature is just going to Melanson & Heath. If we don't like what we hear from them, then we might have to go to somebody else.

Deputy Clerk Johnson replied I don't know that we can do that under the code. I think you have to get three quotes.

School Committee Member Cook responded you just said if it was an emergency situation we didn't have to.

Deputy Clerk Johnson replied in an emergency situation you don't have to go out for an RFP, but you do have to get three quotes.

Alderman Cashin stated we are just asking them to reconcile our statements so that is just an added function to our existing contract.

Mr. Clougherty replied I think we are okay using Melanson & Heath.

Mayor Baines stated let's move with that and review it with Solicitor Clark and if he feels it is okay to go with Melanson & Heath we will do so and if we need to go out and get quotes, then this authorization would be understood.

Deputy Clerk Johnson stated it is my understanding that both the School Board and the Board of Mayor and Aldermen are to be polled on this issue.

Alderman Gatsas stated I don't know if it was Kevin or Mark who said when we get the School expenditures that the restricted items or benefits are lumped in all together in one mix so they are not restricted once they get there. Is that correct?

Mr. Clougherty replied they have a bottom line appropriation.

Alderman Gatsas asked what you are saying to me is that the expenditures or benefits and the rest of it gets thrown into one number so it really doesn't matter if it is \$13 million in benefits or if it is \$11 million.

Mr. Clougherty answered that is correct.

Mayor Baines stated that is the backdrop of this whole discussion, the bottom line budget.

Alderman Gatsas stated I can tell you where \$400,000 is of the \$1.4 million that is short. \$400,000 is short from the allocation of the two days from last year that was added into this year.

Mayor Baines asked can we just vote on this issue and then we can have additional discussion or clarification.

Mayor Baines called for a vote on the motion. There being none opposed, the motion carried.

Mayor Baines asked if anyone wanted to comment on Alderman Gatsas' comment.

School Committee Member Cook stated two and two generally comes out to four and if you divide four you get two parts. To the extent that we consistently with accounting principles last year accounted for the parts of a week in two different years because they were in two different years, to the extent that it had an affect on one year it also had an affect on the other year.

Mayor Baines stated the only thing I would ask because that has been spoken so often of is can we get some written clarification of that.

Alderman Gatsas asked when does the teacher's contract end.

Ms. Healy answered June 30.

Alderman Gatsas stated so any funds earned with that contract year have to be budgeted in the year that the contract is. Is that correct?

School Committee Member Cook stated June 30 was in the middle of a week.

Alderman Gatsas replied I don't care when it is. It is when it is earned and not when it is paid. If you work that last week in December and you get a check on January 4...

Mayor Baines interjected the only thing I would like to say is that is in the process of being clarified by the auditors. They will clarify it in writing so that everybody has an explanation of exactly what happened at that point in time. Now there may be some disagreements by other people looking at it, but we will have the auditors who will weigh in on that issue and give us a clarification of that.

Deputy Clerk Johnson asked is that coming to this Committee.

Mayor Baines answered no. I don't believe it belongs in this Committee. It is just a School Board issue.

Superintendent Tanguay stated we need to tie into the benefit account. That is where we need to be and determine what that shortfall might be excluding the new hires.

Mayor Baines stated I do have some additional questions related specifically to the potential to the deficit this year. As you know, we took some very stringent measures on the City side and we are receiving a high degree of cooperation and we feel very confident that we will be able to realize significant savings on the City side. Not just withstanding and I want to make it clear that we took those actions on the City side by the way unrelated at the time to the potential of any deficit. We were looking at it purely from the issue of the rapid increase in expenditures and potential flattening of revenue and the tax base that we needed to maximize our fund balance as much as possible in this fiscal year to help us into the next fiscal year. Now having said that, the reality was that this deficit surfaced and this might be a helpful mechanism to deal with any potential issue we have so I ask the question again. How much or do you have any projections on the School side that would help us minimize this \$1.4 million problem?

Superintendent Tanguay stated we are working on the projects now and we should have them by the end of the week and we can report to Finance on that issue.

Mr. Hobson asked so you folks will pull a report together to the Finance Committee and the Board of School Committee.

Superintendent Tanguay answered right.

Mr. Hobson asked will that include any kind of project for your benefits itself. We ordered some special additional reports from the vendors to try and sort this through because as I said to the Mayor we know that part of the problem is that we are still paying for some of the School benefits, administrative fees and other things, coming from the City side of the allocation so there will be more clarity once we have those bills and we see that these are the School District's bills and these are the City's bills.

Superintendent Tanguay replied we will have them reconciled.

Mr. Hobson responded that is real important because as I said to the Mayor before this meeting, we are strong arming departments and we are withholding hires and we are not purchasing stuff and we are looking at \$386,000 from our salary and benefits account on holding positions open and then we are talking to Frank

Thomas to pray to all of the rain Gods that we don't have anymore sleet and snow and he is looking to maybe turn in about \$300,000 from salt and sand. I guess I said it 100 times, I really feel that it is important that everybody is on board with this. We have to be cheap and come up with every dime that we can for this year.

Mr. Clougherty stated the place where the City is exposed on our side are the chargebacks and the revenue. The way that the School Board interprets the decision by the court is that if we appropriate \$100 million to School as a bottom line and say half of that comes from non-property tax areas such as tuition, etc. and if they don't raise that the City still has a responsibility to fund \$100 million. I hope I am explaining this right.

School Committee Member Cook replied your bottom line comes out the same.

Mr. Clougherty stated if their revenues don't come in, the City has to cover those and that could be a potential problem on the City side.

Mayor Baines asked are those projections on track.

Superintendent answered I think so. In fact, we might exceed them. That is my expectation right now.

Mr. Clougherty stated that is something that this group has to keep a close look at because that could come back to cause a problem on one side or the other. We need to be looking at the revenues.

School Committee Member Cook stated I think the issue, and it was part of one of the transition issues that is still out there but this is not a transition committee, this is a deficit committee so hopefully that is not going to do anything but be favorable in terms of revenue. The legal issue becomes when the City appropriates from all sources \$100.5 million to the School, which is what happened...the City didn't say we are appropriating \$67 million or whatever the tax raised portion was but we are, in fact, appropriating \$100.5 million. If we create more revenues than our budget projects, we don't get it, but they appropriate to us \$100.5 million and the question becomes in terms of a cash flow how does it flow, what is it and on what schedule does the City turn funds over to the School District to operate. In those questions there are two issues. Timing and amount. I think that is what the issue is. I think what the Declaratory Judgement said having read that paragraph a few times is...and because the appropriation is \$100.5 million, you collect all of the revenues and you turn it over to us. The timing issue is one that somebody smarter than I am is going to have to figure out and that is why when you appropriate \$100.5 million to us we get \$100.5 million

from you. If there is \$100.3 million in revenue total between taxes and other things, the City wins.

Mr. Clougherty stated as long as the tuition bills go out on time and are collected. That is what we are concerned with obviously.

Alderman Gatsas asked does the School Board hold the money until year-end and then turn it over to us.

School Committee Member Cook answered the money comes into the City and the question is on what schedule does the City turn it over to the School.

Alderman Gatsas asked do we know how much we have received to date.

Mr. Clougherty answered there is an issue on that because what happens is we have a bank account. They are depositing money into our bank account. We don't have all of the detail in terms of what that revenue represented. Is it a reimbursement for something? We are getting a lot of that, but there is still some that has to be worked out.

Alderman Gatsas asked are we going to have a separate account going into the next year.

Mr. Clougherty answered it should all flow through one.

School Committee Member Cook stated you get better interest if it is all in one account.

Superintendent Tanguay stated we have been providing information to the Finance Department on our revenue collections on a regular basis. As a matter of fact, she reconciles with their office at least monthly.

Mayor Baines stated I just want to comment on these two hats that I wear in City government. It is very important that the School District demonstrate a strong good faith effort to maximize as much savings as possible this fiscal year because we truly are taking this matter very seriously on the City side and I think that is going to help with the final resolution of this because there has been so much misunderstanding and miscommunication regarding this issue. I think that if at the end of the day we have shown that both arms of the City government has recognized a problem and moved ahead to try and solve the problem and we were all reasonable in terms of our approach, that will go a long way to bringing these two Boards back talking about how we are going to improve education in our City as opposed to fighting these political battles on a regular basis because a number

of us are growing weary and tired of this. At some point in time, we have to determine whether our common interests are at least equally as important as those issued that seem to divide us. It has been my perspective in these three months here and prior to coming here that the issues that divide us, even though they are not as great in number, seem to occupy most of our time. That is a great regret, I think, for our City that these two Boards cannot work in a cooperative spirit but we have to resolve these issues and I think as we have said on this side this is a transition year. We knew there were going to be some problems. I wish they hadn't been as significant as they are, but they are what they are and we are going to resolve them and move forward and then we are going to be meeting as Alderman Cashin and I have talked about once the issues are behind us we are going to establish a regular process for quarterly meetings of our two Boards to start focusing on the issues that we all agree on and I think the citizens of Manchester would welcome that. My sense in the community and spending a lot of time in the community, they are very weary of watching these things on TV. They do watch now with great intensity. They are also trying to figure out why government can't have a more cohesive spirit than it seems to have regarding Schools and the City. That is a task that is before me. I accept it. I am up to it and hopefully at the end of the day we will bring these two Boards back together. Let's talk about when we can meet again. Do we want to meet in a couple of weeks? I will work with the City Clerk's Office to set something up at this time of day.

School Committee Member Garrity stated that 3:30 PM would be better.

Mayor Baines asked can we look at Monday, April 10. I would like to reconcile with the big schedule.

Superintendent Tanguay stated there is a School Board meeting that night.

Ms. Healy asked how about April 17.

Mayor Baines stated we will work out a date with the Clerk and get in touch with you.

There being no further business to come before the Committee, on motion of School Committee Member Cook, duly seconded by Alderman Cashin, it was voted to adjourn.

A True Record. Attest.

Clerk of Committee