

SPECIAL COMMITTEE ON THE SCHOOL DEFICIT

August 9, 2000

3:00 PM

Mayor Baines called the meeting to order.

The Clerk called the roll.

Present: Mayor Baines, Aldermen Cashin, School Committee Member Cook, Mark Hobson, Kevin Clougherty, Ron Chapman (representing Superintendent Tanguay), and Robert MacKenzie

Absent: School Committee Member Garrity, Ellen Healy, Linda Heath and Superintendent Tanguay

Mayor Baines addressed Item 3 of the agenda:

Review of Debt Service audit.

Mr. Clougherty stated we received a copy of a draft report on the reconciliation of the debt from Melanson. They asked if I would sign off and the Mayor suggested that I not sign this. He thought that this was something that perhaps Norm should sign off on because it was an engagement through the School. The draft that has been presented, I think, is very favorable. It shows that the amount of debt that has been issued over the years and the way it has been tracked is...the one term that they use throughout the report is reasonable. The amount that we suggested to the School Board for debt service over the years is pretty much right on. There are three areas that they talk about where there are possible exceptions and those three are relatively minor. I will just walk through them real quick. These are under Attachment II, Possible Exceptions. What they are saying here is that these are the numbers that we have been reflecting for debt for sidewalk construction projects over the years. You can see that the projects run from 1991, 1994, 1995, 1996 all the way up to the present. Some of these, the ones on the bottom part, April 16, April 2, and April 1, those have been paid by the City and the ones on the top, the more current ones, have been paid by the School. They just said why is that because if they are all school sidewalk construction then why isn't School paying for all of them. Now the earlier ones, I am sure the Board will remember, is that a lot of those sidewalk construction projects weren't right in front of the schools. They are like Kennard Road up near Smyth Road where kids would walk from

Mammoth Road down past the ski area. There was no sidewalk there. It is a school walking route, but it really wasn't appropriate for School to be charged for that because of the general infrastructure improvement to the City and that is why it was included on our side and that is why you have a split. The more recent ones that you are being charged for currently are the ones over by Jewett and Memorial, which are right in front of the schools. I think the other one was McLaughlin. The second exception they have and again if there is a question on some of these get somebody with a thing and go out and look at the square footage and we will reallocate but other than doing that I don't know how else you can come up...we have tried to be fair on that and take the ones that we thought were primarily infrastructure for the City even though they were called school walking routes and we paid for them. School Recreation Facilities is another one where it is called a School Recreation Facility. There is about \$60,000 left on that. It was 1996. My recollection was that it was a paving project at a park and it wasn't so much the other kids use the park but so does everybody else and that is why that was included on the City side rather than School. What they are suggesting here is that maybe School should be paying more of that. My recollection is that they shouldn't, but we can go back and look at that. Again, with \$60,000 principal left over a couple of years you are talking about small numbers that would be transferred over. The third issue and final issue out of all of the projects that we have done is related to a refinancing. When we did the most recent refinancing, there were two projects. One was a highway/bridge project and one was a school project. They had the exact same amortization schedules, except for one year one was \$15,000 higher than the other and those got juxtaposed when the underwriter's did their table and they are saying that the School should pay that \$15,000 because it should have been over on their side. Well, in my opinion, it will take more effort to move the \$15,000 then to just deal with it but if you want us to transfer it over we can do that.

School Committee Member Cook asked this year meaning this just completed fiscal year.

Mr. Clougherty answered I believe it is this current fiscal year, FY01. Other than that, the report says that everything else is reasonable and the numbers tie to essentially what I think you have in your budget and we are satisfied with the report. I would ask today, Mayor, I talked to Pat before I came in here and she said she won't release the report until I sign this because I was the source of the data so if it is okay with you and I know that you didn't want me to sign it but if I can sign this to her and send it down today she will release the report. If you want them to then come up and talk about the final report, they will be happy to do that. In the meantime, we don't think that this is any cause for any changes in the flow of dollars for last year or this year.

Mayor Baines stated so basically the reconciliation found that it was quite accurate despite some of the rhetoric that we had been hearing that there may be glaring errors and that not enough money was being charged against the schools, etc. Is that a correct assumption?

Mr. Clougherty replied those are the three exceptions and I think Madeline and Joe did a good job the years that they were doing it because this covers a 20 year period. That is a long period of time involving a lot of projects and a lot of dollars.

Mr. Chapman stated basically what we would probably end up doing is bringing it back to the Finance Committee so that they can see because the full Board hasn't seen this yet so we have a Finance Committee meeting on 8/23 and we can then bring it to the full Board at the end of the month.

Mayor Baines replied obviously we want it to come back here first because this is where it emanated from.

Mr. Chapman responded I don't know if you want to hold off on signing it until after that so we can hear what the whole Board has to say or you want to sign it now.

Mayor Baines replied I don't think that is necessary.

Mr. Clougherty stated they basically said that they don't want it released unless we sign it.

Mayor Baines stated that actually has to happen here.

Mr. Clougherty replied then you can have a final report to give to the Committee and I think they can turn that around in a matter of days.

Mayor Baines responded okay, why don't we go ahead and do that then. I don't think we need a motion to do that.

Mr. Clougherty stated at that point if our share of the cost of this...if they can get us the invoice I am satisfied that the work was done and I will sign off on that too.

Mayor Baines stated we will now move to other business. I think perhaps the most burning issue that is out there is the one that we have some information from the School District related to their status for the last fiscal year in terms of deficit and other information that is of vital interest to all of us.

Mr. Chapman replied basically I am meeting with John Sullivan from Melanson tomorrow to set-up the audit guidelines. We then anticipate that we would have some preliminary information from them probably so I can do the MS forms as early as the first or second week in September. I don't want to venture a guess on where we may end up. The Superintendent feels that we will end up in a favorable position.

Mr. Clougherty stated I am going to meet with Mr. Chapman on Wednesday and we are going to start going through things like chargebacks. There have been some departments, as you know, billing throughout the year and they have paid some of that. What we are doing is going back and making sure that we reconcile every dime that we have received and charged and then handing that off to Ron and his people so that they can come down to the net that is the difference there. I know that Kevin Mahoney has reconciled, I think, with Howard on the health insurance issues. There are pieces on our side coming together. We will sit with him on Wednesday and confer on some of these things and again I would hope that in just a couple of weeks we could get back to the Board and give you a good idea of where we are.

School Committee Member Cook stated part of the reason we are having the meeting on August 23 now is so we can process the invoices for the chargebacks because we don't want to delay that. Obviously at the last meeting we did the biggest single chunk which was the ServiceMaster.

Mayor Baines stated I met with the Superintendent before he went on vacation and stressed to him that it was critical to get paid as soon as possible. From his perspective, he felt that he needed to get the authorization from the Finance Committee. He seemed to be comfortable that they know they have the obligation for that amount and he expects to get full Board approval.

School Committee Member Cook stated frankly, your Honor, there are some members of the School Board who would just as soon cross-examine every...this is not the Superintendent and it is not Ron and it is not me, but there are some people who would just as soon cross-examine everything and say was that light really on for two hours and just make a total pain in the neck out of the process and we are going to try to do the best we can to minimize that because frankly we agreed to \$6.8 million for this year and that is what we agreed to. We have to get that thing done.

Mayor Baines stated going forward it is going to be what it is based upon good documentation.

School Committee Member Cook replied this year we said this was the number and we all agreed to it.

Mr. Clougherty stated that is one of the things that is on our list to talk about. To make sure that as we go forward we get them what they need so we are not stacking up at the end of the year and we are taking care of it as it goes.

Mr. Hobson stated for the record, Kevin alluded to the health insurance number and I know that in past discussions it has been talked about just exactly what that number is and I wanted to ask Howard if he has that amount that he sent to Kevin Mahoney.

Mr. Tawney replied it is \$1,537,262.48.

Mr. Clougherty stated that has been the number for a long time.

Mr. Hobson stated I just wanted to get that on the record. That is what has been discussed and Kevin Mahoney was in agreement with it. We obviously want Kevin and Ron to be comfortable with that number. Blue Cross is comfortable with that number but to my knowledge none of that money has been transferred over to the City side so we have paid those bills. I think we are expecting payment within an August/September timeframe.

Mayor Baines asked is that your understanding, Ron.

Mr. Chapman answered pretty much. Kevin Mahoney is currently doing some work on that to reverify. I wasn't in on any of those meetings. We have asked Kevin to put through his justification and reconciliation and it is part of the whole number.

Mayor Baines asked so we are not anticipating a problem with that.

Mr. Hobson answered I don't think so. I just wanted to bring it out and put it on the table so that people know what the number is.

Alderman Cashin asked so the total amount owed the City by the School Department is how much.

Mr. Clougherty answered if you took the \$6.8 million and the \$1.5 million that would be the total, but they have paid some of that \$6.8 million already.

Alderman Cashin asked so we don't know what it is.

Mr. Clougherty answered right. We are about a week away on our side.

Mayor Baines stated some of that has been paid as they have submitted the bills on a quarterly basis.

Mr. Clougherty replied right and we have to go back through every department and reconcile that.

Alderman Cashin asked so am I hearing here today that by the end of this month we are going to know exactly how much they owe us, what the schedule of payment is and what the deficit may be if, in fact, there is one.

Mr. Chapman answered the latter would probably be known by the second week in September just to be on the safe side. You will probably know sooner but...

Alderman Cashin interjected it better be sooner because I can't hold the Board at bay much longer.

Mayor Baines stated the sooner the better and I stressed that very strongly to the Superintendent.

Alderman Gatsas stated this report that was concluded, I think was started because of the \$1.4 million that you had brought to the Board as a shortfall so are you prepared to tell the Board at this point that the \$1.4 million is forgiven or forgotten about.

School Committee Member Cook stated this report didn't have anything to do with the \$1.4 million.

Alderman Gatsas replied yes it did.

School Committee Member Cook responded no. This was to relegate the debt service.

Alderman Gatsas stated if I remember correctly and we certainly can get the minutes, I think there was a question about \$600,000 or \$800,000 in debt service that was part of that \$1.4 million. Kevin, correct me if I am wrong.

Mr. Clougherty stated there was some dispute, but I think we put that to bed with this report.

Alderman Gatsas replied I understand, but part of the \$1.4 million that the Board voted on, a percentage of that was this report that we had been waiting for because School said it is not that high. You guys flipped numbers. You moved \$1.4 million and it wasn't there and it disappeared and where did it go. Now all of the sudden we have an auditing statement here that says the chargebacks or the debt service is absolutely correct. So, we didn't move \$1 million from debt service and take it out of benefits.

School Committee Member Cook responded we got a set of budget numbers from one print out on 6/5/99 that had debt service \$1.4 million lower than the final one was and had benefits \$1.4 million than the final report. You are right. There was discussion about the \$1.4 million in benefits would change in terms of what was needed money if the debt service changed. The question was because the numbers were so close when one went up and one went down, why was the adjustment made but they are two different subjects.

Alderman Gatsas stated I don't believe that that is what the Mayor presented to the Board when he called for a vote.

Mayor Baines stated that goes back...Kevin came to me in his role as Finance Officer to alert me of a potential problem, which we immediately brought to the Board with a recommendation that that amount of money be set aside to cover that potential \$1.4 million deficit.

Mr. Clougherty replied that is correct. The question of the \$1.4 million was, from our standpoint, dealing with the benefits but there was also some question about the debt. Now you recall that what we had given Norm on the actual debt service of standing, which he had asked for early on and in that letter we had said but we are also in the market now and that is going to change because there is going to be more debt and that is going to go up and we provided him with that too. There was some misunderstanding on his part with respect to that number, but I think this report confirms that the numbers that we have provided to him have been accurate right along.

Alderman Gatsas asked how much did the report cost.

Mr. Clougherty answered I believe it was \$15,000 which will be split between the City and School. I haven't seen the final bill.

Alderman Gatsas asked when you were done doing the flips back and forth, how much was that total number.

Mr. Clougherty answered if you accept all three exceptions, it would all go against School and it would be...just look at that page.

Alderman Gatsas asked about \$90,000.

Mr. Clougherty answered \$60,000 for the parking lot. \$15,000 for the refinancing but then it could also, if you say that they should pay for all of the school sidewalks, which again I don't advocate because that could be \$500,000. I don't think that any of these are really things that we would want to pursue.

School Committee Member Cook stated if I understand the report and I haven't read the whole thing but regarding the sidewalks they are saying that there is no specific rule taking sidewalks and allocating some of them here and some of them there and, therefore, we don't know why what was allocated was allocated. Not that it was right or wrong.

Mr. Clougherty replied right and that was really done...we talked to Len Benard and Eugene Ross and made decisions and said listen you shouldn't be charged. It is a misnomer. Granted it is called school sidewalk construction, but they are really school walking routes and general infrastructure and should not be charged.

Mr. Hobson stated if anyone wants any history on that, that actually came before the School Board in 1996 and 1997 and it was mostly brought up by north end parents and the MTA saying who was walking and who was bussing and the differences. That was brought up by Len Benard and the School Board and I remember at the time that Mr. Clougherty had presented some reports to the Finance Committee so we ended up shifting some of those numbers. It was a best estimate that was done through Public Building Services or Mr. Houle working with the Highway Department.

Mayor Baines stated as I understand now the numbers are going to tell the story and the number will speak for themselves in terms of all of these different issues set before us. We are in the process of finalizing those things. Most of the information will be available at the end of this month with the exception of the final question relating to the overall deficit. It will be what it is.

Mr. Clougherty stated this lays out a schedule of debt going forward, Mayor, for everything that we have issued so far. The next bond issue we do we will have to go through that process of prorating it and we will do our best.

Mayor Baines stated from my perspective, this was money well spent because this was a lingering issue out there and now the study has been done and it puts that issue to bed.

Mr. MacKenzie stated we did specifically in the CIP process split out any projects that were included as Schools. We did not mix any of the bonds. Typically they were mixed. They have all been split now so it is very clear which projects are School in the CIP budget.

School Committee Member Cook stated from our perspective, having this report when we create our balance sheet as the judge said we had to do in the Declaratory Judgement, is the basis to carry.

Alderman Gatsas stated I have a real heavy heart because I thought this Committee was put together to find out where that \$1.4 million was. I believe that every Alderman on that Board that voted in favor of it, that is what their belief was. I am only speaking for what I believe and I don't know if Alderman Cashin believed anything different, but I believe when that vote was taken that night that they believed that this was either going to resurrect a problem of \$1.4 million or it was going to put it to bed. Now from what I have seen, it has put it to bed.

Mr. MacKenzie stated the numbers haven't come out yet.

School Committee Member Cook stated we don't have the numbers yet. This report shows that the debt was correct. If debt was correct, what I understood the issue was if debt was overstated then the increase in the \$1.4 million should only have been \$600,000 or \$700,000. Then we would owe \$600,000 or \$700,000, therefore, the benefits problem that we expected to be \$1.4 million would be less. So we didn't now what it is. This report, if anything, didn't put it to bed it confirms to me that we probably still have the \$1.4 million problem and we still need the \$1.4 million in the budget.

Alderman Gatsas stated let's stop there. That it was not created...the \$1.4 million as not created by a problem through Finance giving you a wrong debt number that was \$6.8 million and you were assuming that it should have been \$6.2 million. So, the \$1.4 million is a debt service...

Mr. Clougherty interjected there are a lot of pieces here.

Alderman Cashin asked are we going to be able to answer Alderman Gatsas' question by the time we get to the deficit, if in fact there is one.

School Committee Member Cook answered yes. That is going to answer that question.

Mr. Clougherty stated this is one big piece of it.

School Committee Member Cook stated I will tell you what my presumption is. Forget presumption, my suspicion is having heard all of these discussions from every which way and every side that we are still going to have the \$1.4 million problem when we are done because it didn't get helped by this.

Alderman Gatsas responded that is correct. It is going to be wages.

School Committee Member Cook stated it is not going to be wages.

Mayor Baines stated we have been down that road. I feel that we will have all of these questions answered and the numbers will be what the numbers will be.

Alderman Cashin stated I agree. We are further ahead at this point then we have been in a long time, but we still have a way to go.

Mr. Chapman stated this certainly satisfies the numbers for FY00 and FY01, which I am imminently concerned about. I would love to have a solid base to work on and I think that is what this gives you. It is not a supposition.

Alderman Gatsas stated I am the first one that will jump all over Kevin when he is wrong, but I will give him credit that if that number in supposition for all of these years he has been pretty good giving that number as an accurate number so I would say that any supposition that anybody does since he has been giving the numbers was wrong. When accolades are due, they are due and when somebody needs to get jumped all over, they get jumped all over. I will give you credit Kevin.

Mayor Baines replied actually as Kevin said earlier on, this goes back to Joe Acorace.

Alderman Gatsas responded that is what I am saying. Every time that people were pointing fingers and saying that Finance was giving bad numbers...

Mayor Baines interjected that is a very valid point to make because I heard an awful lot of that when I first came over here. That these numbers were a problem and things weren't being done properly, etc. That is why we felt at the end and we made an agreement that this was the proper approach to resolve that out there

because having that out there as a supposition accusation or whatever you want to say does not reflect well on City government. This reaffirms to me that we were doing that aspect of this operation properly and accurately and that is very comforting to all of us who have been around a short time and those who have been around a long time. Again, there are always going to be these other issues that are out there and I appreciate them but I am interested at this point in bringing closure to this and moving forward. I know that Ron is in the same situation. Ron is bringing some credibility to this whole process, which I sincerely appreciate both as the Chairman of the School Board and as the Mayor of the City. So, we need to go forward after we put this to bed and I am very anxious to do that as I now the other members are as well.

Mr. Clougherty asked, Mayor, when I sign this report do you want a copy or do you want me to send it out to the Committee.

Mayor Baines answered I think at this point in time you sign it and then it will come forward and become the official document.

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