

**COMMITTEE ON ACCOUNTS, ENROLLMENT  
AND REVENUE ADMINISTRATION**

**September 30, 1998**

**6:00 PM**

Chairman Hirschmann called the meeting to order.

The Clerk called the roll.

**Present:** Aldermen Hirschmann, Rivard, Thibault, Girard (late), O'Neil

**Messrs:** R. Sherman

Chairman Hirschmann addressed Item 3 of the agenda:

Communication from the Human Resources Director requesting that the entrance fee for the Police Officer Entrance Test be increased from \$25.00 to \$50.00.

Alderman Thibault moved to approve the request.

Alderman O'Neil stated I missed the Human Resources meeting. What is their justification in doing it?

Alderman Thibault replied well the Fire Department is already doing it.

Alderman O'Neil responded that doesn't mean it is right. What is the justification? Does it cost that much to do?

Alderman Thibault replied that is what they claim here.

Chairman Hirschmann stated probably processing.

Alderman O'Neil stated all they say in the letter is that the Firefighter's is \$50. That is all they say in the letter.

Chairman Hirschmann stated the last time they had an entrance exam they had it at the Armory and the place was full.

Alderman O'Neil duly seconded the motion to approve the request to increase the Police Office Entrance Test fee from \$25 to \$50. Chairman Hirschmann called for a vote. There being none opposed, the motion carried.

Chairman Hirschmann stated I would like to skip over Item 4 if we can and go right to Finance with Item 5.

Chairman Hirschmann addressed Item 5 of the agenda:

Discussions relating to the City's finances.

Chairman Hirschmann stated what we are interested in is how 1997 ended up and where all the City departments ended up and if there is any information available and what is going on.

Mr. Sherman stated this is a draft (hand out). This is on the expense side of FY98. We are still working on these numbers as of today trying to finalize them. We would expect that within the next couple of weeks we will have final numbers ready to send for audit so we can get the tax rate set as well. As you see, the real problem still is with the School Department. Both School and School Food & Nutrition ran deficits. The other small deficit is Info. Systems and I have talked to Diane and she is researching why that happened but my guess is that will disappear eventually. If you look at the bottom line, because of the School deficit problem, we ran an overall deficit on the budget. Now the City Charter says that is illegal.

Chairman Hirschmann asked \$678,000.

Mr. Sherman answered yes, \$678,000. Now again, these numbers may still change. What we have tended to do, because there was so many problems over at school, is we had left the books open three months longer, actually not three months, probably a month and a half longer than we normally would to allow School as much opportunity as they could to try to rectify their situation but we will be making some official closings in the next couple of weeks and go from there.

Alderman Thibault asked, Randy, where does that end up now, School. How far behind are they now?

Mr. Sherman answered well if you look at the unobligated balance, the \$1.441 is where they are as of this morning.

Alderman Thibault asked but how short would they end up for the year.

Mr. Sherman answered that is the number. Now ironically, about \$440,000 of that are encumbrances that they had in the system which means those are things that they had an obligation to pay at the end of the year but hadn't been billed for. It may have just been things they had ordered and hadn't been delivered. That \$400,000, if any bills have come in on that since June, those dollars have been charged against their FY99 budget. The City needs an appropriation to charge those dollars to so that is being charged there. If the Board ultimately decides that they don't want that to come out of FY99 then we will reverse all that and put it wherever the Board decides but for the time being we need a place to charge those expenses to.

Alderman Thibault asked what happens now. Because they are short like this now, what happens? Didn't they borrow some money or something? Didn't they borrow a couple of million dollars? I heard a lot of rumors about them borrowing money to pay off the debt that they were going into this year. I heard that.

Mr. Sherman answered the whole debate is who eats this \$1.4 million deficit and that is what Tom Clark is researching. What legal avenues does the Board have. If you look at all of the departments, they are only \$27,000 in the hole so does that mean we can move all the other balances around and cover all the \$27,000 but bottom line we are \$678,000 in the hole. Who eats that \$678,000 or who eats the \$1.4 million? Do they take it out of this year's budget or one of the suggestions that Superintendent Tanguay says is well just add it to the tax rate and raise another \$1.4 million.

Alderman Rivard stated I was in business and I wasn't in this kind of business, big business like this but you are telling me that you overspent. They spent \$1,441,000 more? So they were unable to satisfy some of their creditors. They owe some people that money I imagine.

Mr. Sherman replied what it pretty much came down to was the last payroll of the year, they didn't have any money to pay.

Chairman Hirschmann asked are all the invoices in. Is every invoice that is possible in?

Mr. Sherman answered yes. I believe that everything they owe is in. The only thing they are still looking at is to find out if some of the things charged to their

general operating budget should have been charged against one of their grants. That is what they are still trying to figure out.

Alderman Rivard asked you are saying that they were short on funds to make payroll. So where did they get the money to do that?

Mr. Sherman answered the City has money. This is a cash flow problem in that regard. Cash wise we covered it but appropriation wise there was no appropriation.

Alderman Rivard stated but they spent \$1.4 million more than they had and we found some of it.

Mr. Sherman replied we found cash but we haven't found an appropriation to cover it and that is what Tom Clark is trying to find out. What legally can the Board do to cover that?

Alderman Rivard stated it seems to me that I have a difficult time to get answers to my questions which seem pretty simplistic. When two and two is four, that is pretty simple, right? Why can't we answer these questions so an average guy like myself who hasn't graduated from a college can understand?

Mr. Sherman replied there is two different things you have to deal with. One is an appropriation and one is whether you have the cash to pay.

Alderman O'Neil asked where did the cash come from if it wasn't appropriated.

Mr. Sherman answered the cash came out of surpluses that we would have gotten from these other departments. That is where the cash comes from but now we need to have an appropriation.

Alderman Rivard stated lets deal with one thing at a time. Lets start with reviewing things. At the end of the year, they spent \$1.4 million more than they had. I understand what appropriations are. I understand that clearly. So they overspent their budget by \$1.4 million so we had to somehow find \$1.4 million to satisfy all the creditors, all of their obligations, whatever word you want to use and you use the word cash. So the cash came from the Highway Department because they had surplus?

Mr. Sherman replied right.

Alderman Rivard stated the cash came from all the other departments that had surplus. Because there was money in their accounts, we transferred it to cash and we used that money to pay off this \$1.4 million. So at the end of the year everything was cool.

Mr. Sherman replied no we are \$678,000 in the hole.

Alderman O'Neil asked who is responsible for the \$574,000 in health insurance, the \$29,000 in dental, the \$102,000 in worker's compensation, the \$258 in FICA and the \$163 in whatever CGL insurance is.

Mr. Sherman answered the City has reserves set aside for health insurance, worker's compensation and CGL insurance.

Alderman O'Neil asked what does CGL stand for.

Mr. Sherman answered General Liability.

Alderman O'Neil asked is School responsible for most of that.

Mr. Sherman answered School is responsible really for a lot of the FICA, but not those three items, no.

Alderman O'Neil stated so we have to make sure...and I understand what you are saying, School overspent \$1.4 million, but the bottom line through balancing the books forgetting the restricted items we are only \$27,000 off. Correct? Who is responsible for the majority of the restricted items? The \$574,000 in health insurance.

Mr. Sherman replied each one of those is budgeted separately and what we usually do down there because they are budgeted City-wide is we would go back and shift some of those budget dollars around. So for example if Dental Insurance is short as it is in this case, we would go down to the life insurance account or the retirement account and we would move those dollars around. We would take all those non-departmentals and the non-departmentals within themselves with the exception of those three listed that have their own reserves set aside for just this situation, those would cover themselves.

Alderman O'Neil asked is it possible to get a breakdown of who is responsible for what portions of those five items. What departments make up the \$574,000?

Mr. Sherman answered we would have to give you who is responsible for the whole \$9 million. Again, the \$8.5 million, and lets look at Health Insurance...

Alderman O'Neil interjected well somehow you determined that \$574,000 is...

Mr. Sherman replied is just health insurance but that may be, Finance may have \$1,000 left and Highway may be \$3,000 over but the budget when we take that \$8.5 million budget is just allocated by the Risk Manager. He just says okay well Highway has got 90 people and this is what I think their health insurance budget should be.

Alderman O'Neil stated so really the person we need to see to address the restricted items is the Risk Manager. Correct?

Mr. Sherman replied if you want to know why they spent \$9 million versus \$8.5 million, yes. Now part of what happens with health insurance, again we have the reserve set up and we pay actual claims. Because we have the reserve there, the Board knows that if they are short in health insurance that they have that reserve to back them up and that is usually one of the items that the Board is always skimming on because that \$500,000 very easily could have gone the other way depending on what illnesses or sicknesses came up.

Alderman Rivard asked the top part here, agencies, you take all the surpluses and move them over to the negative and we are \$27,000 short to make all these things whole. So now we need \$27,000 to make the top part of this program whole. That seems like a simple exercise, to get \$27,000.

Mr. Sherman answered yes. If you look down at the bottom under the non-departmental, you have about \$125,000 left in contingency that we can move.

Alderman Rivard stated so when you take the overspending of the schools and the food service and that other \$681, we need to come up with balances, we move the balances around and everything was whole minus \$27,000. So I understand how that works, good. So the School Department, contrary to what I read in the paper, they are not using this years budget to pay this \$1.4 million. They are not using the money here because we have already paid this.

Mr. Sherman replied yes, we have already paid that.

Alderman Rivard responded I know you may want to put it in a column and say they owe us this money. I understand that because they overspent their budget but in reality the bills have been paid and this \$1.4 million is paid because the other

agencies stayed within their budget and we transferred money. So, they are not required, they are not needed to go into their budget that we just approved and take \$1.4 million to pay this off.

Chairman Hirschmann stated there is still a deficit. There is an overall deficit is what they are trying to tell you. When you look at all the departments and look all the way down to the bottom, that \$678,000.

Alderman Rivard stated yes, that reflects the whole city. At the end of the year we were over by \$60,000 and you can put the blame on anybody you want and obviously you chose to blame it on the School.

Chairman Hirschmann stated Alderman O'Neil wants to blame it on insurance.

Alderman O'Neil replied so it is, it is factual, it is insurance. Health insurance, dental insurance, FICA, etc.

Chairman Hirschmann stated if the School didn't have their shortfall, we would only be \$27,000 short.

Mr. Sherman replied we wouldn't be short, we would have a surplus.

Alderman Rivard stated obviously you read the newspaper and the newspaper is saying that the School is going to use this year's money to pay of 1998 and that is not true. Mr. Sherman replied that hasn't been determined. It hasn't happened yet.

Alderman Rivard responded it hasn't happened yet. They satisfied their creditors and they have a new budget and they are starting over again and if some action isn't taken they are going to have the whole \$61 million we gave them or whatever we gave them. Is that true?

Chairman Hirschmann stated when we put the budget together for FY99 we said there was going to be a fund balance of so many dollars and we take that fund balance as part of our new budget. There is no fund balance he is telling us. There is a fund deficit so now the FY99 budget is already screwed up no matter how you look at it.

Mr. Sherman replied it would mean that you would have to go raise more in taxes.

Alderman Rivard stated the bottom line is, if I read this correct, in order to end last year whole we need to come up with \$638,000.

Chairman Hirschmann asked what did we guess the fund balance would be.

Mr. Sherman answered \$1,350,000 I believe so you are really almost \$2 million in the hole.

Alderman Rivard asked so you folks are trying to figure out how we are going to make up this \$678,000, where that is going to come from so we can clean up last year's business. Is that correct?

Mr. Sherman answered we are trying to figure up if 1) you even have the option to take the money from the other departments and put it against the \$1.4 million. That may not even be an option. It may be that each department, especially where you have the School that is a little bit different under the City Charter, that they have to stand alone. That may not be an option. That is Tom Clark's area and we will let Tom Clark deal with that.

Chairman Hirschmann asked so he is going to rule on that and tell us in the near future.

Mr. Sherman answered he is researching if that is an option and if that is not an option then the next option he is looking at is well how do you make up the \$1.4 million and if part of that can be charged in this year's budget.

Chairman Hirschmann stated so if what the Mayor was saying and what we were saying all along was that the School District is a City department, then these transfers would be okay but if they are actually an autonomous district then they are on their own and good luck to them. That is going to be interesting.

Alderman Rivard stated so what you are saying is this is a plan of action that may or may not satisfy everybody here. We may not be able to come up with this \$27,000 figure here, it may be \$1.4 million because you are saying that there is a possibility of not being able to transfer funds from different departments.

Mr. Sherman replied right. We may not be able to take Highway surplus, etc.

Alderman Rivard responded it may be illegal, but haven't we paid these things.

Mr. Sherman replied we paid it, but we don't have an appropriation to charge it against.

Alderman Rivard stated we paid it with surplus money from other departments.

Mr. Sherman replied right. We borrowed Highway's money to pay School but it is only cash, it is not an appropriation.

Alderman Rivard stated if the City Solicitor's Office says that what we did was inappropriate then you mean to tell me that we have to go back and get this \$1.4 million from the School.

Mr. Sherman replied your Charter tells you that is illegal they are out of the program.

Alderman Rivard stated it tell us that, I thought you said he was doing some research on it.

Mr. Sherman replied no, it tells you that overspending your appropriation is illegal.

Alderman Rivard stated oh yes, I understand that but he is not sure whether you can apply surpluses to this overspending by the School. You can in other departments but not the School because of the Charter?

Alderman Thibault stated what I want to know is before any of these actions can happen, although we have paid the bills, I realize that, but that action has to come back before the Board. The Board has to decide on if that is going to happen to begin with and if I understood what the Board was saying before that School already had the money they were supposed to have and if they do take it out of this year's budget and they end up \$3 million short at the end of the year, that is still their problem. They are going to have to try to figure ways of saving and getting that money someplace. They at least know they have a year to pick up that money whereas before he had a couple of months, right?

Chairman Hirschmann stated you three gentlemen were not on the previous Board. I was on the Board. We gave them the budget they requested, okay. That is it.

Alderman Thibault stated and it was understood that he was not going to get the Rooms & Meals tax too, is that correct.

Chairman Hirschmann replied that is correct.

Alderman O'Neil stated I want to get off the School because there is almost \$1.2 million in overspending in the restricted line items and that is why I was asking who is responsible for the overspending in those five line items.

Chairman Hirschmann replied it is all insurance items.

Alderman O'Neil stated some department has to be responsible for those.

Mr. Sherman replied it is about \$650,000.

Chairman Hirschmann stated we are self-insured so workman's compensation is a guess.

Mr. Sherman stated as is CGL and health insurance.

Alderman O'Neil stated we take a guess at a line item until we overspend it \$600,000.

Mr. Sherman replied that is why you have those restricted. In good years, you add to your insurance and in bad years you draw out of those resources. You have several million dollars to cover those deficits and that is what happens.

Alderman O'Neil stated what I am trying to get at here is we break agencies with the restricted and non-departmental items, it is two different pictures. Do you follow me? You are saying, you know we seem to be beating on Schools here but yet if we talk just the agencies, we are only \$27,000 short. That is why I would like to know, and you are saying we are okay because we have money to cover all these other things.

Chairman Hirschmann stated the Charter doesn't say that these are restricted items. The Charter doesn't say we can't overspend those. Those are guesses, but the Charter does say that the School Department can't overspend their budget. That is why the Mayor of this City is looking into it.

Alderman Rivard stated no department can overspend their budget.

Alderman Thibault stated they are not restricted like School is. School, we give them a total amount of dollars and they handle it with the School Board.

Alderman O'Neil stated I am going to ask you as a former Highway Commissioner, we get hit with two snowstorms a week for the entire Winter.

Alderman Rivard replied we come to the Board of Mayor and Aldermen for money for expenditures. We can't overspend our budget that we don't have. We

can't spend money that we don't have at the Highway Department. It is against the law.

Mr. Sherman stated what they end up doing is they will take it out of street resurfacing or something else.

Alderman Rivard stated we have been faced with that snow removal problem and we had to go to the Board and ask for approval.

Chairman Hirschmann asked, Randy, is contingency correct. Did we really not do much with contingency for a whole year?

Mr. Sherman answered we actually started at over \$200,000 and the reason it is down to \$138,000 is because we had to move money.

Chairman Hirschmann stated what I want to hear from the Finance Department is a recommendation because the Finance Officer is supposed to make recommendations to the City fathers. What is the Finance Department's recommendation to cover the deficit? An appropriation of what? Where is it going to come from? Tax money, where?

Mr. Sherman replied it has to come from an appropriation and the question to Tom Clark is can we take someone else's appropriation to cover School or does it have to come from a School appropriation and that is what Tom is researching. Either way, it has got to come from appropriation.

Chairman Hirschmann asked so if we back out of the School, we don't have a deficit.

Mr. Sherman answered you do not have an overall budget deficit, correct.

Chairman Hirschmann asked so what action at our next Board meeting are we going to take. I am trying to move forward.

Mr. Sherman answered well that is where Tom has to come to a legal determination of what your options are. You may have more than one option.

Chairman Hirschmann asked is Finance or the Legal Department going to give a report to the full Board at the next meeting.

Mr. Sherman answered I think Tom is going to come in and make a report. Hopefully after tomorrow's meeting with School we will have something for Tuesday night, but I don't know.

Alderman Girard asked has there been any determination made as to whether or not we can use money appropriated for FY99 to satisfy this debt.

Mr. Sherman answered no, he hasn't determined that yet either.

Alderman Girard asked so that is part of his consideration. Now if I read this sheet correctly, with or because of the School deficit, the general fund ran an overall deficit of nearly \$700,000 this year. So in essence we don't have, unless we are going to tax in FY99 for this, we don't have the money to cover that debt.

Chairman Hirschmann stated, Richard, what you missed was not only that but the discussion we had was the fund balance was \$1 million so this is the fund balance plus this so it is like a 50 cent increase.

Mr. Sherman stated we have got a \$2 million swing on those numbers.

Alderman Girard asked so the tax rate is automatically going up another 56 cents.

Mr. Sherman answered if the \$2 million holds.

Alderman Rivard asked is it possible that they are going to try to get \$1.4 million out of this year's budget to offset this. I mean is that one of the legal opinions?

Mr. Sherman answered that is one of the things that Tom is looking at.

Chairman Hirschmann stated they are already saying they are short. How can you do that year to year to year? They are saying they are short from FY99 and if you take this out they are really going to be short supposedly.

Alderman Girard stated I think it would do well to remind everybody here that the FY98 appropriation was almost to the penny what the School Department asked for.

Alderman O'Neil stated of which none of the players who requested it are still around. That is a fact. Chairman Hirschmann replied say that again.

Alderman O'Neil stated none of the people who were part of the Administration that requested that budget are still there. Chairman Hirschmann replied Mr. Healy

from the School Board was the Finance Chairman of the School Board and I said I don't want to pass that budget. I was here.

Alderman O'Neil stated the Superintendent wasn't here. They are the people who are committed to it and they are not working with it.

Alderman Girard stated yes, it was approved by the School Board but it should also be known that while Mr. Tanguay wasn't part of the process that developed it, he did come in during the last month or two of the process and was advised of the numbers and did not, at that time, raise any concerns. I realize it is a short period of time.

Alderman Thibault stated I understood that he was part of everything that went on. I asked him that before. He was part of the pre-negotiations.

Alderman Girard stated there were a lot of phone calls to and from California at the time. Mr. Tanguay was well apprised of the situation and the reorganizations that were proposed.

Chairman Hirschmann addressed Item 4 of the agenda:

Communication from Lloyd Basinow relative to the tax-exempt status of Optima Health and requesting a public hearing be held on such matter.

On motion of Alderman Girard, duly seconded by Alderman Thibault, it was voted to table this item.

There being no further business to come before the Committee, on motion of Alderman O'Neil, duly seconded by Alderman Rivard, the meeting was adjourned.

A True Record. Attest.

Clerk of Committee