



## Introduction

This matter concerns a request by the Woonsocket School Committee that the Commissioner of Education conduct a hearing "to examine and decide whether or not the City of Woonsocket's FY93 appropriation to the Woonsocket Education Department shall be increased by \$327,370." (Hearing Officer Exhibit 1). The request, dated November 18, 1992, was based on an October 28, 1992 budget review for the Woonsocket Education Department which projected expenditures for the 1993 fiscal year to exceed revenues by \$327,370.

Following the designation of the undersigned hearing officer to hear this matter, Dr. Frank A. Pontarelli, Director of Administration and Finance of the Department of Education, was appointed as special visitor. Dr. Pontarelli was authorized to request and require the production of all documents and information necessary to formulate an opinion as to the amount of monies needed to fund the School Committee's collective-bargaining agreements and other obligations incurred in the provision of educational services mandated by law and regulation. (Hearing Officer Exhibit 2).

Dr. Pontarelli issued a report in this matter on March 1, 1993. (School Committee Exhibit 16). He also testified at the hearing held on March 9, 1993.

## Background

On March 13, 1992, the Woonsocket School Committee submitted its proposed budget for the period of July 1, 1992 through June 30, 1993 to the Honorable Francis L. Lanctot, Mayor of the City of Woonsocket.

The proposed budget contained a transmittal letter from Dr.

Josephine Kelleher, Superintendent of Schools. The letter stated in part that

The budget total is \$30,749,086, which represents an increase of \$1.88 million over the original 1991-1992 budget of \$28,872,583, and \$1.54 million over our current projected 1991-92 expenditures of \$29,207,727. Of that \$1.54 million, \$1.34 is due to salary, benefits, and other contractual obligations, leaving only approximately \$200,000, or less than one percent of the total budget, in other increases.

Assuming that the Governor's FY 93 budget projections for aid to education remain unchanged, our proposed budget shows a \$469,261 surplus. The Committee's priorities for these funds are as follows:

- Increase educational and general maintenance supplies (items 200-343 and 200-347) so that we can return to the practice of purchasing supplies in the spring prior to the beginning of a fiscal year.
- Replace/update instructional computers.
- Increase general repair and maintenance (item 200-231). (School Committee Exhibit 5).

Incorporating the amount of the surplus into the budget, the proposed budget submitted to the Mayor in March 1992 totaled \$31,218,347.

The School Committee revised the budget in the next several months as revenue and expenditure projections changed. The surplus was directly applied to revenues in order to reduce the amount of the requested local appropriation. Further reductions in the budget were made by the School Committee.

As of October 31, 1992, the School Committee's revised proposed budget was \$30,421,029. This figure resulted in a deficit of \$327,370 from the \$30,093,659 appropriated by the City.

The budget deficit increased subsequent to the School

Committee's request for a hearing before the Commissioner. According to an Education Department budget report dated March 8, 1993, a deficit of \$641,303 existed as of February 28, 1993. (School Committee Exhibit 15).<sup>1</sup> The School Committee attributed the increase in the deficit primarily to a reduction in the amount of anticipated Medicaid reimbursement, a roof collapse at a school,<sup>2</sup> an oil leak at a school, and increases in special education tuitions, transportation costs, and utilities. A further increase in the deficit was avoided by personnel adjustments, reductions in educational supplies, library books, maintenance and cleaning supplies, a reduction in the accrual allowance, a freeze on professional days requiring a substitute teacher, and the elimination of the school golf team.

A further development which occurred subsequent to the filing of the request herein concerned the City's encumbrance of \$3 million of the School Committee's appropriation for the purpose of paying 1992-1993 salaries and expenses which came due and payable in July and August of 1993. While the City's encumbrance preserved the availability of funds for School Committee payments in July and August, it also denied the Committee the use of these funds in completing the 1992-1993 school year.

As background to the 1992-1993 budget, Dr. Kelleher described the substantial reductions in staff which had occurred in previous years in response to budget limitations. As a result of those

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- 1 The budget report contained updated projections for revenues and expenditures for 1992-1993.
  - 2 The Education Department is anticipating a \$50,000 insurance payment with regard to the roof collapse.

reductions, there were no more areas which could absorb staff cuts for the 1992-1993 school year. Because 85 percent of the Woonsocket Education Department budget is related to salary and fringe benefits,<sup>3</sup> the School Committee found itself in 1992 "faced with a deficit and [an] inability to make that up or to find ways to save money to meet that deficit . . ." (Transcript, p. 14).

On December 15, 1992, Dr. Kelleher notified the state Auditor General of the projected budget deficit and stated that

The Woonsocket School Committee will approve no further cuts to its Fy 93 budget, since to do so would, in its opinion, compromise its obligation to provide an appropriate education to Woonsocket's children under the requirements of Rhode Island education statutes and regulations. (School Committee Exhibit 14).

The School Committee's opinion with regard to educational requirements was confirmed by the testimony of the special visitor, Dr. Frank A. Pontarelli.

Dr. Pontarelli stated that the budget with the projected \$327,370 deficit was limited to the funding of obligations contained in the School Committee's collective-bargaining agreements and of programs and services mandated by state laws and regulations. He further testified that "all of the fat was cut" in Woonsocket prior to 1992-1993 when state aid to education was substantially reduced. (Transcript, p. 142). Dr. Pontarelli also questioned the amount of anticipated Medicaid reimbursement reported as projected revenue, stating that the amount may be high. His concern proved to be justified because, as previously

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3 The School Committee has collective-bargaining agreements with its teachers and support staff.

mentioned, the School Committee had in the meantime reduced its estimate of anticipated Medicaid revenue.

Mr. John P. Kuzmiski, Finance Director of the City of Woonsocket, testified that the City currently has a cumulative deficit dating back to 1990. The City notified the state Auditor General of the cumulative deficit and, pursuant to R.I.G.L. 45-12-22, submitted a plan to reduce the deficit.<sup>4</sup> By letter dated June 11, 1992, the Auditor General approved the City of Woonsocket's deficit reduction plan which "proposes to completely eliminate the City's general fund accumulated deficit of \$1,383,370 over a five year period beginning with the fiscal year June 30, 1993." (City Exhibit 2B). In accordance with the plan, the City's budget for the 1993 fiscal year contains a line item appropriation of \$260,000 to reduce the cumulative deficit.<sup>5</sup>

Mr. Kuzmiski further testified that the City has a projected operating deficit for the current fiscal year. The City has addressed this projected deficit, which is unrelated to the Education Department deficit, by conducting tax sales, instituting a purchase freeze, and pursuing other money-saving options.

#### Positions of the Parties

Although it admits that its projected budget deficit is a

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4 The text of R.I.G.L. 45-12-22 is attached as Appendix I.

5 Although the statute requires a city or town with an accumulated deficit to reduce the deficit to 2 percent of its tax levy, the City chose to totally eliminate the deficit. Mr. Kuzmiski testified that the City placed top priority on the quick elimination of the cumulative deficit out of concern for its bond rating and the interest rates at which it is able to borrow money. As a result, it budgeted \$260,000 for this purpose rather than the \$175,000 which would have been needed to meet the 2 percent statutory requirement.

"moving target," the School Committee contends that the evidence shows that it has "cut to the bare bones" and the entire budget represents the Committee's commitment to meet its obligations pursuant to collective-bargaining agreements and state education laws and regulations. (Transcript, pp. 184, 186). As such, the City must fund these obligations under the case of Exeter-West Greenwich Regional School District v. Exeter-West Greenwich Teachers' Association et al. The School Committee argues that the City's efforts to eliminate its own accumulated budget deficit pursuant to R.I.G.L. 45-12-22 have no bearing on the City's duty to fund a school budget which is based on contractual obligations and mandated programs and services. The Committee asserts that the City could begin to fund the school deficit and remain in compliance with R.I.G.L. 45-12-22 by revising its deficit reduction plan to the 2 percent statutory requirement and shifting \$85,000 to the Education Department.

The City contends that the School Committee failed to meet its burden of establishing with certainty the amount of funds it needs to finance its budget. It argues that the Commissioner lacks jurisdiction to complete the School Committee's budgetary process. The City contends that countervailing statutory considerations are involved in this matter, and that the two statutes require the City to do the impossible. The City stresses the importance of retiring the cumulative deficit and argues that R.I.G.L. 45-12-22 must provide relief to the City from funding an uncertain school budget.

## Discussion

In Exeter-West Greenwich Regional School District v. Exeter-West Greenwich Teachers' Association et al., 489 A.2d 1010 (R.I. 1985), the Rhode Island Supreme Court examined the relationship between a school committee and the city, town or district it serves. The Court initially observed that the Rhode Island Constitution guarantees the right to an education by making it "the duty of the general assembly to promote public schools, and to adopt all means which they may deem necessary and proper to secure to the people the advantages and opportunities of education." (Article XII, section 1). The Legislature delegated this responsibility to the school committees of the various cities and towns pursuant to R.I.G.L. 16-2-2:

Except as herein otherwise specifically provided, every town shall establish and maintain for at least one hundred eighty (180) days annually exclusive of holidays a sufficient number of schools in convenient places under the control and management of the school committee and under the supervision of the board of regents for education.

The Court further observed that the school committee has the statutory power to bargain and enter into contracts. School committee contracts are binding on the city, town or district and must be funded by those entities. The contracts cannot be voided by the existence of insufficient appropriations. To quote the Court:

a city or town is bound by and must fund the valid collective-bargaining agreements entered into by its school committee as well as other obligations incurred in the providing of services mandated by law. 489 A.2d at 1020.

The uncontradicted evidence in this proceeding shows that the 1992-1993 budget for which the School Committee seeks funding is

entirely attributable to contractual obligations and educational programs and services required by law. The budget deficit, which stood at \$641,303 as of the date of the hearing,<sup>6</sup> must be funded by the City of Woonsocket under the Exeter-West Greenwich case.

Contrary to the contentions of the City, we do not believe that the School Committee failed to establish with certainty the amount of its budget deficit. Recognizing that a budget is essentially a projection over time, we find that the School Committee sufficiently demonstrated the basis and development of the deficit for the 1992-1993 school year. The evidence presented by the School Committee documents the existence of a \$327,370 deficit at the time it filed its request for a hearing, and the existence of a \$641,303 deficit at the time of the hearing.

Nor do we find any statutory conflict which would remove this case from the holding in Exeter-West Greenwich. We do not read R.I.G.L. 45-12-22 as precluding or excusing the City from meeting its obligation under the Exeter-West Greenwich case. The City, by stressing the importance of its cumulative and current deficits and its deficit reduction plan under R.I.G.L. 45-12-22, seems to suggest that those matters and the appropriating authority's interests should receive priority over the School Committee's needs during lean fiscal times. The Exeter-West Greenwich decision refutes any such priority, stating as follows:

To those who assert that we are upsetting the political balance between a school committee's authority to contract and the town or city

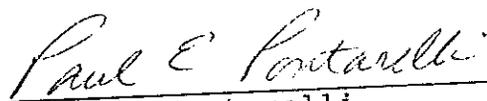
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6 This amount is to be reduced by any amount of insurance payment that the School Committee receives with regard to the school roof collapse.

council's or financial town meeting's authority to appropriate, we answer that this is not a situation created by the courts. The Constitution and the Legislature in its several enactments over the years have erected a structure of laws that we are under a duty to read together and interpret. Having done so, we have come to the conclusion and we emphasize that budgets submitted by school committees to the appropriating authority to fund collective-bargaining agreements and to fund mandated programs and services must be funded. 489 A.2d at 1020.

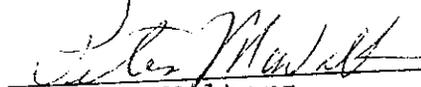
Conclusion

The School Committee's 1992-1993 budget, including its current \$641,303 deficit, consists of expenditures arising from contractual obligations and mandated programs and services. The deficit of \$641,303, minus any school-roof insurance payments, must be funded by the appropriating authority. The City of Woonsocket is therefore ordered to appropriate the additional sum of \$641,303 for city schools for fiscal year 1992-1993. If the School Committee receives any insurance payments with regard to the repair of the school roof, the amount of those payments shall be deducted from the amount to be funded by the City.



Paul E. Pontarelli  
Hearing Officer

Approved:



Peter McWalters  
Commissioner of Education

Date: May 4, 1993

APPENDIX I

**45-12-22. Accumulated deficits.** — (a) Any town or city which has an accumulated general fund deficit at the end of its fiscal year ending in 1979 or which has subsequently accumulated a deficit, within two successive fiscal years subsequent to its 1979 fiscal year, which exceeds an amount equal to two percent (2%) of its most recent tax levy, shall make appropriations, as provided below, to reduce the deficit to two percent (2%) of its tax levy. In the calculation of an accumulated general fund deficit, any accumulated deficit of the school special revenue fund shall be included.

(b) Accumulated general fund deficit at the end of the fiscal year ending in 1979, which is in excess of two percent (2%) of its tax levy for that year: Any city or town with such deficit shall adopt, before the close of its fiscal year ending in 1980, a plan of annual appropriations, to be approved by the auditor general, to eliminate the amount of the deficit that exceeds two percent (2%) of its tax levy in its most recent fiscal year.

(c) General fund deficits accumulated subsequent to the fiscal year ending in 1979:

(1) Any city or town, which has a general fund balance at the end of its fiscal year ending in 1979, but subsequent thereto in a period of two (2) successive fiscal years, has accumulated a general fund deficit in excess of two percent (2%) of its tax levy for the most recent fiscal year, shall provide sufficient funds, by annual appropriation during a five (5) year period beginning with the second subsequent fiscal year, following the two (2) successive years of deficits mentioned above, to eliminate that portion of the deficit which is in excess of two percent (2%) of its most recent tax levy. The annual appropriations may be equal or diminishing amounts during the five (5) year period.

(2) Any city or town, which has a general fund deficit of less than two percent (2%) of its tax levy at the end of its fiscal year ending in 1979 and subsequently has accumulated a deficit that exceeds two percent (2%) of its most recent tax levy at the end of a period of two (2) successive years subsequent to its fiscal year ending in 1979, shall provide sufficient funds by annual appropriations to eliminate the excess in a manner similar to that provided in subsection (c)(1) above.

(d) In the event that the planned reductions, as provided for in subsections (b) and (c) above, are not realized in any one year, appropriation for the reductions shall be provided cumulatively in the next annual budget of the town or city. In determining the accumulated deficit, the accounting principles to be used shall be in accordance with § 45-10-5.1 entitled "Uniform accounting procedures".