

STATE OF RHODE ISLAND
AND
PROVIDENCE PLANTATIONS

COMMISSIONER
OF
EDUCATION

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Woonsocket School Committee

v.

City of Woonsocket

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DECISION

Held: The School Committee is not required to include in the school budget, or otherwise be required to pay, annual debt service on school housing bonds. The city of Woonsocket illegally withheld funds appropriated to the Woonsocket School Committee in fiscal years 1998 and 1999 after the School Committee eliminated debt service expense from the school budget.

DATE: February 21, 2000

Travel of the Case

On March 15, 1999 the Woonsocket School Committee, through its counsel, requested an immediate hearing before Commissioner Peter McWalters to resolve an issue arising under school law, i.e. whether the City could retain school housing aid paid by the state or was required to pass through such funds to the School Committee. The undersigned was designated to hear and decide this appeal, and requested that the parties establish a hearing schedule by agreement. They did so, and hearings were held on June 21, 1999 and August 16, 1999. Thereafter both parties requested the opportunity to submit memoranda on the legal issues involved, and written legal arguments were submitted on November 22, 1999.

At the time of the initial hearing in this matter, counsel for the School Committee verbally amended his appeal to withdraw the request for an order requiring the City to pass through school housing aid to the School Committee. It was asserted that school housing aid should, in fact, be paid to the City, as the bonded indebtedness was a municipal liability. Counsel thereupon requested an order for restoration of the full school appropriation for fiscal years 1998 and 1999 since debt service payments had been deducted from funds appropriated for the operation of Woonsocket public schools.

Issues:

- Is the Woonsocket School Committee required to include as an expense in the school budget those amounts necessary to pay debt service on school housing bonds issued in 1982, 1984, and 1994?
- Is the City required to reimburse the school committee for sums withheld from the appropriation for schools in fiscal years 1998 and 1999 and used by the City to pay the debt service eliminated by the School Committee from the school budget in those years?

Positions of the Parties

The School Committee

Although bonded indebtedness for school housing costs had traditionally been included in the Woonsocket school budget, on July 18, 1997 Superintendent Anthony D'Acchioli notified Mayor Susan Menard of the School Committee's decision to eliminate payments for debt service on school housing bonds from its budget for fiscal year 1998. (S.C.Ex.1) The School Committee took the position at that time that it had no legal obligation to pay bonded indebtedness for capital improvements to school buildings, and that such payments were the responsibility of the City.

Counsel for the School Committee reasserts such position at the hearing before the Commissioner's designee. He argues that the School Committee's decision to eliminate this expense from the school budget was legally supportable. It was action required by the financial constraints imposed on the Committee by the sharp increase in the amount of debt service (from \$97,000.00 to \$389,000.00 in fiscal year 1996), and by the fact that from 1994 forward the school budget had been "level funded" by the City at \$11,152,000.00. In its written memorandum, the School Committee takes the position that it was only by elimination from the school budget of the \$331,393.00 of debt service it would otherwise pay in 1998 that school funding would be sufficient for the committee to meet contractual obligations and to operate schools in accordance with legal mandates. (page 1 of the School Committee's memorandum). Prior to taking such action, the School Committee had sought to ease the burden of increased debt service by requesting that the city pass through sums it received annually from the state as school housing aid. This request had been rejected by city officials. The School Committee thus maintains that its elimination of debt service on school housing bonds from the school budget was driven by financial necessity.

In support of its position that debt service is a debt of the city, the School Committee notes that, almost invariably, other communities in Rhode Island do not include debt service in the school budget. In this way costs for school construction are separate from the operational costs of public schools, and the level of school funding is not dependent on the variability of the cost of school construction and renovation, and the

bonded indebtedness usually associated with such projects. Counsel argues that the City of Woonsocket concedes the illegality of the past practice when it confirms that with respect to bonded indebtedness for new school construction, the City will make the annual payments required from the city's General Fund. Counsel argues that the City provides no valid, or even logical, reason why this procedure should not be followed with respect to existing bonded indebtedness.

Since the School Committee had no legal responsibility to repay bonded indebtedness, once it made the decision to eliminate the debt service expense from the school budget, city officials could not then force the Committee to pay such obligation by withholding part of the school appropriation. Counsel argues that the City violated the law by retaining the amount needed to pay the debt service from the School Committee's appropriation and applying such sums to pay the debt service due in both 1998 and 1999. The committee cites well-settled precedent that once funds have been appropriated for the use of the school committee, expenditure of those funds is within the sole prerogative of the local school committee. Dawson v. Clark, 93 R.I. 457, 176A2d 732(1962). Since the City has unilaterally withheld \$331,393 and \$322,769 from the appropriation for schools in fiscal years 1998 and 1999, such monies must be restored to the current school budget, argues counsel. Although the City contends that any shift in the repayment procedure for existing school bonds and any restoration of funds previously withheld would have a detrimental effect on the City's credit rating, the School Committee argues that such contention has not been proven.

City of Woonsocket

Counsel for the City argues that it has declined to adopt a new procedure for payment of outstanding bonds for school housing because school committees in Rhode Island are legally required to include debt service on school bonds in their comprehensive budgets.¹ (City of Woonsocket memorandum at page 2) As authority for this proposition counsel points to R.I.G.L. 16-7-28's requirement that communities keep separate revenue and expenditure records for all school purposes including capital expenditures. He further

¹ At the time of hearing, the City presented evidence related to other additional reasons for its position that the School Committee must continue the practice of including debt service on school housing bonds in the

cites R.I. Code Reg. 08-000-019 as establishing that “school purposes’ includes the cost of the (a) operation of the schools (b) school debt services and (c) school capital outlay” Since the cost of school housing is either a “school debt service” or a “capital expenditure” under this definition, counsel argues that the School Committee must continue to include in its budget debt service on existing school housing bonds.

The city presents an alternative argument which presumes that the School Committee is not and was not legally required to include the debt service payments in its comprehensive budget for schools. As we understand it, the argument is that even if the School Committee is not legally responsible for debt service payments, and the City incorrectly used a portion of the school appropriation to pay such expense, the “net funding” available for school operations in 1998 and 1999 was nonetheless sufficient. Withholding of funds from the School Committee in fiscal years 1998 and 1999 did not result in a violation of the requirement that the City provide an adequate minimum budget for school operations pursuant to R.I.G.L. 16-7-23. Counsel submits that there is no evidence that the “net appropriation” to the School Committee, i.e. after reduction by the sums retained by the City, was insufficient to support the basic school program. If such claim had been made, and it was not, the City argues that it would have submitted evidence that the school department ended each of the years in question with a substantial surplus.

The city also points out that the amount of funding actually available for school operations remained steady or increased slightly from fiscal years 1997-2000 (City Ex.A.). Thus, Woonsocket has met requirements that for fiscal years 1998 through 2000 it “contribute local funds to its school committee an amount not less than its local contribution for schools in the previous fiscal year”.R.I.G.L. 16-7-23. Counsel takes the position that the City has fulfilled all statutory requirements with respect to the funding of the city’s public school operations, including maintenance of local effort, even though the full appropriation made to the School Committee was not made available to it in 1998 and 1999.

school budget. No arguments were presented with respect to these other reasons, therefore we must conclude that the City determined that the evidence was insufficient to support them.

Findings of Relevant Facts

- ❖ Prior to fiscal year 1998 the expense of debt service on school housing bonds was included as an expense of the Woonsocket School Committee budget.²
- ❖ On July 18,1997 the Woonsocket School Committee notified Mayor Susan D. Menard of its decision not to include debt service on school housing bonds as an expense in the school budget for fiscal year 1998 and in any future school budgets. S.C. Ex.1.
- ❖ The city of Woonsocket’s appropriation for schools from 1994-2000 has been \$11,152,000.00 in each year. S.C.Ex.4.
- ❖ Commencing in fiscal year 1998 the City of Woonsocket withheld from the monies it had appropriated to the School Committee the amount required to pay debt service on school housing bonds, i.e. \$331,393.00 in 1998 and \$322,769.00 in 1999. S.C. Ex.4; Stipulation of fact Tr.Vol.I p.27.
- ❖ The monies were withheld and applied to the debt service payments due in each of those fiscal years over the objection of the Woonsocket School Committee.
- ❖ The City has agreed that the obligation to repay bonded indebtedness for future public school construction and renovation in Woonsocket will be undertaken by the City and more specifically agreed that such expenses will be paid from the City’s General Fund.Tr.Vol.I p27.

Decision

Inclusion of debt service on school housing bonds as an expense of the Woonsocket school budget is a practice which is evidently rooted in tradition, and not supported by any provision of school law. We are aware of no specific discussion in Title 16 which addresses the issue of which entity of municipal government must include the expense of bonded indebtedness for school construction in its budget. It is most likely a proposition of law resulting from basic logic and the fact that the entity with authority to issue bonds is the city or town, and it is the municipality which pledges its “full faith and credit” in support of the bond repayment. Two statutes would appear to relate to the issue. R.I.G.L. 45-12-1, entitled “Payment of indebtedness” provides:

...Each city and town shall annually appropriate a sum sufficient to pay the principal and interest coming due within the year on all its general obligation bonds and notes to the extent that moneys therefor are not otherwise provided.

² All of the relevant facts were the subject of a stipulation of fact, except where otherwise noted in this decision. See Transcript Vol. I. p. 27.

R.I.G.L. 45-12-4.2, entitled “Borrowing in anticipation of federal or state grants” provides:

...To the extent that the state or federal aid actually received is insufficient to pay the principal and interest on those notes, the city or town shall appropriate a sum sufficient to make the payments.

Reference to these provisions is made because they form part of the statutory context; however, it is not within the authority of the Commissioner of Education to interpret and apply the laws of municipal finance, even when they may be more enlightening on an issue “arising under” school law. Our analysis is grounded in two principles of school law - that cities and towns in Rhode Island have title to school buildings, and school committees have no authority to issue bonds. Therefore, we find that liability for repayment belongs to the city and not to the school committee. While it may be that a given city or town may transfer this liability to its school committee, this would require the consent of the parties. The Woonsocket School Committee withdrew its consent to the inclusion in its budget of this expense, and so notified city officials on July 18, 1997. This terminated the pre-existing arrangement for debt service payments.

In this case the City has essentially conceded that the liability for repayment of future bonded indebtedness for school construction rests with the City of Woonsocket. The city offers no adequate explanation as to why liability for existing school housing bonds should be any different. The argument that the current procedure used for payment of annual debt service (i.e. payment from the school budget) must be maintained because there would otherwise be a violation of covenants made in issuing the bonds was not substantiated by the testimony in this case. In fact, no argument to this effect was included in the City’s memorandum. The argument that a Department of Education regulation requires that the School Committee pay debt service on school housing bonds is weak and is undermined by the inconsistent position taken by the City with respect to payment of future bonded indebtedness. Our record contains evidence of a specific commitment that such expenses will be paid from the city’s General Fund. Although there was some testimony regarding the possibility of an adverse effect on the City’s credit rating if a ruling were rendered in favor of the School Committee, this evidence was inconclusive.

Even if adverse financial impact on the city's credit rating had been established, it would not alter our conclusion that debt service is the financial responsibility of the city

The City of Woonsocket clearly should not have withheld a portion of the School Committee's appropriation to reallocate these amounts for debt service payments which we have found are the financial responsibility of the City. The question of whether the School Committee is now entitled to reimbursement for the amounts withheld to date is the second issue in this dispute. It is likely that the merits of the claim for reimbursement fall squarely within the parameters of Dawson v. Clark, 93 R.I. 457, 176 A 2d 732 (1962). In that case the Rhode Island Supreme Court enunciated a well-settled principle of school law that once an appropriation is made by a city council or town meeting for the use of the school committee, the expenditure of those funds so appropriated is within the committee's sole and exclusive jurisdiction. Retention and reallocation of funds previously appropriated to the school committee invaded the "sole and exclusive" jurisdiction of the Woonsocket School Committee over these funds. The School Committee did not acquiesce in this situation, nor is there any evidence that the Committee sat on its rights such that it is estopped from claiming these funds.

Restoration of the full amount of the prior years' appropriation is a remedy which will bring the local contribution in those years to the level of the previous fiscal year, in accordance with the maintenance of effort requirement set forth in R.I.G.L. 16-7-23. While the City is correct in arguing that there is no evidence in this record that the School Committee was unable to provide a basic educational program with the funds it had on hand in 1998 and 1999, such proof cannot be made a precondition of recovery of funds to which the Committee would otherwise be entitled under the maintenance of effort provision. Even assuming that the funds made available to the School Committee in 1998 and 1999 were sufficient to provide the basic education program as required by 16-7-24, the School Committee was nonetheless entitled to the full amount appropriated in those years under the Court's ruling in Dawson v. Clark, supra. For the foregoing reasons, the City is ordered to restore forthwith the monies previously withheld from the appropriation of the Woonsocket School Committee, and to cease and desist from withholding any future amounts so appropriated.

The real controversy here is not so much the legal issue of responsibility for debt service, but rather the fiscal issue of local funding of the school budget. Elimination of debt service as an expense of the school budget as of 1998, while maintaining a level appropriation during 1998 and 1999 (and, presumably fiscal year 2000) generates an additional three hundred thousand local dollars annually for school operations. Increasing local funds for school operations is contrary to the fiscal policy of level funding the school budget, which the City of Woonsocket has done since 1994. Such is the fortuitous effect of this decision. We do not have in the record before us evidence which would substantiate any claim that this additional money constitutes a “windfall” nor can we conclude that such money is necessary to provide an adequate educational program. While we are confident that our decision correctly addresses the legal issues presented and fulfills the Commissioner’s responsibility to enforce education laws, we suggest that future local decisions with respect to school funding be made only after members of the local community take a close and objective look at the adequacy of the overall funding for Woonsocket public schools.

Kathleen S. Murray
Hearing Officer

APPROVED:

Peter McWalters
Commissioner

Date