

STATE OF RHODE ISLAND
AND
PROVIDENCE PLANTATIONS

COMMISSIONER OF EDUCATION

WARWICK SCHOOL COMMITTEE

V.

CITY OF WARWICK

Decision

Held: City of Warwick violated R.I.G.L.
16-7-23(b) by failing to make a
supplemental appropriation of
\$600,000 to the School Committee.

Date: January 28, 2005

Introduction

This matter concerns a claim by the Warwick School Committee that the City of Warwick violated R.I.G.L. 16-7-23 by failing to transfer \$600,000 of state aid for education to the School Committee's account.¹

For the reasons set forth below, we find merit in the School Committee's claim.

Background

On or about April 28, 2003, the Warwick School Committee submitted its fiscal year 2004 budget to the Mayor of Warwick. The School Committee's budget included a revenue projection for state operational aid to education in the amount of \$33,490,000. The revenue projection was based on the Governor's proposed amount of state education aid for Warwick, minus the state's literacy set-aside allocation.

The literacy set-aside allocation amounted to \$854,007. The School Committee, consistent with its historical practice, did not include the literacy set-aside funds as a revenue item in its budget nor did it include costs associated with the literacy programs as expenditures. The School Committee's fiscal year 2004 budget was based on estimated expenditures of \$140,826,000.

After reviewing the School Committee's proposed budget, the Mayor submitted a fiscal year 2004 city budget to the Warwick City Council. The Mayor's budget proposed funding the schools in the amount of \$135,871,341. In reporting state education aid, the Mayor's budget used the Governor's proposed amount, \$34,342,455. This amount included the literacy set-aside allocation.

During the City Council's budget hearings in May and June of 2003, the School Department's director of business affairs notified the City's Finance Director that the Mayor's budget overstated the state aid for education revenue projection by erroneously including the literacy set-aside amount. The City's Finance Director agreed that a mistake had been made and he prepared a budget amendment for the City Council's consideration that corrected the inaccurate state revenue figure.

¹ The Commissioner of Education designated the undersigned-hearing officer to hear and decide this matter. A hearing was held on April 6, 2004. The parties subsequently filed memoranda.

On June 5, 2003, the Mayor presented the City Council with a budget amendment that reduced the state education aid revenue projection by \$854,007. In doing so, the Mayor explained the School Committee's historical practice of omitting literacy set-aside revenue and expenditures from its budget. The Mayor's remarks prompted a discussion among the City Council members about the extent of financial disclosure in the School Committee's budget, the shifting of School Committee monies across budget line items, and the impact of the resulting concerns on the level of city funding for the schools.

The City Council did not take any specific action with regard to the Mayor's proposed amendment of the state education aid revenue projection. Instead, on June 6, 2003, the Council adopted a city budget which included an appropriation to the School Committee in the amount of \$135,653,602. That amount represented a 4% increase over the City Council's appropriation for schools for fiscal year 2003.²

In July 2003, the General Assembly approved a state education operational aid amount which increased the Warwick school district's allocation by \$600,000 over the Governor's proposal. The City has refused the School Committee's subsequent requests to credit the additional \$600,000 to its account.

Positions of the Parties

The School Committee contends that it is entitled to the additional \$600,000 in state education aid under the plain mandate of R.I.G.L. 16-7-23(b). The Committee argues that there is no evidence that the City Council intended to establish a fixed revenue budget that excluded literacy set-aside funds, and that the Council did not and could not under the City Charter deliberately overstate School Committee revenues to offset an anticipated revenue increase by the General Assembly. According to the School Committee, the City's retention of the \$600,000 is a clear supplanting of local funds that is prohibited by the statute.

The City contends that, unlike prior years, the municipal budget for fiscal year 2004 overstated anticipated revenue from education aid and contained a line item for that

² For fiscal year 2003, the City Council approved a budget that included \$130,436,156 for the School Committee. [Petitioner's Exhibit 10, pp. 26, 28]. The fiscal year 2004 appropriation was a \$217,739 reduction from the amount of school funding proposed by the Mayor.

revenue clearly in excess of the corresponding state aid revenue line item in the School Committee's budget. As a result, the 2004 municipal budget "contains a 'structural deficit' which must be made up." [City memorandum, p. 9]. The City is prepared to make adjustments elsewhere in the municipal budget to address this revenue shortfall. The appropriation to schools will not change, and the School Department will receive all of the local funds appropriated by the City Council and all of the funds earmarked for education aid by the state. In the case of the latter, this will be \$34,090,000 (the \$33,490,000 stated in the School Committee's budget plus the additional \$600,000 July 2003 allocation) and all literacy set-aside funds. According to the City, this case is an attempt by the School Committee to exploit the erroneous inadvertent overstatement of state aid revenues.

Discussion

The statute at issue in this case, R.I.G.L. 16-7-23(b), includes the following language:

Whenever any state funds are appropriated for educational purposes, the funds shall be used for educational purposes only and all state funds appropriated for educational purposes must be used to supplement any and all money allocated by a city or town for educational purposes and, in no event, shall state funds be used to supplant, directly or indirectly, any money allocated by a city or town for educational purposes. All state funds shall be appropriated by the municipality to the school committee for educational purposes in the same fiscal year in which they are appropriated at the state level even if the municipality has already adopted a school budget. All state and local funds unexpended by the end of the fiscal year of appropriation shall remain a surplus of the school committee and shall not revert to the municipality.

We find two facts to be crucial to the analysis of this case. First, it is the Mayor's budget that contains the erroneous information concerning state aid to education. While the School Committee's practice of not reporting state literacy set-aside revenue or expenditures in its budget can be debated by accountants, it is totally unrelated to the overstatement of state education aid that appeared in the budget submitted to the City Council. That error took place on the City side of the ledger.

Second, the City Council was notified of the erroneous overstatement of state aid prior to its adoption of a budget. As a result, the City Council was fully informed of the literacy set-aside funding when it set about determining the School Committee's level of funding. This was not an error that surfaced after the City Council relied upon faulty information in adopting a School Committee budget. To the contrary, the overstatement of state aid was the subject of a budget amendment by the Mayor and an extended discussion by the City Council during the budgetary process.

The fact that the City Council chose not to modify the School Committee's revenue portion of the City budget does not change the reality that the Council acted with full knowledge of the \$854,007 overstatement of state aid. The Council knew that \$854,007 of the \$34,342,455 state education aid reported in the budget under consideration was a grant to a restricted account for which corresponding expenditures were not reported in the budget. The \$854,007 state revenue component therefore was illusory with regard to the Committee's general operating budget. The City could have amended the Mayor's budget to eliminate the overstated state education aid and accurately delineate the state's financial contribution to the general operations of the schools, but it did not do so. That did not alter the known fact that state aid was overstated and, as a consequence, additional local funds would be required to fund the total appropriation. The Council was aware of this situation when it decided to increase the 2004 school budget by 4% from the amount it approved the prior year. To find a real "structural deficit" in the City's budget in these circumstances, one would have to ignore the City Council's detailed prior knowledge of this situation. Instead, we find that the City Council knowingly created a paper "structural deficit." Given the Council's prior knowledge of the error and its opportunity to make the necessary ministerial correction, it would not be an equitable resolution of this dispute to award \$600,000 in state funds to the City to help cure its own paperwork mistake.

In any event, case law and §16-7-23(b) lead us to the same result. In Dawson v. Clark, the Rhode Island Supreme Court stated that "once an appropriation is made by a city council or town meeting for use of the school committee, the expenditure of those funds so appropriated is within the committee's sole and exclusive jurisdiction."³ In June

³ 93 R.I. at 460 (1962).

2003, the City appropriated \$135,653,602 to the School Committee. The Committee is entitled to spend those monies and the City is obligated to fund the appropriation. In July 2003, the General Assembly allocated an additional \$600,000 in state education aid to the City. As §16-7-23(b) states, these funds are to supplement previously-allocated monies and they must be appropriated by the municipality to the school committee in the same fiscal year “even if the municipality has already adopted a school budget.” The additional \$600,000 in state aid is not to be distributed through the previously-adopted school budget. It is to supplement that budget.⁴ In this case, it is to be added to \$135,653,602 previously appropriated to the School Committee.⁵

Conclusion

The City of Warwick violated R.I.G.L. 16-7-23(b) by failing to make a supplemental appropriation of \$600,000.00 to the School Committee for fiscal year 2004. The City is ordered to appropriate an additional \$600,000 to the School Committee forthwith.

Paul E. Pontarelli
Hearing Officer

Approved:

Peter McWalters
Commissioner of Education

Date: January 28, 2005

⁴ The City’s arguments relative to its payment of the \$600,000 to the School Committee are without merit because the payment occurs within the previously-adopted school budget, whereas the statute clearly requires that the payment supplement the previously-adopted budget.

⁵ The School Committee also is entitled to the \$874,007 in State literacy set-aside funds for fiscal year 2004.