

City of Cambridge

The Finance Committee held a public meeting on February 28, 1997, beginning at 9:25 a.m. in the Ackermann Room for the purpose of discussing FY98 budget issues as they relate to school and housing costs.

Present at the hearing were Councillor Michael A. Sullivan, Chair of the Committee, Vice Mayor Kathleen L. Born, Councillor Henrietta Davis, Councillor Francis H. Duehay, Councillor Kenneth E. Reeves, Mayor Sheila T. Russell, Councillor Timothy J. Toomey, Jr., Councillor Katherine Triantafillou, and City Clerk D. Margaret Drury. Also present were Robert W. Healy, City Manager; James Maloney, Assistant City Manager for Finance, Susan Schlesinger, Assistant City Manager for Community Development; James Conry, Executive Director of Management Services, School Department; Louis DePasquale, Budget Director; and James Lindstrom, City Auditor.

Councillor Sullivan convened the hearing and explained the purpose. He noted a new report from the School Department which shows a \$2.6 million FY 98 budget shortfall. (Attachment A). Councillor Sullivan said that both James Maloney and James Conry have run some numbers for discussion at this meeting.

Councillor Duehay requested that Mr. Conry go over the budget figures and asked whether \$2.5 million represents the entire shortfall, as scenario four in Attachment A seems to indicate additional shortfalls.

Mr. Conry said that if \$2.3 million of additional funds are received, there is still a reduction from current level funding. Reduction and reallocation will still be required. The Morse relocation not otherwise funded. There is also an issue regarding high school funding. There are no funds included for a second CRLS transition year. These would have to come out of reallocation for top priorities.

Councillor Duehay asked about enrollment for next year. Mr. Conry said they expect a slight increase. In response to a question about charter school enrollment, he said that the present enrollment for the Banneker school is 176 students, as of February 15, of which approximately 145 are Cambridge students.

Councillor Sullivan asked whether the FY97 staffing reductions were implemented. Mr. Conry said that this year there were nine involuntary transfers. All have educational responsibilities this year, unlike in past years where involuntary transfers occurred. The additional 7.5 teaches reduction did not take place because enrollment did not allow planned classroom reductions.

Mr. Conry said the School Department can achieve the target reductions without any layoff of tenured teachers. He noted that there are 21 extended term substitutes working in the system.

Mayor Russell asked about the other planned staff reductions. Mr. Conry said that he expects that these amounts will actually come from reductions in nonsalary expenses.

Councillor Sullivan asked whether there will still be outstanding financial demands at final budget time. Councillor Duehay said that he agrees with Councillor Sullivan's concerns.

Mr. Conry said that while the School Department and Committee are working hard to resolve the issues, some still exist. The high school budget committee wants to have the charter school funds, and has a list of ways to spend this money. However they also want a second transition year which is not budgeted at this time. Mr. Conry said that there are also needs for roof repair and a language lab at the high school.

Councillor Duehay asked if there is an ongoing maintenance program at the high school. Mr. Conry described h.v.a.c. maintenance, painting and an energy savings program. He acknowledged a need to put more money into maintenance and refurbishing.

Councillor Sullivan asked Mr. Maloney to discuss tax issues. Mr. Maloney distributed a document entitled "Free Cash Analysis." (Attachment B).

Mr. Healy said that it appears that none of the items under discussion in the school budget are nonrecurring, and thus are not truly free cash items.

Councillor Duehay asked about housing. Mr. Healy said that if there were an agreement on a package for housing, so that it was a one time expense, it could be a free cash expense.

Councillor Duehay said that there is a growing awareness of the effects of welfare cuts on residents as well.

Mr. Healy said that depleting free cash to anything below a \$15 million balance is dangerous. A twenty million dollar balance would be ideal. Mr. Maloney said that over the past years, free cash has been able to be replenished, but now accounts receivable are down and thus there is not an expectation of a growth in free cash. This is the result of strong economy in which businesses have been able to pay their taxes.

Councillor Sullivan suggested \$2.3 million for schools and \$2.7 million for housing.

Mr. Healy said that he believed \$2.25 million for housing and \$2.3 million for schools could be do-able possible.

Councillor Sullivan noted that schools \$3 million shortfall becomes \$15 million in five years. He asked how the City Council can be assured that this really is a transition year.

Councillor Sullivan noted that this increased allocation will entail a seven percent tax increase.

Councillor Reeves noted that for each of the last five years, the School Committee has had a shortfall of at least \$1 million. Mr. Healy said each year the City allocates a 2 1/2 percent increase to the schools. They don't have another source of funds except state aid.

Mr. Conry said that the schools operating budget has gone up 2 1/4 percent each of last four years. He pointed to three significant restructuring processes that will be going on next year: the high school, elementary school facilities and new leadership.

Councillor Reeves asked about increases in tax revenue from rent control properties. Mr. Healy said that there is \$10 million increase in the FY 98 budget. That means there must be a \$10 million tax increase, but \$3 million will come from new growth, with \$2 million from increased valuations of rent control properties, \$1 million from new commercial growth; so the existing tax payers will pay \$7 million more, rather than \$10 million more.

Vice Mayor Born asked what Mr. Healy's ideal free cash formula is based on. Mr. Healy said it is the rating agencies' rule of thumb that free cash should be 7 - 10 percent of the overall budget. Mr. Healy said that at one time the City had a free cash deficit. Cambridge is now at an acceptable position. Mr. Maloney said that free cash fell to \$10 million two years ago.

Vice Mayor Born asked about the \$3 million already proposed to go from free cash to fund the operating budget. Mr. Maloney said that since 1984 there has been a steady \$1.5 million contribution from free cash to offset property taxes. Some years the amount has been larger because of the overlay deficit. Last year \$3 million from free cash went into the operating budget.

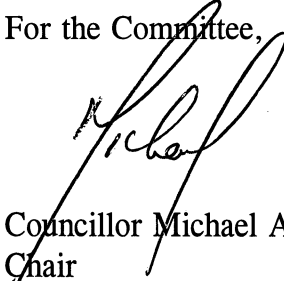
Vice Mayor Born asked if the need for the overlay is going down now that old tax cases are getting settled. Mr. Maloney said that state sets the overlay requirement. Perhaps next year Cambridge could ask for a reduction. Vice Mayor Born said that she would like to see a written description of these issues, e.g., the way the overlay is set, the way the ideal free cash amount is calculated, etc.

Councillor Reeves asked whether there is a proposal to end the elementary school Follow Through program altogether. Mr. Conry said that the merger recommendations do imply this. There will be some savings.

Councillor Sullivan stated that it appeared that there could be a \$2 million increase in tax allocation to the schools. If the school can identify \$300,000 in one-time expenses, that amount could come from free cash, for a total allocation of \$2.3 to schools; and \$2.25 to housing.

Councillor Sullivan thanked all those present for their attendance and the hearing was adjourned at 10:40 a.m.

For the Committee,



Councillor Michael A. Sullivan
Chair

Committee Report #3

S-171

A report was received from the Finance Committee, for the purpose of discussing FY 98 budget issues as they relate to school and housing costs.

In City Council March 24, 1997

Report Accepted,
Place on file on
motion of
Councillor Sullivan.