

DISCUSSION

The petitioners and the representatives of Cherokee County provided various written summaries, exhibits and verbal commentary in support of their positions. A summary of this information and the public hearing is as follows:

PETITIONERS

Mr. Tom Oswald represented the petitioners as the primary spokesperson and Mr. David Fordyce also provided comments.

Mr. Oswald began his presentation by sharing documents and exhibits in support of the objections for the budget protest, including written comments and a PowerPoint presentation.

Mr. Oswald discussed the ~~issue~~, the ~~appeal request~~, key points, history and the negatives of retaining the tax increase and summarized the petitioners' findings.

Mr. Oswald referred the panel to his PowerPoint presentation and indicated more detail was provided with the written comments regarding petitioners' concerns with the FY2014 Cherokee County budget. The concerns are summarized as follows:

- The Issue:
 - The adopted budget represents a budgeted tax increase of roughly \$1.428 million or 30.8% over FY2013. This increase is both unreasonable and unjustifiable when looking at past Cherokee County financial performance trends and recent fiscal year outcomes.
 - The County's customary way of dealing with the art of budgeting and financial management has the capacity to buffer and deal with bumps along the road, using FY2012 and FY2010 as examples.
 - Cherokee County is not short of money and there is no evidence unmanageable expenses are looming (by reviewing Cherokee County Board minutes January 2012-March 2013.)
 - Adjustments can be made without the need for more funds via tax increases. The pot of money is full enough to pay the bills and provide the services and it is the Board of Supervisors' job to set policy and provide oversight in regards to the fund management by key department heads. Past examples show it has been done successfully.
- The Appeal Request:
 - Reduce the Line 1 Taxes Levied on Property in the Cherokee County FY2014 budget by a minimum of \$1,000,000 with serious consideration of taking that figure down to the levy used in FY2012 (approximately \$4.8 million).
 - Using numbers based on relative customary budget-to-actual values, we show the actual unassigned ending fund balance for FY2013 should come in very similar to the actual FY2012. Following similar methodology with the FY2013

expenditures, Line 39 on Form 630 should show growth at the close of FY2014 even after a cut of one million dollars in the property tax line. As the analysis uses conservative (based on recent history) budget-to-actual ratios for estimating outcomes, some better-than-expected (lower) levels of expenditures for FY2013 would support the justification for taxation at FY2012 levies or lower should it be found sensible and proper.

- Key Point:

- History suggests taxation at the FY2012 level of \$4.820 million or \$5.053 million (a 4.8% increase over the formerly highest levy and greater than price index increases over the past 2 years) generates a revenue target well within reason. Coupled with strong adherence to good management and oversight by the Board of Supervisors as the fiscal year progresses, taxation near these levels should result in little if any need to drastically clamp-down on services or service quality provided to the citizens of Cherokee County.

- History as a Reference Tool:

- For the most part, when comparing actual vs. budgeted, the common outcome is taxes levied result in taxes collected. There has been some variance in Line 8, Intergovernmental revenue when comparing actual vs. budgeted. For FY2014, it appears a more conservative value of approximately 10% less than the initial value used in FY2013 was used. Even with these variances, the customary budgeting method used by the County has the buffering capacity to handle some reductions in this revenue line item. Using the assumption of no other major revenue shortfalls, estimates turned out to be a FY2013 net reduction in Line 40 (Total Ending Fund Balance) of about \$728,000 from FY2012 actual. The estimate assumes line 17 (Total Revenues and Other Sources) will land around the re-estimated value of \$11.790 million.
- Using a multi-year history, actual expenditures, Line 28 (Total Expenditures) of the Actual column, average about 84.3% of the original budget. Using 88% of estimated Line 28 Actual for FY2013 and 90% of the re-estimated FY 13 expenditures, the estimate is higher than the average. As a result the estimate used for FY2013 actual expenditures (Line 28) comes in at \$980,000 higher than any previous actual and one of the largest year/year percentage increase, resulting in estimated expenditures of \$11.032 million for FY 2013. Based on these estimates, the net deficit of about \$728,000 only consumes about 9.85% of the record large Line 40 (Total Ending fund Balance) from the previous fiscal year. If these estimates are correct, one would expect FY2013 to result in a Line 39 (Fund Balance – Unassigned) value essentially the same as FY2012 and there should be no fear for ending fund balances.
- If actualized, this would eliminate the need to raise taxes appreciably going into FY2014. Assuming all other factors come to fruition in the FY2014 revenue side of the budget, using a similar estimation methodology relative to the current FY2014 budgeted expenditures, one would predict a further increase in Line 39 at the close of FY2014. This estimated result includes cutting the budgeted Line 1 Taxation by the \$1,000,000 as we requested. In addition, such numbers would support a notion that budgeting Line 1 using the FY2012 figure is not out of the

realm of responsible taxation. This would still be growth in taxation over FY2013. Mr. Oswald indicated this request does not cut taxes and does not hamstring the county. This works because history shows, on average, Cherokee County budgets with a significant expenditure cushion. As long as the culture of management over-budgeting expenditures is in place among the various service area heads, the county will do just fine. The negative numbers come in early and things resolve as the fiscal year comes to a close.

- Negatives of Retaining Tax Increase:

- Should the massive increase in Line 1 Property Tax not be reduced or eliminated for FY2014, ending fund balances would sky rocket. High ending fund balances serve no useful purpose for the tax payers and reduces dollars in circulation in the community. Also such balances become a magnet for increased spending. Mr. Oswald indicates they do not believe the Supervisors can demonstrate the large increase will serve the public good.
- The alarming increase is not good for the community and drives the rumor mill and speculative blame-gaming starts with fingers pointing at various service areas.
- Sending the budget back to the Supervisors with taxes at a reasonable level provides a "win-win" for the citizens of Cherokee County. They will appreciate the correction in the potential excessive tax burden and see the Supervisors being given the opportunity to respond to their concerns. It is likely the other fundamentals of the FY2014 budget have passed scrutiny so the work to change and re-calculate the tax levy figures is the only major work and could be completed rather quickly.
- Cherokee County has a history of no money shortage and General Fund cash reserves have a history of growing, as do all funds cash reserves. Considering the estimates provided, it is clear the General Fund Actual cash reserves are generally not in jeopardy based on customary budget performance. History shows the General Fund Actual ending balance should come in just fine in the absence of this major tax increase.

- Closing Summary:

- The 30.8% increase in Line 1 Form 630 is unjustifiable. It is way above that projected by simple trend line analysis or supported by true need. It will not serve the public good.
- The taxpayers would likely consider a budgeted number of \$5,053,500 a more reasonable tax increase than the \$6,053,500 now budgeted. However, analysis suggested an even larger cut would not hamstring the County finances due to already large ending balances. The previous record taxation from FY2012 would still be a large sum for the county to work with.
- If not eliminated, the massive increase in budgeted taxation will likely drive the ending balances to significant reserve excess. This money is better managed by

tax payers and circulated rather than tied up in account balances. The General Fund ending balance would still likely be healthy without a major tax increase.

- o Unless there is a proven extraordinary threat to County finances, the customary method of managed deficit budgeting is working just fine. If no threat, there is no need to raise taxes significantly. Slight taxation growth over time makes the most sense.

CHEROKEE COUNTY RESPONSE

County Supervisor Bush was the primary spokesperson for Cherokee County. In the response to the petition, Mr. Bush shared documents and exhibits, including written comments and a PowerPoint presentation. Mr. Bush welcomed the opportunity to further explain their decision making process in regards to the FY2014 County budget and saw it as another opportunity to educate taxpayers on the how's and why's of County budgeting. He reviewed the different levies available to the County, how they can be used and what types of services and which citizens benefit from those levies. He explained that in Cherokee County, the rural share of the 1% additional sales tax is used for rural property tax relief and "rural betterment".

Mr. Bush outlined factors which impacted the decision making for the FY2014 budget as follows:

- o In the last two years, several events have impacted the proposed budget:
 - o In the fall of 2011, the Supervisors, on the advice of the Sheriff, decided to separate County law enforcement from the then joint city-county law enforcement center. Since then, four positions have been added at a cost of \$200,000.
 - o During the winter of 2011-2012, the County Assessor requested the GIS position which had been part of the County Assessor's Office be transferred into the general county staffing with the associated costs being assumed by the general budget. The Supervisors at the time chose not to bill the Assessor's office, which is funded separate from the County's budget, for the GIS services provided to the Assessor.
 - o The Cherokee Area Economic Development Corporation had been traditionally funded from both the County's General and Rural Funds and also from various towns within the County. In FY2010, the General Fund paid \$75,000 and the Rural Fund paid \$25,000 for Economic Development. The following year, the Supervisors assumed full funding of Economic Development. This required an additional \$36,000 from the General Fund and \$19,000 from the Rural Fund.
 - o The County is required to provide ambulance service. Cherokee County contracts with the local hospital to provide the bulk of the service, with a smaller amount going to the Marcus Fire Department. In FY2011, the County spent \$108,051 for ambulance service. In the present year, it will cost \$175,175 with \$33,000 of that being the first installment of a three year commitment made by the Supervisors in 2012 to purchase Lifepak Automatic Electronic Defibrillators for each of the ambulances and intended to be paid from the General Fund. In FY2010, Emergency Management received \$62,973 in outside county funding against total expenses of \$54,114. In FY2014, Emergency Management is

anticipating receiving \$56,554 in outside funding against anticipating expenses of \$101,762.

- The Cherokee County Solid Waste Commission was established in 1974 with a 28E agreement between the County and all the towns within the County. The Commission secured a loan of approximately \$3,000,000 for its Recycling Center. Due to a number of factors, including a market not developing for the recycled pellets they produced, the Commission secured a short term loan to make the payments on the long term loan. In 2012 the Commission was about to default on both loans and the Supervisors authorized a grant of \$300,000 from the Rural Fund so the Commission could pay off the short term loan and an increase in the landfill rates resulted in a long term increase in the Rural Fund for solid waste disposal of approximately \$156,000.
- The previous Board of Supervisors did not want to increase property taxes to cover the increases in spending. For the FY2013 budget, Cherokee County showed an anticipated shortfall of \$1,516,039. Monies budgeted but not spent and returned to their respective funds have a four year average (FY2009-\$365,208, FY2010-\$976,240, FY2011- \$695,818, FY2012-\$907,946) of \$763,303, excluding Secondary Roads, as Secondary Roads banks unspent monies for future projects. Even when accounting for that, the FY2013 budget had a realistic shortfall of approximately \$800,000. Yet the previous Supervisors reduced the levy for the General Fund plus mental health from \$5.0685/1000 to \$4.37818/1000 and held the Rural levy the same. Sound fiscal policy would have drawn down the reserves at a much slower rate.
- For FY2014, the re-estimated anticipated shortfall for FY2013 has grown to \$1,957,828. Even if the unspent budgeted monies equal the approximate average of \$740,000, Cherokee County is anticipating spending \$1,200,000 more than revenues.
- The first draft of the FY2014 budget showed General Fund reserves drawn so low that Cherokee County would have to borrow money to meet expenses during the first quarter of FY15 until property tax payments were received in September. The Board eliminated two positions to save \$120,000, moved \$33,000 for the second installment on the defibrillators and \$50,000 of Economic Development funding from the General Fund to the Rural Betterment Fund and increased the levies to try to get the budget balanced. The adopted budget showed projected ending balances for FY2014 of \$1,070,137 (\$869,727 required to cash flow) for the General Fund; \$185,611 (238,243 to cash flow) for the General Supplemental and \$330,709 (\$230,519 required to cash flow) for the Rural Fund.
- With most of the Supervisors being new to the process, they indicated they choose not to go cutting and slashing until they had a better feel for county government. If the unspent budgeted monies for this year would equal the low of \$365,208 experienced in FY2009, they feel this is a prudent budget. The Board stated just because they chose to budget for expenses does not mean the money is actually going to be spent. Mr. Bush stated the increase in Cherokee County's expenditures did not occur overnight and it is not the Supervisor's desire to try to cut them overnight, it is their desire to approach this in a thoughtful, orderly manner. Mr. Bush said the Board cannot say what the final product is going to look like but they are all committed to bring the cost of County government down.

MEMBERS OF THE PUBLIC

No members of the public requested to speak during the public comment time period.

FINDINGS OF FACT

1. Iowa Code section 24.27 provides persons who are affected by any proposed budget, expenditure or levy, or by an item thereof, may appeal. The petitioners met the requirements and, pursuant to sections 24.28, 24.29 and 331.436, a hearing was scheduled and conducted.
2. The Cherokee County FY2014 budget reflects \$1,426,828 (30.8%) more in property taxes than in FY2013.
3. In FY2013, Cherokee County levied \$116,076 in the General Supplemental Levy for a tax rate of \$0.16177/\$1,000 of valuation. In FY2014, the county requested a levy of \$1,080,886 in the General Supplemental Fund for a tax rate of \$1.43/\$1,000 of taxable valuation. According to Iowa Code section 331.424, "To the extent that the basic levies are insufficient to meet the county's needs for the following services, the board may certify supplemental levies as follows:
 1. a. For general county services, an amount sufficient to pay the charges for the following:
 - 1) To the extent that the county is obligated by statute to pay the charges for:
 - (4) Employee benefits under chapters 96, 97B, and 97C, which are associated with salaries for general county services.
 - (5) Tort liability insurance, property insurance, and any other insurance that may be necessary in the operation of the county, costs of a self-insurance program, costs of a local government risk pool, and amounts payable under any insurance agreements to provide or procure such insurance, self-insurance program, or local government risk pool."

The Board moved eligible employee benefits from the General Fund to the General Supplemental Fund beginning in FY2014. The costs were moved as a result of the Board planning for a 25% reserve in the General Fund ending fund balance, rather than managing for a deficit of expenditures over revenues.

4. The Rural Basic levy increased from \$1,782,303 for a tax rate of \$3.4/\$1,000 of taxable valuation to \$2,187,251 for a tax rate of \$3.95/\$1,000 of taxable valuation. According to Iowa Code Sections 331.421 and 331.428, the Board may make appropriations from the rural services fund for rural county services. Rural county services are services which are primarily intended to benefit those persons residing in the country outside of incorporated city areas and includes planning, operating, and maintaining sanitary disposal projects.

The increase in the Rural Basic levy is due, in part, to increases in landfill expenses and the change of a part-time dispatcher position to a full-time position.

5. The total expenditures for FY2014 decreased by \$97,705 (-7.1%) from the FY2013 as re-estimated. Approximately \$60,914 of that reduction is credited to the Mental Health, Mental Retardation and Developmental Disabilities function, this is likely the result of a statutory change shifting the payment of certain mental health services from the county to the State of Iowa. Mental health service revenues and expenditures are primarily accounted for within the separate County Services Fund, not the General Fund and General Supplemental Fund which are the focus of this budget appeal. Other function changes are as follows:

Function	FY2014	FY2013	Change
Capital Projects	\$1,465,000	\$1,560,000	\$ (95,000)
County Environment and Education	\$ 927,658	\$1,163,658	\$(236,000)
Administration	\$1,436,746	\$1,650,618	\$(213,872)
Public Safety	\$2,211,255	\$2,138,416	\$ 72,839
Physical Health and Social Services	\$ 387,718	\$ 363,062	\$ 24,656
Roads and Transportation	\$4,366,126	\$4,074,950	\$ 291,176
Governmental Services to Residents	\$ 577,668	\$ 458,173	\$ 119,495

6. The County indicated the Public Safety and Legal Services function increased due to the development of an Emergency Operations Center, including a portion of the cost associated with the replacement of an Emergency Management vehicle. In addition, wages and inmate expenses have increased. Physical Health and Social Services increased due to the replacement of the Emergency Management vehicle and other social service expenses, including benefits to veterans and other general welfare costs. Roads and Transportation increased due to expected bridge and road repair/replacements. Governmental Services to Residents increased due to the replacement of election equipment and the costs for local elections.
7. The FY2014 budgeted ending fund balance for the General Fund was \$1,253,748, or 30% of expenditures. The FY2014 budgeted ending fund balance for Rural Basic is \$245,709, or 10% of expenditures.
8. Cherokee County has engaged in managed deficit budgeting since at least FY2010. With the adoption of the FY2014 budget, the newly elected members, who constitute a majority of the Board, demonstrate a desire to move away from deficit budgeting to a more balanced budget process. In FY2013, the Board budgeted a deficit of \$1,516,039 as compared to FY2014, the Board budgeted for a deficit of \$97,075.

CONCLUSIONS OF LAW

The State Appeal Board has jurisdiction over the parties and the subject matter of this appeal, pursuant to Iowa Code sections 24.28 and 331.436.

BASIS OF DECISION

Iowa Code section 24.28 states, in part, "At all hearings, the burden shall be upon the objectors with reference to any proposed item in the budget which was included in the previous year and which the objectors propose should be reduced or excluded...". The Code continues: "...the burden shall be upon the certifying board or the levying board, as the case may be, to show any new item in the budget, or any increase in any item in the budget, is necessary, reasonable, and in the interest of the public welfare."

The County spokesperson indicated the County was concerned regarding possible unknowns and certain board members were new to the budget process, although no major potential issues came to light. While the adopted budget substantially increases property tax revenue, it does not substantially increase expenditures. The County did not identify significant expenditure increases comparable to the amount of the property tax increase. In addition, the County indicated that expenses budgeted for may not be spent.

The County indicated it plans to submit a different budget next year, but this does not justify a large one year tax increase. If the County wishes to alter its method and mindset regarding the budget process and arriving at estimates, it is prudent to do so slowly rather than impose a large tax increase in one year.

The burden of proof lies with the County to demonstrate that the increases in property tax is "necessary, reasonable, and in the interest of the public welfare". Based on financial history, the lack of identified expenditure increases and the adequacy of the ending balances, the County did not meet the burden of proof regarding the increase in the tax asking.

ORDER

Based on the information provided by the parties involved and the Iowa Code, the State Appeal Board orders a decrease of \$725,000 from the General Supplemental levy. If the County determines it does not want to increase the deficit in the budget from what was initially adopted, it will also need to reduce expenditures accordingly.

The State Appeal Board also recommends Cherokee County budget estimates be based on true estimated expenditures.

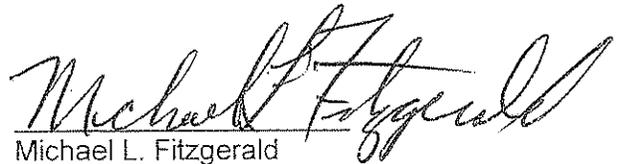
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