

STATE APPEAL BOARD

In Re:	Chickasaw County)	Order
	Budget Appeal)	
	FY 2014)	April 22, 2013

BEFORE THE DIRECTOR OF THE DEPARTMENT OF MANAGEMENT, DAVID ROEDERER; STATE AUDITOR DAVID A. VAUDT; AND STATE TREASURER MICHAEL L. FITZGERALD.

A hearing on the above captioned matter was held pursuant to the provisions of Section 331.436 and Chapter 24 of the Code of Iowa on April 11, 2013. The hearing was before a panel consisting of Mr. Luke Donahe, Investment Officer, Office of the State Treasurer and presiding Hearing Officer; Ms. Carrie Johnson, Property Valuation and County Budget Administrator, Department of Management; and Ms. Michelle Meyer, Manager, Office of the State Auditor.

The primary spokesperson for the petitioners was Mr. Arnold Boge. The primary spokesperson for Chickasaw County was County Board of Supervisors Chair Rick Holthaus.

Upon consideration of the specific objections raised by the petitioners, the testimony presented to the hearing panel at the public hearing, the additional information submitted to the hearing panel both before and after the hearing and after a public meeting to consider the matter, the State Appeal Board has voted to sustain the Chickasaw County fiscal year (FY) 2014 budget as described herein.

PROCEDURAL HISTORY

The FY2014 Chickasaw County proposed budget summary was published in the New Hampton Newspapers and Nashua Report. The budget was adopted at a public meeting held on March 11, 2013:

A petition protesting the certified FY2014 Chickasaw County budget was filed with the Chickasaw County Auditor on March 19, 2013 and was received by the State Appeal Board on March 21, 2013. The petitioners' objections and their reasons listed on the petition document are as follows:

- An objection because the Board of Supervisors turned down \$104,000 in reduced expenditures by department heads during budget discussions which could have been implemented.
- An objection because the proposed budget increase is unsustainable, as it represents spiraling increases in employee benefits and health insurance budget expenditures, with no additional service or benefit to taxpayers.

- An objection because the County's ending fund balance continues to be depleted at an alarming rate because of higher budget expenditures, with no plan for reduction or containment of expenses.

DISCUSSION

The petitioners and the representatives of Chickasaw 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. Arnold Boge represented the petitioners and Mr. William "Chip" Schwickerath provided comments as well.

Mr. Boge began his presentation by sharing exhibits in support of the objections for the budget protest. His statement included the following bullet points:

- In 2013, the Chickasaw County Board of Supervisors proposed a 29% increase in the tax asking, citing catastrophic claims and increases in health insurance as the main reason for the increase.
- At the March 4 budget hearing, most, if not all, the public spoke out in opposition to approving the increased expenses and increasing the levy.
- A week later, the Board of Supervisors proposed and approved increases and adopted a budget which included a 22% increase in the tax asking but did not alter any of the increased expenses included in the budget.
- Department heads offered to lower these increases by +/- \$104,000. This proposal was rejected by the Board of Supervisors. Because the Department heads themselves came to the Board with potential reductions to their own budgets. Mr. Boge stated this shows the increase in the budget approved by the Board are, by definition, unnecessary. Mr. Schwickerath indicated he attended the meeting at which these potential reductions were discussed and shared his notes from the meeting regarding the specific line item reductions.
- Petitioners have asked the Supervisors to forego or reduce the increase in levy and expenses while a long-term solution to the health insurance issues can be worked out through collective bargaining and by identifying those individual employees not subject to collective bargaining agreements in an effort to reduce the costs of providing health insurance for employees.
- In a 3/2 vote, the majority of Board of Supervisors voted for a levy increase and a budget which the department heads indicated was an unnecessarily high increase.
- Other proposals to curtail the increases included:
 - Salary increases for elected officials being reduced or eliminated.

- Implementing a hiring freeze to prevent an increase in wages and benefits.
- A couple of hours per week of unpaid furlough for bargaining employees to offset some of the increase in wages and benefits.
- The Board of Supervisors cited a 43% increase in health insurance costs for County employees as the reason for the increase. They indicated the insurance increases are represented by the amount shown in the budget as the general supplemental levy. The supplemental levy is a budget item not included in last year's budget.
- Mr. Boge stated petitioners understand all current insurance plan enrollees are being included in the departmental budgets as having a family policy plan, without regard to their actual status as having a single plan or a family plan, in order to increase the budget.
- Mr. Boge questioned the appropriateness of funding the insurance reserves by charging all family rates and petitioners submit doing so is neither necessary nor reasonable.
- Mr. Boge also questioned the reasonableness and necessity of paying \$17,280 per employee contract for health insurance benefits.
- Mr. Boge stated petitioners do not feel it is in the best interests of the public to approve budgets now or in the future which do not address the skyrocketing costs of health insurance and make some effort to control the increases. Private sector employers and individuals have had to budget for similar increases in health insurance premiums and have determined sacrifices need to be made in order to avoid the sharp rise in costs for premium health care coverage.
- Mr. Boge stated there are certainly adequate alternatives to prevent these increases and yet provide reasonable and affordable coverage for County employees based upon their actual situation and not upon an inflated estimate or subsidy.
- Mr. Boge said petitioners do not believe the County met its burden of proof regarding the increases as being necessary, reasonable and in the interest of the public welfare.

CHICKASAW COUNTY RESPONSE

County Board of Supervisors Chair Holthaus was the primary spokespersons for Chickasaw County. In the response to the petition, he expanded upon the written remarks and the exhibits submitted.

- Mr. Holthaus summarized the budget process for the County, with department submissions and meetings occurring in January. The initial process led to \$121,500 of budget reductions. After the budget was published but before the public hearing was held on the budget, the tax asking was reduced \$289,171. Planned expenditures were reduced by \$91,418 and \$197,753 would be absorbed from the ending fund balance.
- Self-funded health insurance costs have caused Chickasaw County to increase taxes for FY2014. The Health Insurance Reserve Fund has been depleted. Monthly premiums are barely staying even with the claims being submitted. The County may need to fall back on

the ending fund balance to continue to pay the health insurance claims and other obligations. The Board of Supervisors strongly desires not to reduce services to citizens. The Board of Supervisors believes raising taxes at this time will serve to provide revenue to maintain a sufficiently large ending fund balance. The Board of Supervisors is aware the County is at the "front-end" of this health insurance year which began January 1, 2013 and has no way to know how many claims will be submitted.

- The County's current tax levy is relatively low compared to other Iowa counties and is within the statutory limits. Even with an increase in the rural tax levy rate, the County's tax rates will still likely be in the bottom 20% of Iowa counties.
- Department heads have been instructed to spend the FY2014 allocations very conservatively and to postpone major purchases until the second half of FY2014. By that time, the County feels it should know where it's in terms of expenditures and if any budget cuts are necessary, they could be ordered at the time. Between now and the middle of FY2014, the Board intends to look for more efficiencies throughout the work force and to evaluate alternatives regarding health insurance, in light of collective bargaining agreements which will expire June 30, 2014.
- Chickasaw County department heads have a record of preparing realistic and defensible budgets over the years and the Board of Supervisors respect those efforts.
- In specific response to petitioners' objection 1, Mr. Holthaus stated accepting the \$104,000 of cuts reduces the ending fund balance in the General Basic Fund. During the budget process, a total of \$459,671 was cut from proposed budgets. The Board of Supervisors determined it could go no further without jeopardizing the ending fund balance. Several of those cuts could represent important cuts in service and would only postpone and possibly complicate future budget cuts. If the County finds it needs to amend the budget to include these expenditures during the year, those would have to come from the ending fund balance. The Board of Supervisors also wishes not to reduce services to County taxpayers.
- In specific response to Objection 2, Mr. Holthaus indicated the claim of "spiraling increases" in employee benefits is false. The health insurance benefits have not changed and the overall benefit package is the same. It is true the costs of the health insurance package have increased dramatically. The amounts of health insurance claims are unprecedented. The costs associated with running the health insurance program have consumed the health insurance reserves. Currently, the revenue generated for the health insurance fund is running only slightly ahead of the claims submitted. The County has a contractual obligation to the employees regarding the health insurance program. Increasing taxes allows Chickasaw County to address the increasing costs of the health insurance plan while maintaining current services to taxpayers. The cause of the budget challenge is the dramatic increase in the cost of the health insurance program established in January 2003. The Board of Supervisors is aware of the need to reduce, if possible, the cost of health insurance for Chickasaw County employees and is in the process of actively investigating other approaches to health insurances, as well as having various health insurance plan vendors provide the Board of Supervisors with information about alternatives, but the Board of Supervisors will be unable to make any changes except through the collective bargaining process with the unions and other employees.
- In specific response to Objection 3, Mr. Holthaus stated Chickasaw County does not believe the State Appeal Board has jurisdiction over this matter and the third objection is

vaguely stated. Although the County's ending fund balance is a matter of great concern, at the current time the county does not have "higher budget expenditures". The proposed budget for FY2014 lists \$11,811,922 in expenditures compared to Re-Estimated FY2013 expenditures of \$13,221,855.

MEMBERS OF THE PUBLIC

Various members of the public identified themselves and spoke during the public comment time. Comments included concerns regarding the level of the employee health insurance benefit as well as salary increases for employees and elected officials.

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 Chickasaw County FY2014 budget reflects \$956,631 (22.6%) more in property taxes than in FY2013.
3. County budgets report expenditures in the following functions: Public Safety and Legal Services, Physical Health and Social Services, Mental Health, Mental Retardation and Developmental Disabilities, County Environment and Education, Roads and Transportation, Governmental Services to Residents, Administration, Nonprogram Current, Debt Service and Capital Projects.

The total expenditures in FY2014 decreased \$906,253 (-7.1%) from the FY2013 re-estimated expenditures, with \$645,522 of the reduction credited to the Mental Health, Mental Retardation (MR) and Developmental Disabilities (DD) function. This reduction 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.

While expenditures decreased overall, some functions saw expenditure increases. A summary of function changes is included below. Service Area Mental Health, MR, and DD is not included below, as it experienced a large decrease due to changes in state law. The capital projects function is not included below as it also experienced a decrease from \$894,915 in FY2013 re-estimated expenditures to \$224,710 of expenditures in the FY2014 budget.

Function	FY2013	FY2014	Increase	County Stated Reason for Increase
Public Safety and Legal Services	\$1,761,325	\$1,816,491	\$55,166	Increase in salaries and benefit costs (FICA, IPERS, Health Ins) and overtime for Clerk of Court

Physical Health and Social Services	\$1,635,676	\$1,698,439	\$62,763	Increase in salaries and benefit costs (FICA, IPERS, Health Ins), overtime for sanitation and purchase of new vehicle
County Environment and Education	\$593,664	\$676,514	\$82,850	Increase in salaries and benefit costs (FICA, IPERS, Health Ins), increase in landfill expense and library request
Roads and Transportation	\$4,615,190	\$4,828,301	\$213,111	Increase in salaries and benefit costs (FICA, IPERS, Health Ins)
Governmental Services to Residents	\$419,822	\$457,419	\$37,597	Increase in salaries and benefit costs (FICA, IPERS, Health Ins) and local elections costs
Administration	\$1,502,750	\$1,460,737	\$(42,013)	Increase in salaries and benefit costs (FICA, IPERS, Health Ins), increase in general liability ins. premium and reduction in premium rebate. Increases offset by completion of courthouse tuck pointing project and completion of digital imaging project.

4. Chickasaw County levied the maximum General Fund tax rate of \$3.50/\$1,000 of taxable valuation. This rate is the same as FY2013, but generated \$93,764 more in revenue due to increased taxable valuation. In FY2014, Chickasaw County also levied a small amount (\$2,000) for Pioneer cemeteries in the General Fund, the same as FY2013. The Rural Basic levy rate of \$3.00075/\$1,000 of taxable valuation remains the same in FY2014 as FY2013, but generated \$58,809 more in revenue due to increased taxable valuation. The County Mental Health Fund levies are held to a statutory maximum of \$572,250. In FY2013, the rate needed to generate the statutory maximum was 0.84396/\$1,000 of taxable valuation. In FY2014, the rate needed to generate this levy was 0.81188/\$1,000 of taxable valuation.
5. The FY2014 ending fund balance for the General Fund was budgeted at \$1,343,094 or 22.9% of expenditures. The FY2014 ending fund balance for the Rural Basic Fund was budgeted at \$381,787, or 25% of expenditures and other uses, including transfers.
6. Chickasaw County operates a self-funded health insurance program. The Chickasaw County Health Fund balance decreased from \$543,421 in January 2010 to \$57,769 in January 2013. Health insurance expenditures for the period January-March 2013 were \$383,029 while revenues were \$357,850. Recent catastrophic claims have exacerbated the decline of the Health Fund balance.

7. In FY2013, Chickasaw County did not utilize the General Supplemental levy. In FY2014, the County requested \$850,000 (\$819,330 in property tax) in the General Supplemental fund for a tax rate of \$1.20594/\$1,000 of taxable valuation. According 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."

In Chickasaw County, the General Supplemental property tax levy is \$819,330 (property tax, not including estimated excise tax). The FY2014 County budget uses the revenues from the General Supplemental levy to fund the FICA, IPERS and health insurance benefits for General Fund-supported employees. The \$819,330 levy represents \$184,201 for the County's share of employee FICA benefits and \$213,194 for the County's share of IPERS benefits, with the remainder of the levy going towards funding health insurance costs of at \$915,840 for General Fund-supported employees. Chickasaw County has an estimated health insurance premium of \$1,340,598 for FY2014.

8. The county reduced expenditures \$121,500 during the initial budget process and an additional \$289,171 before the public hearing on the budget. Following the public hearing, the County requested the department heads look again for additional cuts. At a meeting between department heads and the Board of Supervisors, department heads submitted an approximately \$105,000 of additional potential cuts. After review of the potential cuts, the Board of Supervisors rejected these cuts.
9. The County Compensation Board prepares a recommendation to the Board of Supervisors regarding the compensation of the elected officials of the County per Iowa Code section 331.907. The Chickasaw County Compensation Board recommended the Board of Supervisors increase the salary of the County Auditor, Treasurer, Recorder, Sheriff and Attorney by \$4,000 and increase the Board of Supervisors salary by \$1,700.

Iowa Code Section 331.907 states, in part:

2. "At the public hearing held on the county budget as provided in section 331.434, the county compensation board shall submit its recommended compensation schedule for the next fiscal year to the board of supervisors for inclusion in the county budget. The board of supervisors shall review the recommended compensation schedule for the elected county officers and determine the final compensation schedule which shall not exceed the compensation schedule recommended by the county compensation board. In determining the final compensation schedule if the board of supervisors wishes to

reduce the amount of the recommended compensation schedule, the amount of salary increase proposed for each elected county officer, except as provided in subsection 3, shall be reduced an equal percentage.

3. The board of supervisors may adopt a decrease in compensation paid to supervisors irrespective of the county compensation board's recommended compensation schedule or other approved changes in compensation paid to other elected county officers. In determining the final compensation schedule if the board of supervisors wishes to reduce the amount of the recommended compensation schedule, the amount of salary increase proposed for each elected county officer, except as provided in subsection 3, shall be reduced an equal percentage."

In the FY2011 County audit, it was determined the County was in violation of Iowa Code section 331.904 because several deputies salaries were more than 85% of the Sheriff's salary, as follows:

"331.904 Salaries of deputies, assistants, and clerks.

2. Each deputy sheriff shall receive an annual base salary as follows:

- a. The annual base salary of a first or second deputy sheriff shall not exceed eighty-five percent of the annual base salary of the sheriff.
- b. The annual base salary of any other deputy sheriff shall not exceed the annual base salary of the first or second deputy sheriff."

The Board of Supervisors reduced the increase for the Board of Supervisors to \$0 and adopted the \$4,000 increase for all other elected officials, including the County Sheriff.

10. The salary increases of Chickasaw County employees under collective bargaining agreements for FY2014 are approximately 2%, depending on the particulars of the agreement.
11. Per the collective bargaining agreement in effect, the County paid the entire premium for single family plans in FY2013. In FY2014, the County pays 95% of the premium and the employee pays 5% or \$25, depending on the particular agreement. For both FY2013 and FY2014, the County pays 75% of a family plan premium with the employee paying 25%.
12. Petitioners have requested the State Appeal Board deny salary increases, freeze wages and benefits, call union contracts up for negotiations immediately, make needed budget cuts and layoff people from all departments to reduce the tax asking to around 3%.

Section 24.30 of the Code of Iowa limits the authority of the State Appeal Board to items specifically related to the local government budget process. Therefore, the State Appeal Board does not have authority to issue any rulings on issues outside of the authority given under section 24.30 of the Code of Iowa.

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."

County expenditures decreased overall, with most increases due to salary and benefit cost increases. The Board of Supervisors reduced expenditures twice during the budget process.

Due to the depleted balance in the Health Insurance Fund, the County no longer has sufficient fund balance to pay potential claims. The County needs to prepare for potential claims and pay increased health insurance premiums. Salary and benefits are a local policy matter and salary and benefit issues are often determined through the local collective bargaining process. The health insurance plan contributions of those employees covered under collective bargaining cannot be altered outside of the collective bargaining agreement.

Salary, benefits and local collective bargaining agreements are not a matter to be determined by the State Appeal Board under Iowa Code section 24.30. Chickasaw County demonstrated the increase in tax levy met the burden of proof requirement.

ORDER

Based on the information provided by the parties involved and the Iowa Code, the State Appeal Board sustains the FY 2014 Chickasaw County Budget as adopted.

STATE APPEAL BOARD



David Roederer
Chairperson



Michael L. Fitzgerald
Vice Chairperson



David A. Vaudt
Member



Date