

STATE APPEAL BOARD

In Re:	Ringgold County Hospital) Budget Appeal) FY 2014)	Order April 30, 2013
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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 Chapter 24 of the Code of Iowa on April 23, 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. Suzanne Dahlstrom, Manager, Office of the State Auditor.

The primary spokesperson for the petitioners was Mr. Kevin Kilgore. The primary spokesperson for the Ringgold County Hospital was the Ringgold County Hospital Chief Financial Officer Teresa Roberts.

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 Ringgold County Hospital fiscal year (FY) 2014 budget as described herein.

PROCEDURAL HISTORY

The FY2014 Ringgold County Hospital proposed budget summary was published in the Mount Ayr Record-News. The budget was adopted at a public meeting held on March 11, 2013.

A petition protesting the certified FY2014 Ringgold County Hospital budget was filed with the Ringgold County Auditor on March 25, 2013 and was received by the State Appeal Board on March 27, 2013. The petitioners' objections and their reasons listed on the petition document are as follows:

- Objection number one stated the adopted budgeted invokes a larger property tax levy rate than the hospital is allowed to collect.
- Objection number two stated the Restricted Funds line 9 from IDOM FORM 676 ADOPTED BUDGET SUMMARY has no carryover balance; Restricted Use lines 2-8 are transferred to the General Fund rather than being expended (accounted for) in their own fund.
- Objection number three states the Iowa Department of Management (IDOM) Form 676 ADOPTED BUDGET SUMMARY provides no actual budget balance for any fund or as a total (lines E&F).

The petitioners indicated the best interests of the taxpayers of Ringgold County will be best served by minimizing budget growth and reducing levy rates rather than continuing to overtax to support increased budget growth.

DISCUSSION

The petitioners and the representatives of Ringgold County Hospital 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. Kevin Kilgore represented the petitioners. Mr. Kilgore began his presentation by sharing exhibits (Petitioner's Exhibits 1-7) in support of the objections for the budget protest. Mr. Kilgore requested documents be included in the record as exhibits. He stated Exhibits 1 and 2 are found in State Appeal Board files and Exhibits 3-6 are available on the IDOM web site and/or were forwarded with the budget protest petition. He summarized the Exhibits as follows:

- Exhibit 1 was a copy of the State Appeal Board Order for FY2011 which requested budget detail sheets to be provided to the public free of charge.
- Exhibit 2 was a letter to the State Appeal Board requesting a stay of certification of the budgets (various) and a letter from the State Appeal Board denying those stays (3 pages).
- Exhibit 3 was a copy of pertinent Ringgold County Hospital budget detail sheets.
- Exhibit 4 was a copy of the County budget detail sheet pertinent to the E-911 Service Board and pertinent E-911 Service Board budget detail sheets.
- Exhibit 5 was a copy of pertinent Ag Extension budget detail sheets.
- Exhibit 6 was the minutes of the public hearing at which the Assessor's budget was not approved, and a copy of the pertinent budget detail sheets and taxable valuation reports.
- Exhibit 7 was copy of a letter dated April 7, 2013 to the Board of Supervisors expressing objections to the (first) FY2013 Ringgold County Budget Amendment.

Mr. Kilgore began with his opening remarks and referenced these remarks were applicable to all budgets under consideration by the State Appeal Board. Mr. Kilgore provided general statements he deemed applicable to the proceedings and referenced the aforementioned Exhibits. He indicated this is the fifth annual protest of budgets of Ringgold County. New this year were budget protests for Ringgold County Hospital, County Ag Extension and the E-911 Service Board. The County Assessor budget is a repeat from last year. The Sun Valley Rural Improvement Zone (RIZ) and the Ringgold County budgets were also repeats from last year (the County an annual repeat since 2009), but the budget protest hearings were denied by the State Appeal Board. Mr. Kilgore stated the protests carry the same message as the previous ones. The petitioners believe the best interests of the taxpayers in Ringgold County would be served by minimizing budget growth in order to minimize property tax increases. Mr. Kilgore indicated each of these budgets illustrates a different facet of property tax over burden by a local government entity, but all continue a spend-tax-spend-tax-cycle of increased property

taxes to pay for increased PERMANENT annual expenditures. This spend-tax-spend-tax cycle is totally independent of the fiscal health of the economy or the ability of the taxpayers to pay, and annual double-digit percentage increases in personnel costs passed directly to the property taxpayers as increased property taxes fail to meet any objective standard of "necessary, reasonable, and in the interests of public welfare" as required by Iowa Code Section 24.28. He indicated the budgets overspend and overtax again and they object again.

Mr. Kilgore highlighted the following concerns generally with the budget protests: The issues of the 25% fund carryover balance has been used for three years to justify overtaxing to restore the County carryover balance to 25%, yet a Petition for a Declaratory Order to the State Appeal Board filed March 7, 2012 requesting a clarification of the requirement has not been answered. An actual carryover balance is necessary to ascertain whether or not an excess carryover balance exists, and the actual carryover balance is not published on the Iowa Department of Management (DOM) forms. Fund balance differentiation is a five time repeat discrepancy in county budget protests, and is an issue which will be addressed in the specific budget protests. Mr. Kilgore stated a Petition for a Declaratory Order to the DOM filed February 8, 2012 requesting correction of the Taxable Valuation list prior to budget approval by the various taxing entities in Ringgold County was answered as "not a matter under our jurisdiction" and has still not been corrected for this set of budgets. Mr. Kilgore stated the FY2013 Ringgold County budget was protested, but approved as written by the State Appeal Board. An April 8, FY2013 budget amendment increased expenditures in budget by \$1,705,481 (20.6%). Mr. Kilgore indicated the matter of paying for the budget detail sheets was adjudicated by the State Appeal Board in an Order issued May 2010 subsequent to the FY2011 County budget protest, but the County Auditor is again charging for budget detail sheets. He also indicated a consolidated levy rate list is no longer provided to the public by the County Auditor and the taxable valuation list is a public document with no public distribution.

Mr. Kilgore requested the hearing be terminated because the Ringgold County Hospital Board did not attend. Mr. Donahe stated the hearing was informal and was intended to gather information needed to assist the State Appeal Board in rendering a decision. Therefore the hearing would continue.

Mr. Kilgore referenced 3A, a document handed out at the meeting which was a restatement of his objections as included in the submitted petition, and he also referenced Exhibit 3, the Hospital budget detail sheets.

- Objection number one stated the adopted budgeted invokes a larger property tax levy rate than the hospital is allowed to collect.
- Objection number two stated the Restricted Funds line 9 from IDOM FORM 676 ADOPTED BUDGET SUMMARY has no carryover balance; Restricted Use lines 2-8 are transferred to the General Fund rather than being expended (accounted for) in their own fund.
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He also indicated the following concerns:

- Referencing Exhibit 3, Mr. Kilgore stated the expenditure amounts listed for insurance requirements on lines 8-15 did not add up to the amount of tax asking requested under Tort Liability/Insurance.
- Mr. Kilgore stated the amount collected for FICA and IPERS went down.
- He also indicated the ending fund balance of one year does not match the beginning fund balance of the next.

RINGGOLD COUNTY HOSPITAL RESPONSE

The Ringgold County Chief Executive Officer, Gordon Winkler, introduced himself and asked a correction to the submitted opening statement (Hospital Exhibit 1) reflect the Hospital only requests 43% of its total allowable tax asking. He then passed the floor to Ms. Teresa Roberts to serve as the primary spokesperson for the Hospital. In the response to the petition, she expanded upon the written remarks submitted prior to the hearing in Exhibit 1.

- Ms. Roberts stated the Hospital budget is developed under the oversight of the Board Finance Committee which recognizes its fiduciary responsibility to the community and is conscientious of the impact of taxes on Ringgold County property owners. She indicated the Hospital contends the FY2014 hospital budget and accounting practices are in conformance with applicable Iowa authority.

Ms. Roberts written comments and statements presented the following response to the petitioners' objections:

- In response to Objection 1, Ms. Roberts indicated the Hospital is a Chapter 347 Hospital under the Iowa Code and referenced the following statutory references for property tax levy authority:
 - i. Iowa Code Section 347.7 (1)(a) (re: General Fund) which allows for a general fund levy rate not to exceed \$0.27/\$1,000 of taxable valuation for the "improvement, maintenance, and replacement of the hospital, as certified by the board of hospital trustees."
 - ii. Iowa Code Section 97B.9(3) (re: IPERS) which allows a political subdivision to pay its contribution from tax dollars.
 - iii. Iowa Code Section 97C.10 (re: FICA): which allows a political subdivision to levy property tax to meet its obligation to pay its share of FICA contribution.
 - iv. Iowa Code Section 347.13 (1) (re: Tort Liability) which allows political subdivisions to levy to pay the premium costs on various insurance obligations.
 - v. Iowa Code Section 347.7 (3) (re: Ambulance) which allows hospital trustees to levy a tax not to exceed \$0.27/\$1,000 of taxable valuation for

“support of ambulance services as authorized in section 347.14, subsection 8.”

- Ms. Roberts stated the Hospital has the levy authority as described in the above Iowa Code sections, but only levied at the following amounts:

Levy Source	Allowed Amount	Actual Levy Amount	Levy Not Taken
General	\$73,655	\$73,655	\$0
Ambulance	\$73,655	\$73,655	\$0
FICA	\$376,531	\$330,933	\$45,598
IPERS	\$501,785	\$427,665	\$74,120
Tort Liability	\$1,239,317	\$374,563	\$864,754
Total Levy	\$2,264,943	\$1,280,472	\$984,471
Total per \$1,000 of taxable valuation	\$8.30265	\$4.69385	56.3%

- In response to Objection 2, the Hospital indicated it completed the budget form correctly.
 - i. Ms. Roberts stated the Hospital has no restricted funds. Therefore, there is no carryover balance or any entry on line 9 of Form 676.
 - ii. She stated Restricted Use Funds line 2 and 3 are for FICA and IPERS and according to Iowa Code Section 97B.9 (3) “...the contributions shall be paid from the same fund as the employee salary...”. The IDOM budget instructions directed the expenditures are not budgeted within the FICA and IPERS funds. Instead, they are transferred to the fund from which salary costs are expended.
 - iii. She indicated Restricted Use Funds lines 4, 6 and 7 are not used by the Hospital.
 - iv. Ms. Roberts cited Iowa Code Section 347.12(2)(a), which details the County Hospital shall use Generally accepted accounting principles as established by the Governmental Accounting Standards Board (GASB). She then stated GASB Statement No. 34 Paragraph 67 requires the Hospital to report as an enterprise fund and all expenditures, regardless of the fund from which the taxes are levied, must be spent out of the General Fund of the Hospital. The Hospital budget forms reflect this requirement with the transfer of levied funds out of Ambulance and Tort Liability/Insurance into the General Fund.

- In response to Objection 3, Ms. Roberts reiterated since the Hospital follows enterprise accounting rules, the only fund balance reported on Form 676 is for the General Fund and the ending and beginning fund balances for the General Fund are clearly listed in Columns E and F, respectively, on line 1 and the total line 11.
- Ms. Roberts stated the Hospital does not believe it is levying over its allowed amount, as it is taxing at a rate of \$4.69385 instead of the allowed \$8.30265.

PETITIONERS' REBUTTAL

In his rebuttal to the Hospital, Mr. Kilgore stated according to Iowa Code Section 347A.3 the County Board of Supervisors has to authorize the Hospital to levy an additional rate not to exceed \$1.08 and questioned whether this authorization occurred. He also stated if the Hospital did not bring in taxes, it would be over \$3 million dollars in the negative.

In closing, Mr. Kilgore indicated the Hospital is increasing expenditures and budgeting in the red. He stated taxable value goes up and people do not realize this increases taxes, last year's levy rate is not listed. He stated he wanted to protest the hospital budget last year but ran out of time.

MEMBERS OF THE PUBLIC

During the public comment time, one individual submitted documents regarding the issue of charging for copies of the county budget discussed during Mr. Kilgore's opening statements. These are submitted as Public Comment Exhibits 1 and 2.

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 Iowa Code sections 24.28 and 24.29, a hearing was scheduled and conducted.
2. The Ringgold County Hospital FY2014 budget reflects \$3,547 more in property taxes than in FY2013.
3. For the FY2014 budget, the Hospital levied the maximum General Fund tax rate of \$0.27/\$1,000 of taxable valuation and levied the maximum Ambulance rate of \$0.27/\$1,000 of taxable valuation. These rates are the same as FY2013, but generated \$4,445 more property tax revenue in each due to increased taxable valuation. FICA and IPERS levies are not limited by rate, but instead by their use. Combined, the amount levied in property tax dollars for FICA and IPERS decreased \$6,723 in FY2014 from FY2013. The Tort Liability/Insurance levy is also not limited by rate but instead by use. The amount levied for tort liability and other insurance increased \$1,380 in property tax dollars when comparing FY2014 to FY2013. In FY2014, property taxes levied by the Hospital are approximately 7% of its subtotal of Net Other Receipts amount of \$16,948,440.
4. Hospitals are directed via the IDOM budget instructions to transfer the amount levied for FICA and IPERS to the fund from which salaries are paid as Iowa Code Section 97B.9

states, in part, "...the contributions shall be paid from the same fund as the employee salary."

5. Iowa Code Section 347.13(1) states, in part, a hospital may "Certify levies for a tax in excess of any tax levy limit to meet its obligations to pay the premium costs on tort liability insurance, property insurance, workers' compensation insurance, and any other insurance which may be necessary for the prudent management and operation of the county public hospital, the costs of a self-insurance program, the 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."
6. The FY2014 ending fund balance for the General Fund was budgeted at \$(1,929,350). The Hospital indicated this is due to different factors. One issue they pointed to is the federal government mandated all hospitals implement an Electronic Health Record (EHR) or start losing Medicare reimbursement and this system was implemented by the Hospital in FY2012 and FY2013. The Hospital indicated it had to expend the loan funds in FY2012 for the EHR, and the loan did not pay for additional costs for training and implementation. In addition, the Hospital indicated it experienced three years in a row of extremely high claims on its self-funded health insurance plan, a negative operating margin in FY2012 with the loss of a physician and overall decreased volumes due to the economy.
7. Expenses increased overall by \$1,477,556. The Hospital indicated expenditure increases are due primarily to the depreciation expense on the new building, as well as increases in IPERS and other benefits, including increased costs of the self-funded health insurance program.
8. Iowa Code Section 347A.3 states, in part, "...the board of supervisors shall make the amount of the deficiency for paying the expenses of operation, maintenance, and funded depreciation of the hospital available from other county funds or shall levy a tax not to exceed one dollar and eight cents per thousand dollars of assessed value in any one year on all the taxable property in the county in an amount sufficient for that purpose...". This section of Iowa Code is in reference to revenue hospitals. The Ringgold County Hospital is not a County Hospital payable from revenue and is covered under Iowa Code Chapter 347, not 347A. The statute which applies is Iowa Code Section 347.7 1 (a) which states, in part, "a tax not to exceed twenty-seven cents per thousand dollars of value for the improvement, maintenance, and replacements of the hospital, as certified by the board of hospital trustees."
9. Regarding Petitioner's Exhibit 3, the FY2012 Total Ending Fund balance on Form 672 A (Attachment 2 of 11) Column A, line 70 is \$375,864. This corresponds to the same number as listed as the FY2013 beginning fund balance on Form 672-A (Attachment 1 of 11) Column B, line 1. The FY2013 Total Ending Fund balance on Form 672 A (Attachment 2 of 11) Column B, line 70 is \$(1,255,589). This corresponds to the same number as listed as the FY2014 beginning fund balance on Form 672-A (Attachment 1 of 11) Column C, line 1. Therefore the ending fund balances match the beginning fund balance in the budget detail sheets.
10. According to Iowa Code Section 24.9, "The department of management shall prescribe the form for public hearing notices for use by municipalities."

11. The FY2011 Ringgold County Budget Appeal Order by the State Appeal Board stated in part "...copies of the proposed budget must be available at no charge to the public as required by Section 331.434(2) of the Code of Iowa." When referring to the proposed budget, Iowa Code Section 331.434(2) states, "Not less than twenty days before the date that a budget must be certified under section 24.17 and not less than ten days before the date set for the hearing under subsection 3 of this section, the board shall file the budget with the auditor. The auditor shall make available a sufficient number of copies of the budget to meet the requests of taxpayers and organizations and have them available for distribution at the courthouse or other places designated by the board".

Referencing Public Comment Exhibit 2, Ringgold County has adopted a policy to charge for public records requests. In the opinion of the Ringgold County Attorney, public records include "budget flex sheets" or supplemental budgetary documents which are not the proposed budget, as well as the county budget once the public hearing has been completed and the budget has been approved. In the opinion of Ringgold County, neither are the "proposed" budget and covered under 331.434 (2),

CONCLUSIONS OF LAW

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

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 Ringgold County Hospital increase in property tax dollar asking is \$3,547, which represents an increase of 0.2%. The amount requested for utility replacement tax and property tax dollars remained steady. The amount the Hospital levied for FICA, IPERS and Tort Liability/Insurance was less than the statutory amount allowed. The majority of the increase in expenditures for the Hospital relate to depreciation expense on the new building, as well as benefit cost increases, including the Hospital's self-funded health insurance program.

The petitioners did not adequately satisfy the burden of proof requirement to justify a change in the FY2014 budget. The Hospital adequately satisfied the burden of proof requirement for the increases in the FY2014 budget.

ORDER

Based on the information provided by the parties involved and the Iowa Code, the State Appeal Board sustains the FY2014 Ringgold County Hospital Budget as adopted.

The increasing deficits of the Hospital's ending fund balance do not reflect favorably on the Hospital's ability to continue as a viable, on-going entity. The Hospital should investigate alternatives to return the Hospital to a sound financial position.

STATE APPEAL BOARD



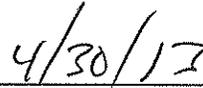
David Roederer
Chairperson



Michael L. Fitzgerald
Vice Chairperson



David A. Vaudt
Member



Date