

STATE APPEAL BOARD

In Re:	Midland Community School)	Order
	District Budget Appeal)	
	FY 2011)	
)	June 1, 2010

BEFORE THE DIRECTOR OF THE DEPARTMENT OF MANAGEMENT, RICHARD OSHLO, JR.; 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 May 5, 2010. The hearing was before a panel consisting of Luke Donahue, Investment Officer, Office of the State Treasurer and presiding hearing officer; Lisa Oakley, School Finance Director, Department of Management; and David Voy, Manager, Office of the State Auditor.

The spokespersons for the petitioners were Mr. Mark Doll and Mr. Kenneth Hanna. The spokesperson for Midland Community School District was Superintendent Brian Rodenberg.

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 Midland Community School District fiscal year (FY) 2011 budget as described herein.

PROCEDURAL HISTORY

The FY11 Midland Community School District proposed budget summary was published in the Midland Times on March 26, 2010. The required public hearing was held and the budget was adopted on April 12, 2010.

A petition protesting the certified FY11 Midland Community School District budget was filed with the Jones County Auditor on April 23, 2010, and was received by the State Appeal Board on April 26, 2010.

The petitioners' objections and their reasons listed on the petition document are as follows:

- As passed by the School Board, they have over spent their authority. The published budget also misrepresented the actual costs of the School District. The budget states at the end of the fiscal year of this budget, the balance of the funds will be \$140,000. The School Board has stated verbally the realistic balance will be somewhere around \$2,000,000. By inflating the costs in the budget, they have used that as a pretense to raise our property tax base from \$13.93254 to \$14.15775 per \$1,000 of taxable valuation.

DISCUSSION

The petitioners and representatives of the Midland Community School District provided various written summaries, exhibits and verbal commentary in support of their positions. A summary of the public hearing and information provided on this matter is as follows:

PETITIONERS

Mr. Mark Doll and Mr. Kenneth Hanna represented the petitioners. In their presentations, they provided certain comments with regard to the Midland Community School District budget, summarized as follows:

1. The protest revolves around two main issues: 1) the inflated numbers published in our local paper which portrays high spending amounts and 2) using these inflated numbers as a reason to raise our taxes.
2. The budget as approved would spend all of our current authority, \$5,962,291 and 100% of the unspent carryover authority of \$958,000 plus overspending an additional \$230,000 which is the difference between \$7,150,566 (line 38, page 1, general budget worksheet) and \$6,920,566 which is line 17.9 from the aid and levy worksheet.
3. This budget was unanimously approved after the Administrator's message in the Midland Newsletter clearly stated they would not include any unspent balance in the budget nor could they go over the total spending authority. We understand they are not going to spend that much but we object to a misleading published budget.
4. Our unspent balance went from a plus \$462,158 in FY05 to a minus \$780,000 in FY06 and FY07. Because of the School Board's overspending in the past, the taxpayers have had to pay large cash reserve levies of \$1,200,000 for FY08, FY09, FY10 and now another \$753,221 in FY11.
5. For a portion of 30 minutes three taxpayers spoke against the tax at the budget hearing. The budget hearing was closed, the agenda was approved and seven School Board members voted to spend \$7,150,000 with no discussion what so ever, all in a time span of five minutes.
6. We feel the general expenditures should be reduced by \$958,000 which is FY10 unspent authority; reduce another \$230,000, the amount of overspending; and take away \$73,252 which is the budget guarantee that will be completely phased out by FY13. This will bring line 38 on the worksheet from \$7,150,000 down to \$5,889,566.

7. The second issue is the tax levy. The first point is the School District can not even spend the \$230,000 which is above the budget authority and does not need to levy cash reserve funds for that amount. The second point is the \$20,000 the School Board increased in income surtax.
8. The School Board points to the fact our levy is less than the state average. With our \$100,000 more in valuation per student we pay a larger percentage in property tax and receive less state aid. We can not change the uniform levy but this is why our rate should be less. For every \$1.00 levied we bring in more tax dollars per student and it takes a lower levy to fund the \$819,362 which is line 8.37.
9. Another tax we would like lower is the Physical Plant and Equipment Levy (PPEL). When we started collecting the sales tax it was stated it was needed to fund repairs on buildings, pay for equipment, free up spending in the general fund and reduce property taxes. In 2005 voters approved a \$.67 increase in PPEL to make building repairs and pay for equipment. The success of the PPEL vote enabled the School Board to hoard the sales tax money to build a new building while closing one school (not maintain it), intend to close another school (not maintain it) and still not lower property taxes.
10. We feel a levy of \$400,000 for cash reserve, a levy for \$100,000 for management to help cover some future early retirement costs and reduce PPEL to \$68,119 added to basic PPEL to equal a total of \$138,303. This would move the grand total to \$2,601,137, which would be a property tax levy rate of about \$12.60 per \$1,000 of taxable valuation.
11. Putting expenditures in the budget does not increase the authority. The authority is set. We are trying to find out what they are planning to spend. If the budget doesn't equal actual figures, then why go through the process?

MIDLAND COMMUNITY SCHOOL DISTRICT RESPONSE

Mr. Brian Rodenberg, Superintendent, was the primary spokesperson for Midland Community School District. In his presentation, he provided certain comments with regard to the Midland Community School District budget, summarized as follows:

1. One cash reserve levy was imposed to cover the cost of the At-Risk program and to deal with the change in open enrollment numbers. The other cash reserve levy was imposed to allow the School District to regain cash lost by the 10% across-the-board cut and to cover the cost of the School District's portion of the juvenile home program.

2. The instructional support levy was approved by the School District to help raise 10% of the budget to increase spending authority and get the cash to back it up. The surtax rate was increased by 1% to 13% in order to have less of an impact on the property tax payers.
3. The management levy was set at zero due to our fund balance which will pay for the first year of the early retirement incentive offered this year by the School Board.
4. With this budget, the Midland Community School District believes it is a way to maintain a quality education system. Increases in costs are associated with the school system, which has done a great job of decreasing expenditures over the past few years.
5. Larry Sigel of Iowa School Finance Information Services has provided a letter of support of the proposed budget rate.
6. A number of factors have gone into consideration of the budgeting process, including 3% enrollment decline, 1.1% regular program cost decrease, 11.15% budget guarantee decrease, open enrollment out cost increased 21.5%, open enrollment in revenues dropped 23.5%, tuition in impact was cut 32% and voluntary preschool funds were reduced 13.5%.
7. In summary, we are in need of making cuts in the area of \$180,000, which we have done by reducing staff through attrition, sharing personnel and generally cutting expenditures in all areas.
8. The two figures under contention are line 17.9 of the aid and levy worksheet and line 38 of FY11 budget year worksheet for the general fund. Both of these figures are estimates and are used to check against each other. These two figures are not directly comparable since line 17.9 is spending authority concept and line 38 is fund balance/cash concept. The actual costs will not be figured until much later. The actual spending of the budget on a line-item basis will be much less than either figure.
9. The reason for the increased amount of revenue and expenditures is related to Qualified School Construction Bond funds the School District received, approximately \$2.6 million.
10. The School District tries to maximize the budget to make it equivalent to the spending authority which is section 17 of the aid and levy worksheet. All of the budgeting is based on estimates. It is done in January and February before negotiations. We don't know fuel costs and other costs. Basic budgeting concepts are cash vs. spending authority. Spending authority drives the budget and cash backs up the spending authority. The line item budget is established later.

11. The current situation is dollars are allocated for maintenance of the Lost Nation building until its closing. To become more efficient, the School District is going from four buildings to two.

FINDINGS OF FACT

1. Section 24.27 of the Code of Iowa 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 and 24.29 of the Code of Iowa, a hearing was scheduled and conducted.
2. The School District, subject to various state laws and administrative rules, shall prepare and adopt a budget, certify taxes and authorize expenditures. The School District met those requirements.
3. The Midland Community School District certified a budget which results in a \$41,995 increase in tax dollars and a \$0.23417 per \$1,000 of taxable valuation increase in the property tax levy. The following is a summary of the adopted budget regarding property taxes:

	FY 2010 Final		FY 2011 Budget		FY 2011 minus FY 2010	
	Dollars	Levy Rate	Dollars	Levy Rate	Amount Change	Levy Rate Change
Levy to Fund						
Combined District Cost	\$ 1,939,416		1,934,091		-5,325	
Instructional Support	53,184		28,743		-24,441	
Cash Reserve - SBRC	131,005		288,273		157,268	
Cash Reserve - Other	350,000		464,948		114,948	
Subtotal General Fund	2,473,605	11.95683	2,716,055	13.15775	242,450	1.20092
Management	199,999	0.96675	0	0.00000	-199,999	-0.96675
Voted PPEL	138,608	0.67000	138,303	0.67000	-305	-0.00000
Regular PPEL	68,270	0.33000	68,119	0.33000	-151	-0.00000
Grand Total	\$ 2,880,482	13.92358	2,922,477	14.15775	41,995	0.23417
Taxable Valuation with Gas & Electric Utilities	206,877,967		206,422,413		-455,554	

4. The Midland Community School District increased the cash reserve levy to cover the 10% across-the-board reduction in state foundation aid revenues, reduction of state foundation aid revenues for state juvenile homes, open enrollment out expenditures and provide \$100,000 in additional cash reserve. The management levy reduction partially offset the increase in the cash reserve levy.

5. The Midland Community School District's authorization for the instructional support levy allows for the income surtax to be up to 20% to be determined by the School Board. The 1% increase in the income surtax rate from 12% to 13% resulted in a corresponding reduction in the instructional support property tax levy of \$19,461.
6. The Midland Community School District's FY11 budget worksheets estimate General Fund expenditures of \$7,150,566 and an ending fund balance of \$140,000. Total estimated requirements are \$7,290,566.
7. The Midland Community School District's Unspent Authorized Budget Worksheet estimates the FY11 General Fund Maximum Authorized Budget of \$7,060,728, expenditures of \$6,028,200 and has an estimated Unspent Authorized Budget of \$1,032,528.
8. According to the Midland Community School District's budget the estimated General Fund ending balance of \$140,000 is 2.0% of the total General Fund expenditures. If the School District only budgets \$6,028,200 as reported on its Unspent Authorized Budget Worksheet the ending General Fund balance would be \$1,262,366 which would result in an ending fund balance of 20.9% of total General Fund expenditures.

CONCLUSIONS OF LAW

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

BASIS FOR DECISION

Section 24.28 of the Code of Iowa 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 increase in the total property tax of \$41,995, resulting from an increase in the levy of \$.23417 per \$1,000 of taxable valuation, appears reasonable compared to the 10% across-the-board reduction in state foundation aid revenues of \$284,204.

The estimated General Fund expenditures appear to be overstated on the School District's budget and the ending fund balance appears to be understated. However, if the expenditures from the Unspent Authorized budget worksheet are used, the resulting ending fund balance is still reasonable.

The School District's budget, budget hearings and property tax levies were adopted by the School Board in accordance with statutory provisions. Midland Community School District has demonstrated the property tax levies questioned by the petitioners are necessary, reasonable, and in the interest of public welfare.

ORDER

Based on the financial position of the School District, the information provided by the parties involved and the Iowa Code, the State Appeal Board sustains the FY11 Midland Community School District budget as adopted.

However, the State Appeal Board also reminds the Midland Community School District budget estimates should be based on the true estimated expenditures and budget amendments should be adopted, if necessary, before expenditures exceed the budget.

STATE APPEAL BOARD



Richard Oshlo, Jr.
Chairperson



Michael L. Fitzgerald
Member



David A. Vaudt
Vice Chairperson

June 1, 2010
Date