

# STATE APPEAL BOARD

In Re:        Howard County        )                                Order  
               Budget Appeal        )  
  )                                 
               FY 1999-2000        )                                June 18, 1999

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**BEFORE STATE AUDITOR, RICHARD D. JOHNSON; STATE TREASURER, MICHAEL L. FITZGERALD; AND THE DIRECTOR OF THE DEPARTMENT OF MANAGEMENT, CYNTHIA P. EISENHAUER:**

The above captioned matter was heard on Friday, May 21, 1999 before a panel consisting of Ronald J. Amosson, Executive Secretary to the State Appeal Board and presiding officer; Stephen E. Larson, Executive Officer II, Office of the State Treasurer; and Katherine L. Rupp, Senior Auditor II, Office of the State Auditor.

The hearing was held pursuant to the provisions of section 331.436 and Chapter 24 of the Code of Iowa. The spokesperson for the petitioners was Neil Shaffer, President of the Howard County Farm Bureau. County Supervisor Mary Jo Wihelm represented the county.

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 in part and reduce in part Howard County's fiscal year 2000 budget as described herein.

## **PROCEDURAL HISTORY**

The FY2000 Howard County proposed budget summary was published in both the Times Plain Dealer on February 11, 1999 and the Lime Springs Herald on February 12, 1999. A public hearing on the proposed budget was held February 25, 1999, and the budget was adopted on that same date.

A petition protesting the certified FY2000 Howard County budget was filed with the County Auditor on March 23, 1999, and was received by the State Appeal Board on March 25, 1999. On the petition document, the petitioners outlined two basic objections. They objected to (1) the funding of uniformed patrol services from the rural services fund, and (2) specific spending increases and excessive ending fund balances.

## DISCUSSION

Mr. Shaffer requested that the State Appeal Board direct Howard County to take the following actions.

1. Eliminate the uniform patrol services appropriation from the rural services basic fund.
2. Reduce the rural services basic levy by \$231,785, which is the amount budgeted for uniform patrol services.
3. Reduce general fund cash reserves by allowing the county to fund uniform patrol services from the general fund.
4. Reduce the inter-program services budget to the original FY 1999 budgeted level of \$558,505 and reduce taxes by a corresponding amount.

A summary of Mr. Shaffer's comments is as follows:

Public safety is everyone's concern regardless of urban or rural status. Public safety expenditures are for the benefit of all residents. Howard County has been budgeting the majority of uniform patrol out of the rural services fund for several years but this was not discovered until recently. Very few counties fund uniform patrol out of the rural services fund. Only 4 other counties had expenditures for uniform patrol paid for out of the rural services fund for FY 1999. Of the counties that do pay for patrol services with rural services funds, they do not fund as much as Howard County. Howard County funded 85 to 87% of the uniformed patrol services from the rural services fund in FY1999, but the next closest county funded only 46% of uniformed patrol services out of the rural services fund. Howard County is out of line with all other counties in the state.

Only rural services can be paid from the rural services fund and public safety is primarily intended to benefit all residents of the county. Chapter 331.421 of the Code of Iowa defines "rural services as the services which are primarily intended to benefit those persons residing in the county outside of incorporated city areas..." and general services as the services which are primarily intended to benefit all residents of a county. If an expenditure is primarily intended to benefit rural residents, then only rural residents should have to pay. If a given expenditure is primarily intended to benefit all residents, then all residents should contribute. If it is for urban residents only, then the county should not be paying for that service. That is what city governments are for. Sheriff's deputies provide services that are primarily intended to benefit all residents of the county.

Public safety expenditures are in everyone's best interest. It is practically impossible to distinguish services rendered by law enforcement between rural and non-rural areas. When the rural services fund is charged for uniform patrol services, it implies that the county has hired separate law enforcement for

exclusive use in such areas, yet services rendered between rural and non-rural areas are indistinguishable. Law enforcement officials respond to incidents regardless of where their normal patrols are and issue speeding tickets whether in a rural or non-rural area. Sheriff's deputies provide services within the boundary of a city. Even if actual services are not performed, they are available if needed and that is a service itself. County law enforcement services are intended to benefit all residents even when the services are rendered in the unincorporated area of the county, such as the discovery of a methamphetamine lab in a rural area. The drugs are sold to kids in the city. All residents benefit when this is discovered. Trying to create a distinction between rural and non-rural residents would only succeed in creating an unfair balance and conflict between citizens and their political entity. The only logical remedy is to pay for law enforcement completely from the general fund since both rural and non-rural residents contribute to that fund.

Law enforcement should be paid from the general fund even if every city without a police department pays for county law enforcement via inter-governmental payment agreements such as 28E agreements. The Sheriff provides patrol services to two cities with no police force and charges nothing. Cresco and Riceville are the only cities in the county that have police departments. The Sheriff has no 28E agreements with any city to provide patrol services. The City of Elma provides a voluntary contribution of \$1200. Also, none of the revenues are deposited to the rural services fund. Revenues must be deposited to the fund from which the associated expenditures are made. We feel the expenditures should move and not the revenues.

On a per capita basis, rural residents are paying \$68 for uniform patrol services. Cresco residents are paying less than \$3.60. Rural residents are being asked to pay more than 20 times as much as residents of Howard County's smaller towns do for the same services. In a tax rate comparison, the rural property owners are paying \$1.18 per \$1000 of taxable valuation and urban property owners are paying 22 cents per \$1000 of taxable valuation. Rural residents are paying 20 times more on a per capita basis and 5 times more on a tax rate basis. Residents in Chester and Lime Springs pay no city tax for police protection. They pay nothing through 28E agreements and they have no police department. If you ask the sheriff, you will find that officers spend more time patrolling in cities than in rural areas because that's where their services are required most often. Everyone benefits from uniform patrol services regardless of geographic position of any peace officer at any given time. The service is intended to benefit all residents of the county and the law defines such services as general. General services must be paid from the general fund. Paying from the general fund is more appropriate and more equitable on a per capita basis. The county has not required 28E agreements or arranged for other types of payments from towns within the county's borders. The County is depositing the revenue in the general fund.

The interprogram services service area has budgeted expenditures that exceeded actual expenditures for each of the 3 years with actual figures. The FY 2000 budgeted expenditures increased 36% over the FY 1998 actual level. That is an increase of \$158,000. The large increase comes from the general services line item within the central services program. The County states that \$35,000 is due to remodeling the sheriff's former quarters into office space. We do not believe the county has demonstrated a need to spend \$35,000 for a simple remodeling project. Inflation is running under 2%, therefore the increase in the general services line item is too high. We ask the Appeal Board to reduce the budget to the original FY 1999 budgeted level of \$558,000. The County will have enough revenue to accomplish the sheriff's remodeling and still have a sizable increase in the operating budget. The County must justify the increase. Just to recite what those expenditures are is not sufficient. The expenditures must be necessary, reasonable and in the interest of the public welfare.

We ask that you consider the general fund ending balances when you render your decision. We believe that the general fund ending balances should be reduced to no more than 25% of expenditures. That is more than enough for adequate cash flow and emergencies. The FY 2000 general fund ending balance is budgeted to be 44% of budgeted expenditures. The County has a practice of under-estimating ending fund balances. If reducing ending fund balances is not accomplished through the actions we recommend, then we feel they should be reduced through direct general fund property tax rate reduction in the general supplemental and general basic tax levies. We ask that the Appeal Board review the cash reserves in the county's other funds such as the rural services fund and determine whether or not the levels are necessary and reasonable. The practice of spending down the fund balance is unfair to all taxpayers of the County. Tax levies should be at a level that will cover anticipated expenditures as well as provide a level of reserves for needed cash flow. The cash reserves have been built with taxpayer money. The County should not be allowed to suddenly find reasons to spend down the ending fund balances. If there are truly necessary and needed expenditures, then include them in the proposed budget and follow the approval process. The reserves are needed to fund the uniform patrol budget.

Howard County's responses to the petitioners' concerns were as follows:

In FY 1996 the patrolling deputies' salaries were taken from the general fund and put in the rural services fund. This was due to property tax limitations and the previous Board of Supervisors was looking at alternatives to keep the general fund viable. It was suggested to take the patrolling deputies out of the rural services fund because that is what their primary patrolling duties are. The salaries have been taken out of the rural services fund since then. Since our audit firm, the State Auditor and the State knew that the patrolling deputies were in the rural services fund since FY 1996, it is hard for us to believe that it has

been "unlawful" to take the salaries out of the rural services fund. Also, nothing in regards to patrolling deputies' salaries is spelled out in the Code of Iowa.

The Farm Bureau has identified some inconsistencies with the payment of the outlying municipalities and the county is grateful. The newly appointed sheriff is going to be discussing this situation throughout the year with the Board of Supervisors. The County is going to be having discussions with the cities in regard to developing 28E agreements for uniform patrol services. The County does have a contract with Elma for uniform patrol services.

The payment of the patrolling deputies' salaries out of the rural services fund is not unlawful. They should be paid out of the rural services fund for the services that they do. The County has no legal obligation to provide services to the cities. It is the cities responsibility to provide police protection for its residents. Any law enforcement entity will provide assistance to another, no matter what the jurisdiction. It is not fair to city residents to pay for police protection through the city by a 28E agreement or by a police department and then have the County tax for Sheriff protection. Also, just because more counties are not using the rural services fund for funding uniform patrol does not make it wrong.

The main increase in the interprogram services budget for the last two years are for salaries, board proceeding publications, and union negotiations. Also, general services is the county's custodial budget. Increases are for renovations of sheriff's former quarters for office space and questioning area (\$38,000), work done to the DHS building (\$10,000), temporary help to remove snow (\$5,000) and a part-time employee has become full-time. (\$6,692) The work on the sheriff's home and the DHS building are felt to be a one-time increase of \$48,000. If you remove the improvements, the increase in the last two years has been \$18,633. The other major increase was in the worker's compensation. We were fortunate that FY 1998 injuries were minimal. Our actual was \$41,894 in FY 1998 and we have set aside \$74,232 for FY 2000. The Board of Supervisors does not feel that this is out of line. The County has no bids on the remodeling project at the Sheriff's office.

In regards to the general fund ending balance being excessive and budgeted at over 40% of expenditures, we would like to answer simply, yes it is. Howard County went to the State Appeal Board in FY 1998 to ask for the budget to be raised while under the property tax limitations. The State did see the need and set our levies. It is the Board of Supervisors intention to spend down the FY 2000 carryovers. At budget time, we did not have a price tag on any of the following items.

1. The E911 system has proved to have problems in some areas of our County. During the budgeting process it was mentioned it could cost nothing to \$25,000 to \$50,000. These amounts are not included in the budget and the county has no estimates of costs to repair. In subsequent information

provided by the County, the problems noted have been addressed and the E911 commission was going to see if the problem was solved.

2. The County has recently hired an engineer. He is reviewing the needs of the County. The County may increase the transfer of funds from Rural Services to Secondary Roads.
3. The engineer previously did sanitarian functions also, but he is no longer going to perform those duties. A part time salary is currently included in the budget.
4. The assessor's office is looking at networking for FY 2000. The County had a firm review the County's needs but have not received a quote.
5. The computer printer is from 1984 and needs to be replaced. The cost could be from \$6,000 to \$10,000.
6. The uncertainty of the Y2K needs. The County has been assured by its vendors but they do not know what to expect or their potential needs.
7. The heating system of the courthouse needs to be corrected. The County intends to set up a five-year plan to address the needs of each department and to set up a restricted fund. The heating system would be financed through that fund.

The county had a 65% carryover in FY 1998, a projected carryover of FY 1999 of 48% and a budgeted carryover of 41% for FY 2000. This shows a definite spend-down of funds. The County had no intention to spend down the fund balance; however, given the opportunity to address needs, it will use fund balances to do so.

#### **FINDINGS OF FACT**

1. Section 24.28 of the Iowa Code 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 budget of the previous year and which the objectors propose should be reduced or excluded; but the burden shall be upon the certifying board or levying board, as the case may be, show that 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 requested property tax levy and the budgeted ending fund balance for the general basic fund is higher for Fiscal Year 2000 than the property tax levied and the budgeted ending fund balance for Fiscal Year 1999. Accordingly, the county bears the burden of proof to show that the property taxes and ending fund balance in the general basic fund should be increased.
2. Section 331.421(2) of the Iowa Code states "Rural county services means the services which are primarily intended to benefit those persons residing in the county outside of incorporated city areas, including secondary road services, but excluding services financed by other statutory funds."

3. Section 331.427(3) of the Iowa Code states "Appropriations specifically authorized to be made from the general fund shall not be made from the rural services fund, but may be made from other sources."
4. Section 331.427(2) of the Iowa Code lists the appropriations that are specifically authorized to be made from the general fund. Expenditures for the County Sheriff are not included in this list.
5. Section 372.4 of the Iowa Code states that the mayor "shall appoint the marshall or chief of police except where an intergovernmental agreement makes other provisions for police protection..."

### 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.

### ORDER

Based on the financial position of the County, information provided by the parties involved, and in reviewing the historical data of Howard County, the State Appeal Board orders the following action:

#### **General Fund:**

Remove contract law enforcement revenues received from the City of Elma.

Reduce the property tax levy in the General Fund by \$370,000. This reduction is made because of the significant ending fund balance in the General Fund. (44% of the estimated expenditures as budgeted by the County and a projected 73% of the estimated expenditures based on the County's history of budgeting) The County has not shown that the additional fund balance is necessary, reasonable and in the interest of the public welfare. The total ordered tax reduction reduces the projected fund balance to approximately 55% of the estimated expenditures.


No reduction in expenditures for the Interprogram Services service area is ordered.

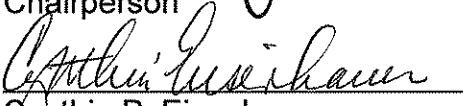
## Rural Services Fund


Increase revenues by the amount of contract law enforcement revenues received from the City of Elma and deposit all contract law enforcement revenues received from cities in the Rural Services Fund whenever uniform patrol services expenditures are paid from that fund.

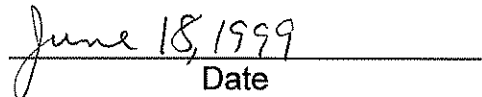
No reduction in expenditures for the Uniform Patrol services is ordered.

### STATE APPEAL BOARD

  
Richard D. Johnson  
Chairperson

  
Cynthia P. Eisenhauer  
Member

  
Michael L. Fitzgerald  
Vice Chairperson

  
Date



**Howard County  
Fiscal 2000 Budget Protest  
General Fund Analysis**

Exhibit A

**Property Taxes Levied:**

Fiscal Year	Taxes Levied	Dollar Change Prior Year	Percent Change Prior Year	Percent Change from 1995	Net Current Property Taxes
1995	\$ 1,487,113				\$ 1,338,328
1996	1,535,999	48,886	3.287%	3.287%	1,210,708
1997	819,935	(716,064)	-46.619%	-44.864%	(1) 737,410
1998	1,171,007	351,072	42.817%	-21.256%	1,053,868
1999	1,171,004	(3)	0.000%	-21.257%	1,052,522
2000	1,219,635	48,631	4.153%	-17.986%	1,101,743
2000 - Alt.	849,635	(321,369)	-27.444%	-42.867%	(2) 731,743

- (1) Beginning in FY97, mental health is budgeted in the MH-DD Services Fund.  
(2) Reduced by \$370,000 which represents the budgeted increase in fund balance.

**Other County Tax (Includes LOST)**

Fiscal Year	Budget	Actual/Estimated	Percent Difference	Source of Actual Amounts
1995	3,565	160,881	4412.791%	County
1996	216,213	231,644	7.137%	County
1997	232,872	250,442	7.545%	County
1998	230,272	304,702	32.323%	County
1999	260,519	294,726	13.130%	Estimated (1)
2000	300,570	303,551	0.992%	Estimated (2)

- (1) \$294,156 of the LOST estimated by the Dept. of Revenue and Finance and \$570 of Other County taxes from FY 2000 budget.  
(2) \$302,981 of the LOST based on FY 1999 amount with 3% growth suggested by the Dept of Revenue and Finance and \$570 of Other County taxes from FY 2000 budget.

**Non-tax Receipts**

Fiscal Year	Budget	Actual/Estimated	Percent Difference	Source of Actual Amounts	Transfers In
1995	\$ 1,483,542	2,305,344	55.395%	County	\$ 403,035
1996	1,446,169	1,850,021	27.926%	County	432,883
1997	1,416,624	1,811,544	27.878%	County	294,379
1998	1,447,225	942,876	-34.849%	County	62,723
1999	727,993	868,255	19.267%	Estimated (1)	54,592
2000	606,630	723,509	19.267%	Estimated (1)	54,300
2000 - Alt 1	605,430	722,078	19.267%	Estimated (1)	(2) 54,300

- (1) Estimated at 119.267% of budget which is the average of 1995 through 1998.  
(2) Remove the \$1,200 in contract law enforcement received from the City of Elma.

**Howard County  
Fiscal 2000 Budget Protest  
General Fund Analysis**

Exhibit A

**Disbursements**

Fiscal Year	Budget	Actual/ Estimated	Percent Difference	Source of Actual Amounts	Transfers Out
1995	\$ 3,304,256	3,661,268	10.805%	County	\$ 434,899
1996	3,227,451	3,196,361	-0.963%	County	450,875
1997	2,644,952	2,914,524	10.192%	County	390,663
1998	2,965,535	1,879,745	-36.614%	County	18,926
1999	2,109,299	2,024,126	-4.038%	Estimated (1)	17,912
2000	2,151,774	2,064,885	-4.038%	Estimated (1)	54,533

(1) Estimated at 95.962% of budget which is the average of 1995 through 1998.

**Fund Balances**

Fiscal Year Ended June 30,	Budget	Actual/ Estimated	Difference	% Budgeted Balance to Disbursements	% Actual Balance to Disbursements
1995	\$ 225,092	879,315	(654,223)	6.812%	24.017%
1996	473,056	957,335	(484,279)	14.657%	29.951%
1997	92,128	745,923	(653,795)	3.483%	25.593%
1998	600,729	1,211,421	(610,692)	20.257%	64.446%
1999	574,180	1,439,479	(865,299)	27.221%	71.116%
2000	944,562	1,503,164	(558,602)	43.897%	72.796%
2000 - Alt 1	573,362	1,131,733	(558,371)	26.646%	54.809%

**Howard County  
Fiscal 2000 Budget Protest  
Rural Services Fund Analysis**

Exhibit B

**Property Taxes Levied:**

Fiscal Year	Taxes Levied	Dollar Change Prior Year	Percent Change Prior Year	Percent Change from 1995	Net Current Property Taxes
1995	\$ 819,826				\$ 746,886
1996	846,850	27,024	3.296%	3.296%	771,856
1997	851,988	5,138	0.607%	3.923%	772,764
1998	883,252	31,264	3.670%	7.737%	802,411
1999	883,252	-	0.000%	7.737%	803,705
2000	921,983	38,731	4.385%	12.461%	843,095

**Other County Tax (Includes LOST)**

Fiscal Year	Budget	Actual/ Estimated	Percent Difference	Source of Actual Amounts
1995	1,540	1,842	19.610%	County
1996	1,540	323	-79.026%	County
1997	1,540	75	-95.130%	County
1998	-	64		County
1999	-	65		Estimated (1)
2000	60	65		Estimated (1)

(1) Estimated at 1998 actual amount.

**Non-tax Receipts**

Fiscal Year	Budget	Actual/ Estimated	Percent Difference	Source of Actual Amounts	Transfers In
1995	\$ 89,417	257,819	188.333%	County	
1996	100,298	102,834	2.528%	County	-
1997	118,255	124,324	5.132%	County	
1998	111,250	116,623	4.830%	County	1,636
1999	112,738	117,516	4.238%	Estimated (1)	-
2000	97,691	101,831	4.238%	Estimated (1)	
2000 - Alt 1	98,891	103,082	4.238%	Estimated (1)	(2)

(1) Estimated at 104.238% of budget which is the average of 1996 through 1998.

(2) Transferred \$1,200 for City of Elma's contract for uniform patrol.

**Howard County  
Fiscal 2000 Budget Protest  
Rural Services Fund Analysis**

Exhibit B

**Disbursements**

Fiscal Year	Budget	Actual/Estimated	Percent Difference	Source of Actual Amounts	Transfers Out
1995	\$ 256,562	466,972	82.011%	County	\$ 689,045
1996	276,257	302,289	9.423%	County	563,837
1997	311,974	313,817	0.591%	County	592,469
1998	373,118	350,687	-6.012%	County	701,375
1999	379,974	380,935	0.253%	Estimated (1)	748,052
2000	384,005	384,977	0.253%	Estimated (1)	575,926

(1) Estimated at 100.253% of budget which is the average of 1996 through 1998.

**Fund Balances**

Fiscal Year Ended June 30,	Budget	Actual/Estimated	Difference	% Budgeted Balance to Disbursements	% Actual Balance to Disbursements
1995	\$ 572,623	537,394	35,229	60.556%	46.487%
1996	587,272	546,281	40,991	69.906%	63.072%
1997	497,522	537,158	(39,636)	55.009%	59.270%
1998	370,277	405,830	(35,553)	34.461%	38.575%
1999	167,699	198,129	(30,430)	14.867%	17.549%
2000	170,561	182,217	(11,656)	17.768%	18.963%
2000 - Alt 1	171,761	183,468	(11,707)	17.893%	19.093%