

fund, or other fund designated for expenditures in the unincorporated area of the county.

The second objection was to specific spending increases and alleged excessive fund balances. The petitioners cited a 16% increase in the interprogram services budget and a 31% increase in the public safety budget. They stated that these increases were inconsistent with the needs of the county, especially in a period of historically low inflation. The second objection also included concerns about alleged consistent over-budgeted mental health expenditures which they believe will likely result in an excessive ending fund balance in FY2000.

DISCUSSION

Petitioners' Requests:

The petitioners, in their opening statement at the appeal hearing, outlined their request to the Appeal Board. Their request was to:

- Deposit all LOST revenues in the rural services basic fund and reduce the levy to reflect the transfer.
- Increase revenues to the sheriff's budget by \$75,000 to reflect the increased jail capacity. Reduce expenditures by \$7500 to account for savings associated with the jail. Reduce the general basic levy by \$82,500 to reflect these two recommendations.
- Reduce the service area 9 expenditures by \$70,000 and reduce the general basic levy to reflect the reduction.
- Reduce the mental health levy by \$500,000.

The petitioners explained their appeal in greater detail. They commented on the local option sales tax, the budgets for public safety, mental health, and interprogram services, and the ending fund balances.

Local Option Sales Tax (LOST)

The ballot authorizing the LOST states that the revenues are to be "allocated in the Unincorporated Area of the County" and 65% of the revenue is to be used for property tax relief and 35% for general county betterment. The petitioners did not take exception with 65% being used for property tax relief. These funds are currently being deposited in the rural services fund. Their concern is with the remaining 35% which is being deposited and budgeted in the general fund. They believe LOST revenue is to be used for the primary benefit of rural taxpayers since urban taxpayers already received their share through their city governments. Accordingly, they believe 100% of the LOST should be deposited in the rural services fund with 65% used for rural property tax relief and 35% used for general county betterment in the rural services fund, not the general fund. Libraries, waste authorities, weed eradication or an aviation authority are

all statutorily defined as rural services that could be defined as general county betterment. The petitioners argue that if LOST revenues were spent on secondary roads this also would be a general county betterment. The petitioners maintain that the county is prohibited from spending LOST revenues in a manner inconsistent with the ballot language.

The petitioners said that in previous State Appeal Board rulings the counties were told they may pay for rural services from the rural services fund even if they were previously budgeted in the general fund. However, they believe it takes more than a decision of the State Appeal Board to transform a general service into a rural service. They believe that the LOST revenue can be used for general county betterment in the unincorporated area by contributing to all those things that the property tax levy was contributing to roads, libraries, and weed eradication.

According to the petitioners, if property taxes are higher than what is needed to pay for the proposed expenditures in the rural services fund, then taxes should be reduced. Consequently, since taxes are higher than what is required to fund proposed county expenditures, the petitioners asked that the State Appeal Board reduce the rural services levy. The county has identified general services by budgeting them from the general fund and identified rural services by budgeting them from the rural services fund. They argue that there is no compelling reason to assume the county needs excess revenues in the rural services fund to cover budgeted items that were mistakenly budgeted in the wrong fund.

The petitioners are not requesting any reduction in any of the items currently funded by LOST out of the general fund. They believe there is plenty of fund balance in the general fund to absorb the reduced LOST revenues.

Public Safety

The petitioners identified what they believe is an unwarranted increase of 31% in the public safety budget. The increase is due to increased operational costs associated with the new jail, which the County estimates will be on line in February 2000. The petitioners acknowledged that there will be additional costs associated with this jail, but they are concerned that there are no offsets on the revenue side. The new jail has a 26-bed capacity compared to 10 for the current jail. They object to the assumption that the remaining 16 beds will remain empty. The petitioners stated that at least one prisoner has been housed outside the county since August at a cost of \$50 per day. That's a saving of approximately \$7500, not including the additional costs such as travel time that will be saved. Assuming the sheriff will be able to house an average of 10 prisoners from other counties beginning February 1, 2000 to the end of June, the county would be receiving an additional \$500 per day in revenues that is not shown in the current budget. Assuming five months of operation the petitioners estimate that the current revenue estimate is short by at least \$75,000. The petitioners believe

that most of the costs of the jail are fixed costs and these revenues should be viewed as a dollar for dollar reduction in the property tax levy.

Mental Health

According to the petitioners, the county has historically over-budgeted expenditures for mental health. The county has indicated that new clients are going to be served with the new budget. However, the petitioners said they also recognize that clients both enter and exit the system. The petitioners believe the county may also raise the issue of state billings being late which can result in expenditures being under-estimated. The petitioners said this is only a change in accruals and should not affect the budget cycle each and every year.

The petitioners voiced concern with the ending fund balances and not the expenditures. They said the central point coordinator (CPC) has done an extraordinary job keeping the expenditures under control. The petitioners did not take issue with the expenditures, only the tax levies to operate the budget. The petitioners recommend an ending fund balance of 20% of budgeted expenditures. They did not ask the county to reduce services.

Interprogram Services

The petitioners believe the county has a tendency to over-budget expenditures. They said the county is likely to bring up specific expenditures for tuckpointing the courthouse. They do not specifically oppose this expenditures but believe that one way or another the county is over-budgeting this service area. The petitioners asked the State Appeal Board to compare an analysis of one-time projects that were included in the FY 1998 and FY 1999 budgets. A direct comparison of on-going operating expenditures can be performed.

Ending Balances

The petitioners said that if the State Appeal Board grants the requested changes, the general fund ending balance would be reduced by \$300,000. The petitioners acknowledged that there are restricted elements in the general fund for health insurance and county conservation equal to approximately \$370,000. They said they would never suggest that restricted funds be expended for anything but their intended purposes. However, the entire general fund balance could be used for cash flow. In an emergency the county can even borrow between funds for cash flow purposes as long as the loan is paid back before the close of the fiscal year.

County's Response

The County responded to the petitioners' request as follows:

Local Option Sales and Services Tax

According to the County, the LOST referendum was passed originally on April 30, 1991 with a sunset provision to expire on March 31, 1996. The LOST referendum passed again with an effective date of April 1, 1996.

The County argued that section 422B.10(6) of the Iowa Code states that the LOST may be expended for any lawful purpose of the city or county. In FY1999, 65% of the LOST revenue was deposited to the rural services fund while 35% was placed in the general fund. This has been past practice so the County believes it is the burden of the objectors to reclassify this part of the budget.

According to the County, the Secretary of State issued emergency rules adopting new language for LOST ballots. The County believes the Secretary of State recognized the previous language of the ballot was inconsistent with the statute providing that the county may expend LOST funds for any lawful purpose of the county. They said there was never an intent to bind the County to making expenditures from a particular fund. The County said that one must consider the legislative intent as shown by what the legislature said rather than what it should or might have said. They believe the ballot language itself can not limit the authority of the Board of Supervisors to implement property tax relief and general county betterment at the Board's discretion.

The County stated that there is no suggestion made by the objectors that LOST funds should be charged with paying for any additional services that had formerly been paid by the LOST from the general fund. For example, the Sanitarian is paid out of the general fund but the authority extends primarily to the unincorporated areas of the county. No portion of this budget is paid for out of the rural services fund. According to the County, the Sheriff's budget is paid entirely out of the general fund. No portion of that budget is paid out of rural services fund despite the fact that the Sheriff is providing law enforcement coverage to the unincorporated areas of the county. Every incorporated community is required by state law to have their own law enforcement officials. The County is providing law enforcement primarily to the unincorporated areas of the county at no expense to the rural services fund. The County also said that if LOST revenues are put in the rural services fund they should also be obligated to pay for additional services that had previously been paid out of the general fund.

According to the County, the Iowa Code specifically grants discretion to the Board of Supervisors to use revenue generated by the LOST for any lawful purpose. The County believes the ballot cannot supersede the state statute

therefore, the ballot language is null and void as to binding the County regarding the use of LOST revenues.

The County asserts that the language of "general county betterment" grants the Board of Supervisors broad discretion in interpreting where LOST funds are to be deposited and how they are to be spent. The Board believes the language of general county betterment should be interpreted to permit deposit of the funds to the general fund for use throughout the entire county, rather than limiting the interpretation of the ballot language as suggested by the objectors.

According to the County, it should be afforded the discretion to determine the use of LOST funds in accordance with Iowa Code section 422B.10(6). They stated that the ballot is only requiring the deposit of LOST revenue earned in the unincorporated area to be deposited in the rural services fund. The ballot is concerned with imposing a 1% tax on the unincorporated area. The residents should not have expected that the rural services fund would receive more money than was generated by the unincorporated area's businesses. If the ballot only passed in the unincorporated area, they would get the revenue generated from businesses in the unincorporated area. The revenue deposited in the rural services fund far exceeds the revenue actually generated by sales from businesses located in the unincorporated area.

Public Safety and Interprogram Services

In response to the petitioners' objections to increases in expenditures for public safety and interprogram services, the County said the increases primarily relate to employee costs and costs related to repair and maintenance of county property. The County wanted to make it clear that these expenditures are not inconsistent with its needs. Employee costs relate to negotiated union contracts such as the uniformed patrol officers and the compensation board. The new uniformed patrol union contract calls for a 4.1% increase in base salary in FY 2000. Employee costs account for 61% of the increased budgeted expenditures in the public safety budget and 27% of the interprogram services budget.

The County said the interprogram services budget increased due to tuck-pointing and re-roofing the courthouse. Damage to the interior ceiling and plasterwork in the courtroom and rotunda area has occurred. The County received bids of \$200,000 with \$120,000 budgeted in each 1999 and 2000. The extra costs will be used for interior repair from water damage.

According to the County, increases in the public safety service area are due to increasing to a 26-bed jail from a 10-bed jail. This has increased the number of jailers, uniforms, and training. The County currently has 1.2 employees on duty and the staffing level will increase to 2 employees, twenty-four hours a day. In addition, the County said it had increased expenditures for utility and custodial

costs. The County also said that an increase in jail inmate population requires additional funding for clothing, dry goods and food preparation.

Additional information from the County indicates that the low bid on the jail project is \$400,000 higher than the estimated costs of the project. They said this may be a situation where a carryover balance could be used as a contingency for unforeseen needs. The County also indicated that there are currently no restrictions on the general fund balance.

Mental Health Service Area

The County implemented a central point of coordination for mental health purposes. They said this has created dramatic savings. The way of doing business has changed from a block grant approach to a fee for service approach. The block grant method paid a set amount for services, the same funding would be provided if 20 people were served or one hundred. Now fees are paid on a per diem or hourly basis for services. The change from "block grant" to a "fee for service" netted the County \$250,000 savings in FY1998.

The County stated that there are two reasons for the increase in mental health expenditures. The first is the increased rates paid to service providers and the second is changes in the population served by the county. Increases in per diem rates have been negotiated with providers by the CPC and approved by the Board of Supervisors. The county saved \$80,000 in the loss of two clients but "found" eight more clients at an estimated cost of \$219,000 in FY2000.

Although the board has reduced the tax levy for mental health services for FY2000, the volatility in cost and additional population gave the board concern. The change in population or movement of clients to higher levels of care can greatly affect the budget. For these reasons the board said it felt important to retain a contingency by targeting a budget ending balance of \$1 million. They said that in the event FY1999 expenditures are less than budgeted, the board will continue to consider reducing the levy and maintain an adequate contingency in the ending fund balance when budgeting for FY2001.

FINDINGS OF FACT

1. Section 24.28 of the Iowa Code states "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 the levying board, as the case may be, to 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.”

2. The ballot language creating the local option sales and services tax stated that the tax shall be imposed in the Unincorporated Area of the County of Winneshiek at the rate of one percent to be effective on April 1, 1996.
3. Section 422B.10 of the Iowa Code outlines the method for determining the amount of LOST revenues to be allocated to cities and counties. Seventy-five percent is allocated on the basis of population and twenty-five percent is allocated on the bases of property values. Section 422B.10(3) provides that: “Seventy-five percent of each county’s account shall be remitted on the basis of the county’s population of the county residing in the unincorporated area where the tax was imposed and those incorporated areas where the tax was imposed....” Section 422B.10(4) states that: “Twenty-five percent of each county’s account shall be remitted based on the sum of property dollars levied by the board of supervisors if the tax was imposed in the unincorporated areas and each city in the county where the tax was imposed during the three-year period beginning July 1, 1982, and ending June 30, 1985....”

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, the wording on the LOST ballot, and in reviewing the historical data of Winneshiek County, the State Appeal Board orders the following action:

General Fund:

Remove the LOST revenue from the General Fund.

Sustain the budgeted public safety revenues and expenditures, as there is no historical data to support an increase in jail revenues or a decrease in jail expenditures.

Sustain the budgeted interprogram services expenditures.

Reduce property taxes by \$250,000 because of excessive ending fund balances.

Rural Services Fund:

Sixty-five percent of LOST revenue is currently deposited in the Rural Services Fund to reduce property taxes. All LOST revenues are to be deposited in the Rural Services Fund in compliance with the ballot which requires the LOST revenue to be "allocated in the Unincorporated Area of the County". The balance of the LOST revenue, thirty-five percent, is to be used for general county betterment.

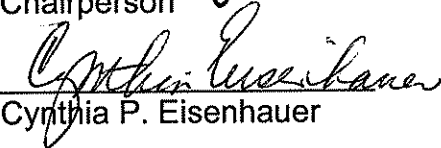
Mental Health Fund:

Reduce Mental Health Fund property taxes by \$250,000. The County has consistently over-estimated expenditures and under-estimated the ending fund balance. Even with this reduction the estimated ending fund balance will be over 60% of estimated expenditures.

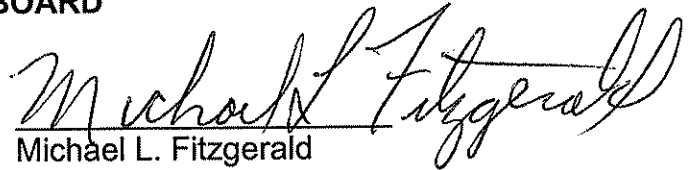
STATE APPEAL BOARD



Richard D. Johnson
Chairperson



Cynthia P. Eisenhauer



Michael L. Fitzgerald
Vice-Chairperson

6-18-1999

Date

**Winneshiek 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	\$ 3,723,640				\$ 3,434,560
1996	3,496,560	(227,080)	-6.098%	-6.098%	2,797,097
1997	733,710	(2,762,850)	-79.016%	-80.296%	(1) 668,608
1998	740,850	7,140	0.973%	-80.104%	675,516
1999	1,379,958	639,108	86.267%	-62.941%	1,266,113
2000	1,922,439	542,481	39.311%	-48.372%	1,808,767
2000 - Alt 1	1,672,439	292,481	21.195%	-55.086%	(2) 1,558,767

(1) Beginning in FY97, mental health is budgeted in the MH-DD Services Fund.

(2) Reduce taxes by \$250,000.

Other County Tax (Includes LOST)

Fiscal Year	Budget	Actual/Estimated	Percent Difference	Source of Actual Amounts
1995	606,364	702,683	15.885%	County
1996	632,538	721,329	14.037%	County
1997	476,590	577,753	21.226%	County
1998	693,838	708,740	2.148%	County
1999	281,431	301,509	7.134%	Estimated (1)
2000	302,309	311,355	2.992%	Estimated (2)
2000 - Alt 1	800	800	0.000%	Estimated (3)

(1) 35% of the \$861,455 LOST estimated by Dept. of Revenue and Finance.

(2) 35% of the FY1999 LOST amount with 3% growth suggested by the Dept. of Revenue and Finance and \$800 of other County taxes from FY2000 budget.

(3) Remove LOST from the General Fund.

Non-tax Receipts

Fiscal Year	Budget	Actual/Estimated	Percent Difference	Source of Actual Amounts	Transfers In
1995	\$ 2,401,302	2,841,889	18.348%	County	\$ 300,000
1996	2,951,634	3,139,113	6.352%	County	600,000
1997	1,967,520	2,180,899	10.845%	County	-
1998	1,812,725	1,693,912	-6.554%	County	-
1999	2,111,175	4,443,211	110.462%	Estimated (1)	125,012
2000	2,241,672	2,419,033	7.912%	Estimated (2)	-

(1) Estimated at 107.912% of budget which is the average of 1995 through 1998 plus \$2,165,000 in general long term debt that was not budgeted.

(2) Estimated at 107.912% of budget which is the average of 1995 through 1998.

**Winneshiek 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	\$ 6,332,710	6,058,530	-4.330%	County	\$ 394,635
1996	7,260,223	6,224,332	-14.268%	County	691,806
1997	4,611,074	4,107,323	-10.925%	County	794,074
1998	4,280,929	3,541,381	-17.275%	County	94,988
1999	4,430,325	3,927,217	-11.356%	Estimated (1)	119,949
2000	6,874,550	6,339,734	-7.780%	Estimated (2)	99,793
2000 - Alt 1	6,573,041	6,029,179	-8.274%	Estimated (2) (3)	99,793

- (1) Estimated at 88.644% of budget which is the average of 1995 through 1998.
(2) Estimated at \$2,165,000 for expenditures for expenditures from FY1999 general long-term debt plus 88.644% of the balance of the budgeted expenditures.
(3) Remove same amount as LOST from General Fund \$310,000.

Fund Balances

Fiscal Year Ended June 30,	Budget	Actual/Estimated	Difference	% Budgeted Balance to Disbursements	% Actual Balance to Total Disbursements	% Balance to Disbursements Excluding GLTD Expenditures
1995	\$ 2,913,564	3,876,765	(963,201)	43.309%	63.989%	
1996	2,731,196	4,219,525	(1,488,329)	34.346%	(1) 67.791%	
1997	1,522,892	2,745,388	(1,222,496)	28.175%	66.841%	
1998	1,035,507	2,187,187	(1,151,680)	23.664%	61.761%	
1999	1,076,119	4,275,866	(3,199,747)	23.650%	108.878%	
2000	817,205	2,375,494	(1,558,289)	11.717%	37.470%	55.573%
2000 - Alt 1	567,205	2,125,494	(1,558,289)	8.500%	35.253%	53.620%

- (1) Error in beginning balance. Was incorrect at end of 1995 by \$1359.

**Winneshiek 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	\$ 1,157,624				\$ 1,059,161
1996	1,172,878	15,254	1.318%	1.318%	1,065,980
1997	1,170,703	(2,175)	-0.185%	1.130%	1,056,411
1998	1,180,263	9,560	0.817%	1.956%	1,063,992
1999	725,504	(454,759)	-38.530%	-37.328%	657,921
2000	759,320	33,816	4.661%	-34.407%	691,820

Other County Tax (Includes LOST)

Fiscal Year	Budget	Actual/Estimated	Percent Difference	Source of Actual Amounts
1995	5,000	5,634	12.680%	County
1996	1,000	1,228	22.800%	County
1997	167,923	203,701	21.306%	County
1998	183,740	249,542	35.813%	County
1999	522,428	559,946	7.181%	Estimated (1)
2000	600,400	576,744	-3.940%	Estimated (2)
2000 - Alt 1	901,909	887,299	-1.620%	Estimated (3)

- (1) Estimated at 65% of Dept of Revenue and Finance 1999 estimate.
(2) Estimated at 65% of the FY1999 amount plus 3% growth as suggested by the Dept. of Revenue and Finance.
(3) Estimated at 100% of the FY1999 amount plus 3% growth as suggested by the Dept. of Revenue and Finance 1999 estimate.

Non-tax Receipts

Fiscal Year	Budget	Actual/Estimated	Percent Difference	Source of Actual Amounts	Transfers In
1995	\$ 696,072	673,368	-3.262%	County	
1996	680,018	685,463	0.801%	County	-
1997	682,303	710,862	4.186%	County	
1998	711,452	708,524	-0.412%	County	-
1999	663,192	665,195	0.302%	Estimated (1)	-
2000	695,890	697,992	0.302%	Estimated (1)	

- (1) Estimated at 100.302% of budget which is the average of 1995 through 1998.

**Winneshiek 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	\$ 705,702	742,042	5.149%	County	\$ 1,024,929
1996	769,126	758,976	-1.320%	County	1,038,395
1997	780,331	776,621	-0.475%	County	1,067,942
1998	799,590	787,760	-1.480%	County	1,076,657
1999	853,915	856,904	0.350%	Estimated (1)	1,073,805
2000	909,394	912,577	0.350%	Estimated (1)	1,123,771
2000 - Alt 1	1,210,903	1,223,132	1.010%	Estimated (1) (2)	1,123,771

(1) Estimated at 100.35% of budget which is the average of 1995 through 1998.

(2) Transfer \$310,555 of expenditures from General Fund.

Fund Balances

Fiscal Year Ended June 30,	Budget	Actual/ Estimated	Difference	% Budgeted Balance to Disbursements	% Actual Balance to Disbursements
1995	\$ 236,965	192,488	44,477	13.692%	10.894%
1996	133,776	147,788	(14,012)	7.401%	8.222%
1997	216,950	274,199	(57,249)	11.738%	14.865%
1998	344,203	431,840	(87,637)	18.345%	23.162%
1999	348,003	384,193	(36,190)	18.053%	19.899%
2000	313,078	314,401	(1,323)	15.399%	15.439%
2000 - Alt 1	313,078	314,400	(1,322)	13.410%	13.396%

**Winneshiek County
Fiscal 2000 Budget Protest
Mental Health Fund Analysis**

Exhibit C

Property Taxes Levied:

Fiscal Year	Taxes Levied	Dollar Change Prior Year	Percent Change Prior Year	Percent Change from 1997	Net Current Property Taxes
1995					
1996					
1997	1,541,100				(1) 1,404,359
1998	1,400,803	(140,297)	-9.104%	-9.104%	1,277,267
1999	1,285,655	(115,148)	-8.220%	-16.575%	1,176,542
2000	1,274,443	(11,212)	-0.872%	-17.303%	1,166,743
2000 - Alt 1	1,024,443	(261,212)	-20.317%	-33.525%	(2) 916,743

- (1) Beginning in FY97, mental health is budgeted in the MH-DD Services Fund.
(2) Reduce taxes by \$250,000.

Non-tax Receipts

Fiscal Year	Budget	Actual/Estimated	Percent Difference	Source of Actual Amounts	Transfers In
1995					
1996					
1997	1,046,005	1,000,342	-4.365%	County	700,000
1998	1,158,067	1,174,207	1.394%	County	-
1999	1,234,781	1,218,235	-1.340%	Estimated (1)	
2000	1,164,577	1,148,972	-1.340%	Estimated (1)	

- (1) Estimated at 98.66% of budget which is the average of 1997 and 1998.

Disbursements

Fiscal Year	Budget	Actual/Estimated	Percent Difference	Source of Actual Amounts	Transfers Out
1995	\$ 2,349,036	2,121,842	-9.672%	County	(2)
1996	2,461,454	2,266,658	-7.914%	County	(2)
1997	2,435,505	2,122,355	-12.858%	County	
1998	2,490,320	1,958,275	-21.365%	County	
1999	2,558,719	2,225,702	-13.015%	Estimated (1)	
2000	2,659,321	2,313,210	-13.015%	Estimated (1)	

- (1) Estimated at 86.985% of budget which is the average of 1995 through 1998
(2) Budget and Actual amounts taken from the General Fund - Mental Health, Mental Retardation and Developmental Disabilities Service Area

**Winneshiek County
Fiscal 2000 Budget Protest
Mental Health Fund Analysis**

Exhibit C

Fund Balances

Fiscal Year Ended June 30,	Budget	Actual/ Estimated	Difference	% Budgeted Balance to Disbursements	% Actual Balance to Disbursements
1995					
1996					
1997	717,300	982,346			
1998	631,827	1,475,545	(843,718)	25.371%	75.349%
1999	819,997	1,644,620	(824,623)	32.047%	73.892%
2000	1,000,570	1,647,125	(646,555)	37.625%	71.205%
2000 - Alt 1	750,570	1,397,125	(646,555)	28.224%	60.398%