

STATE APPEAL BOARD

In re: Hardin County)	
Budget Appeal)	Order
)	
)	
)	
FY2001-2002)	June 11, 2001

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

The above captioned matter was heard on May 2, 2001 before a hearing panel consisting of Ronald J. Amosson, Executive Secretary to the State Appeal Board and presiding officer; Gretchen C. Page, Investment Officer I, Office of State Treasurer, and Kevin J. Borchert, Professional Development Director, Office of State Auditor. The appeal was tentatively scheduled to be heard in April but, at the request of the County, was heard on May 2nd.

The hearing was held pursuant to Section 331.436 and Chapter 24 of the Code of Iowa. Several County officials including the County Supervisors, Auditor, and Attorney represented the County. Glen Hodnefeld was the chief spokesperson for the petitioners.

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, and after a public meeting to consider the matter, the State Appeal Board has voted to reduce in part and sustain in part Hardin County's Fiscal Year 2002 budget as described herein.

PROCEDURAL HISTORY

The FY2002 Hardin County proposed budget summary was published in the Times Citizen in Iowa Falls on February 28, 2001, the Eldora Herald-Ledger on February 27, 2001, and in the South Hardin Signal Review in Hubbard on February 28, 2001. The date of the public hearing for the budget was March 14, 2001, and the budget was adopted on that same day.

A petition protesting the certified FY2002 Hardin County budget was filed with the Hardin County Auditor on March 23, 2001 and the State Appeal Board received a copy of the petition on March 28, 2001. The petition contained seventy-three signatures and listed one objection. On the petition the petitioners stated: "We object to excessive General Fund ending fund balances." The reasons given were that "The County budgeted a 40% General Fund ending fund balance that was partially funded with a \$531,318 or 20% General Fund property tax increase." Further, "This large of an ending fund balance is not necessary, reasonable or in the interest in the public welfare."

DISCUSSION

Petitioners:

At the hearing, the petitioners requested that the State Appeal Board reduce the FY2002 General Fund ending balance by \$459,477 and reduce the taxes by the same amount. The petitioners said they did not feel the increase in the fund balance was necessary, reasonable, and in the interest of the public welfare. To support their request the petitioners outlined the following information:

- The increase in the budgeted General Fund ending balance between FY2001 and FY2002 is \$459,477.
- For the FY2002 budget, the County increased the undesignated/unreserved portion of the General Fund ending balance to \$1,280,226, which is 25.2% of the budgeted expenditures (\$5,088,583).
- In FY2001 the County budgeted \$582,440 for the undesignated/unreserved portion of the General Fund ending balance.
- The County has re-estimated the total FY2001 General Fund ending balance to be \$1,937,252. If \$988,339 for the designated projects is subtracted, the difference is the undesignated/unreserved amount of \$948,913. This is an increase of 63% over the original undesignated/unreserved budgeted amount of \$528,440, assuming the County spent all the undesignated/unreserved amount of \$948,913.
- The petitioners said that the above numbers show that the County had enough money budgeted for FY2001 no matter what category is used, be it designated or undesignated. Accordingly, the County should not be increasing the total ending fund balance for the upcoming year by raising taxes.

County:

The first point made by the County during the public hearing was that of the total taxes collected in Hardin County, the County retains only 24% for its own use. The balance passes through to other taxing authorities.

The County presented various examples to illustrate that budgeting is an inexact science. The County stated that Roads and Transportation make up 30% of total expenditures and expenditures were higher this year because of the severe winter. The County budgets its expenditures for a normal winter and this year there were increased costs for snow removal, and increased damage and maintenance costs to equipment. The law enforcement and safety budget represents 20% of the budget and a new 84-bed jail and law enforcement center was built in FY2000. The expenses for the new jail were higher than expected because the County had no past history as a guide. The County said the reserves would have to absorb the \$400,000 shortfall for FY2001. Mental Health represents 14% of the County expenses and after the FY2002 budget was certified, the County was notified that MH/DD funding from the State would be cut by \$222,277. The County said that it worked intensely over four months preparing this budget and asked every department in the County to reduce its budget estimates downward.

The County went on to say that the petition circulated by the petitioners contained several inaccuracies. The petition stated that the General Fund ending balance would be 40%. The County believes the total of both the unreserved/undesignated and unreserved/designated would be 37%, which they said is less than the FY2000 statewide average of 44.2% for all counties. The County also said that the petition stated the ending fund balance was partially funded with a \$531,318 General Fund property tax increase, while the County noted the amount is \$468,682.

The County also presented exhibits that outlined historical data, which they say shows that Hardin County ranked 84th out of 99 counties in percentage of change in county property tax dollars levied in FY2001 over the prior year. And, it ranked 75th in average percentage change in property taxes for the three-year period for FY1999-FY2001. The County noted that it has successfully increased its revenue from grants, contracts and user fees to the point where now only 31% of total County expenditures come from taxes levied on property. The County also submitted exhibits showing that Hardin County's salaries of elected officials and all County employees in most cases ranks lower than Counties of comparable size. The County said this information was presented to show that the County has been conservative in the budgeting processes over the years.

The County responded more directly to the specific issue of ending fund balances. It noted that the Iowa Department of Management now allows counties to designate fund balances. The instructions to the budget read in part: "Fund Balance – Unreserved/Designated represents fund balance unreserved, but officially designated for specific future use. In order to legitimately fit this designated classification the specific future use for the designated fund balance must have been lawfully adopted into the minutes of the Board of Supervisors. Such designations should follow only after thoughtful consideration and planning – with the full intention of the funds being used to fulfill the designation."

The County has an unreserved/designated balance in the General Fund that is used for funding capital improvements. On January 10, 2001 the County Board of Supervisors updated the County's five-year capital improvements plan. The \$750,000 in the unreserved/designated fund in the FY2002 budget was designated by the County Board of Supervisors on March 14, 2001, to fund improvements during FY2003 and FY2004. The County has set aside \$500,000 for a new courthouse roof to be installed in the summer of 2002 and \$250,000 for a E-911 communications tower, a new boiler for the county office building, and carpet and wall repair in the clerk of court's office (due to water damage) during FY2004. The courthouse is on the national register of historical places and under that designation the roof must be replaced with like material, slate/tile. The E-911 communications tower, estimated to cost \$200,000, is needed because of "dead spots" in the response area. The County believes these items are necessary, reasonable and in the interest of the public welfare.

It is the County's opinion that smaller capital improvement projects should be financed on a "pay-as-you-go" basis rather than borrowing/bonding for the projects. The County said that the total cost of borrowing \$525,000 for 10 years @ 5% interest would be \$187,250, which they said would be an added cost paid by the taxpayers.

The County said its adopted budget summary indicates that the unreserved/undesignated portion of the General Fund balance is budgeted at \$1,280,226, which is 23.3% of the total General Fund expenditures and other uses. They believe this is the minimum amount needed for cash flow. They mentioned that a current legislative proposal suggests that the minimum amount for cash flow should be 25%.

Petitioner's Rebuttal:

In its rebuttal comments, the petitioners referenced the County's Exhibit 1, which related to the County's total expenditures. The petitioners said they were not protesting the estimated expenditures of the County. Further, they said the secondary roads and mental health expenditures are not even in the General Fund, the ending balance of which is the subject of this appeal.

The petitioners' rebuttal also questioned why the County needed a 23.2% estimated ending balance in the General Fund in FY2002 when in FY2001 the County budget had only an estimated ending fund balance of 14% of expenditures.

The County's Exhibit 2 showed how the County ranked with other counties in the state. In rebuttal, the petitioners said that how Hardin County compares to other counties is not important. The petitioners believe that what is important to taxpayers in Hardin County is how much property tax they pay in Hardin County.

The petitioners said that the County's Exhibit 6 shows that the unreserved/designated portion of the FY2002 ending fund balance is for capital projects. This total of \$750,000 will be used for a new courthouse roof (\$500,000) in FY2003 and for a communications tower, office building boiler, and carpet/wall repairs (250,000) in FY2004. In addition, the Exhibit shows that there is \$118,500 of capital project expenditures in the Capital Project Fund for FY2002. The petitioners designed a chart which illustrates that with the addition of the local option sales tax receipts, 25% of which is designated for Capital expenditures, and with a 5% interest assumption, minus the capital expenditures outlined by the County, the County would still have \$500,000 in the unreserved/designated fund at the end of FY2005. The petitioners feel that the County has not covered the burden of proof as required by law. They again asked for a \$459,477 reduction in property taxes in the General Fund.

County's Rebuttal

County Supervisor Polly Granzow identified reasons why there have been differences in the amount of budgeted versus actual fund balances. Several examples of "unexpected

reduction of expenditures” include mild winters in FY1997, 1998, and 1999. Changing, in FY2000, the law library from hard bound books to CDs. In FY1997 and FY1999 the number of County employees were reduced when the County Care Facility closed. The delay in constructing the new jail resulted in savings in FY1999 and FY2000.

County Supervisor Granzow also provided examples of why “unexpected increases in revenue” occur. In FY1998, 1999, and 2000, anticipated interest on investment increased due to increased interest rates. In FY1996, the Local Option Sales Tax program began. The sale of County property including buildings, lots, auctions of equipment, and the County Care Facility.

According to County Supervisor Granzow, all the unexpected increases and decreases identified in her remarks were not known at the time the budgets were prepared. She went on to say that the ending fund balance was gradually increased to a “safe level” after the State imposed freeze was lifted in FY1996. She stated further that much of the infrastructure had been neglected and the plans to address this issue are included in the County’s long range plans.

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 FOR THE DECISION

The County has said that its plans to re-roof the courthouse in the summer of 2002. Accordingly, the \$500,000 designated for this project should be available at the beginning of that summer. Taxes could not be levied during FY2002-2003 to timely fund this project. However, because these funds will not be used until the summer of 2002, the funds may be used for cash flow purposes during most of FY2002. According to the budget instructions, the proper fund to account for these designated funds is the fund that the moneys are being generated from – the moneys should not be transferred to another fund, such as a Capital Projects Fund, until the time an asset is to be acquired, or until the year a project is started. In practice most designations are applied to General Fund balances, as they are in this case.

Approximately, \$250,000 of the FY2002 General Fund ending balance is scheduled to be used for capital projects in FY2004. The full amount of funds designated for these projects do not need to be on hand at the end of FY2002. A more reasonable approach would be to have \$125,000 designated at the end of FY2002 and accumulate the remaining \$125,000 during FY2003.

On May 16, 2001, the hearing panel received a copy of the County’s FY2001 budget amendment that was sent to the newspapers for publication. General Fund expenditures increased by \$395,000 for the jail and sheriff’s operations and by \$517,000 (\$620,000

minus \$103,000 additional for the Capital Projects Fund) for cost over-runs on the new jail. Additional amounts totaling \$31,721 and \$36,330 were budgeted for projects funded by grants, and the grant revenue offsetting these expenditures were also included in the amendment. Further, an additional \$10,000 was budgeted in the General Fund for a share of the Green Belt Home Care program. Finally, budgeted revenues in the General Fund were amended to reflect an additional \$75,000 in interest income and \$50,000 from the sale of the County Care Facility property. The net effect of these adjustments to the FY2001 General Fund is a reduction in the ending balance of \$928,415. This reduction would also affect the FY2002 General Fund ending balance by the same amount. The FY2001 budget amendment also reflected expenditure increases totaling \$250,000 for roads and transportation in the Secondary Road Fund.

The General Fund ending balance has been significantly under estimated by an average of 28% for the last five years. Applying this percentage as an increase to the revised FY2002 estimated General Fund ending balance would result in an estimated FY2002 General Fund ending balance of \$1,410,318, including the designated portion.

General Fund Ending Balance	Fiscal year Ended June 30					
	1997	1998	1999	2000	2001	2002
Original Budget	\$ 909,608	\$ 1,155,316	\$ 1,327,545	\$ 1,306,273	\$ 1,570,779	\$ 2,030,226
Actual Balance	\$ 1,322,696	\$ 1,521,736	\$ 1,864,368	\$ 2,069,357	\$ 1,008,837 *	**
Percent Increase in Actual/Budget	45.4%	31.7%	40.4%	58.4%	-35.8%	

*Actual is FY2001 re-estimated amount of \$1,937,252 minus \$928,415 budget amendment adjustments.

** Re-estimated 2002 budget ending General Fund balance of \$2,030,226 minus FY01 amendment adjustments (\$928,415) times 1.28% = \$1,410,318 projected balance.

Projected balance	\$ 1,410,318
Designated portion	750,000
Undesignated balance	\$ 660,318

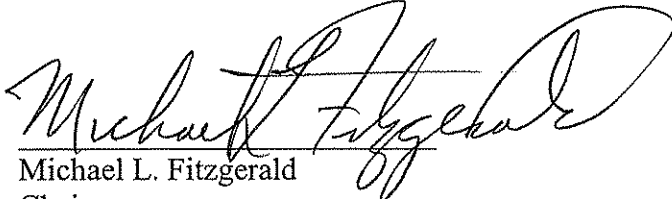
The projected FY2002 General Fund ending balance (\$1,410,318), as a percentage of budgeted expenditures, (\$5,088,583) is 27.7%. A reduction in the FY2002 General Fund ending balance of \$125,000, via a reduction in taxes, results in a balance of \$1,285,318, which is 25.3% of budgeted expenditures.

ORDER

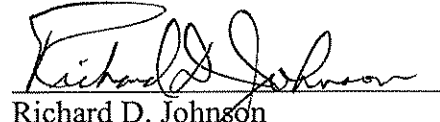
Based on the financial position of Hardin County, the information provided by the parties involved, and in reviewing the historical data of Hardin County, the State Appeal Board orders a reduction in utility replacement and property taxes of \$125,000 in the General

Fund for FY2002. The balance of the FY2002 Hardin County budget, as adopted, is sustained.

STATE APPEAL BOARD



Michael L. Fitzgerald
Chairperson



Richard D. Johnson
Vice Chairperson

Absent

Cynthia P. Eisenhower
Member

June 11, 2001

Date