

STATE APPEAL BOARD

In re: Lyon County)	
Budget Appeal)	Order
)	
)	
FY2001-2002)	April 24, 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 April 18, 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 hearing was held pursuant to Section 331.436 and Chapter 24 of the Code of Iowa. Jerry Stubbe, Chairman of the Lyon County Board of Supervisors, represented the County and the spokesperson for the petitioners was Gary Twedt, Lyon County farmer.

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 sustain Lyon County's Fiscal Year 2002 budget as described herein.

PROCEDURAL HISTORY

The FY2002 Lyon County proposed budget summary was published in the Lyon County Reporter, Rock Rapids, Iowa on February 14, 2001, and in the Doon Press, Doon, Iowa, on February 15, 2001. The date of the public hearing for the budget was February 26, 2001, and the budget was adopted on March 5, 2001.

A petition protesting the certified FY2002 Lyon County budget was filed with the Lyon County Auditor on March 23, 2001 and a faxed copy was received by the State Appeal Board on that same day. On the petition document, the petitioners outlined six objections. They objected to:

- (1) the payment of law enforcement and land use expenditures out of the rural services fund,
- (2) the expenditure increases in the law enforcement program,
- (3) the expenditure increase in Real Estate and Buildings (service area 7),
- (4) the expenditure increases in Health Administration (service area 3), General Welfare (service area 5), Secondary Roads Administration & Engineering (service area 7), and Treasury Management Services (service area 9),
- (5) The excessive ending fund balance for the Rural Services Fund, and

- (6) The designation of unreserved/designated for the general basic fund for money being held in what the petitioners believe is for the jail project.

The reason for the first objection, as stated on the petition, was that the county's public safety department and land use expenditures are primarily intended to benefit all county residents, not just rural residents and, accordingly, the expenditures should be paid from the general fund. The reason given for the petitioners' second objection was that the County's public safety budget increased by \$365,067 from FY2000 actual expenditures. They believed the increase was not necessary, reasonable and in the interest of the public welfare. The petitioners contended in the third objection that the county has a history of over budgeting for Real Estate and Buildings and, therefore, they believe the increase was not necessary, reasonable and in the interest of the public welfare. With respect to the fourth objection, the petitioners stated the increases were not necessary, reasonable and in the interest of the public welfare. In objection five, the petitioners felt an ending fund balance of 42% in the rural services fund was excessive, a balance of 25% would be more prudent. Finally, in objection six the petitioners said that they believe the money is being held for funding a new jail project. The voters have turned down the bond issue for this project and if the money was spent for a designated project, the county is left only a 1% ending fund balance in the general fund.

DISCUSSION

Payment of law enforcement services from the rural services fund. The petitioners believe that the reason certain sheriff's expenditures (uniformed patrol) were shifted by the county from the general fund to the rural services fund is because the state appeal board previously ordered the county to deposit local option sales taxes into the rural services fund according to the ballot. However, as a by-product, when the county transferred these expenditures to the rural services fund the sales tax revenue was not used for property tax relief as required by the ballot.

The petitioners stated that the duties of the sheriff's department benefit all residents in the county and therefore the expenditures should be made from the general fund and not the rural services fund. Examples of duties cited by the petitioners include traffic citations, serving Iowa department of revenue subpoenas, serving legal processes, providing law enforcement for district court judges and magistrates, carry out election duties, enforce child labor laws, state liquor laws and the running of the county jail.

Prior to the shift of the uniformed patrol expenditures from the general fund to the rural services fund (FY99), the percent of expenditures paid from the general fund was 99%. The rural services fund paid 1%. In the year immediately following the shift (FY00), the general fund paid 20.2% and the rural services fund paid 79.8%.

This issue is under litigation and the petitioners express frustration at the delays due to what they believe is legal maneuvering to keep the case from coming to trial. The trial

date is now August 15, 2001. The rural taxpayers believe the state appeal board can and should relieve that frustration now by reducing these expenditures in the rural services fund, reducing the levy rate accordingly, and requiring these expenditures be paid from the general fund.

The county responded by noting that the State Appeal Board has previously allowed these items to remain in the rural services fund. Further, the county said it is under litigation from Farm Bureau for funding these specific sheriff's expenditures from the rural services fund but the trial dates are continually getting rescheduled due to scheduling of the district court docket. The attorney for the county has directed the county to not discuss the matter because of the litigation.

Reduce specific law enforcement expenditures. The petitioners noted that the county increased the public safety budget by \$365,067 (44%) from FY2000 actual expenditures; administration, 140%; communications, 94%; uniformed patrol, 20%; and detention, 19%. The petitioners believe the comparison of expenditures should be made against actual expenditures (FY2000) and not estimated expenditures (FY2001). The petitioners maintain that the expenditure increases are not necessary, reasonable, or in the interest of the public welfare. They say the county must justify the expenditure increases.

The county responded by stating the expenditures for the law enforcement program did, in fact, increase by 44% over FY00 as noted by the petitioners, but when compared to the FY01 re-estimated expenditures the expenditures increased only 8.8%. The county said that total expenditures for the law enforcement program increased \$233,924 or 19.6% from FY01. The expenditures are for increases in salaries, including FICA and IPERS, new part-time employee, increase in health insurance, a new dispatch console system, and replace a computer. These items totaled \$176,174, or approximately \$57,750 less than the total \$233,924 requested.

The expenditures funded for the uniformed patrol (the expenditures transferred to the rural services fund) are salaries, FICA, IPERS, health insurance, and unemployment. The increase in these expenditures over two years is predominately for these items and total \$92,613. The increase in expenditures from FY01 to FY02 is \$43,535 or 8.7%.

Land use expenditures. The types of issues within this area are zoning permit application, zoning compliance permit, appeals to zoning board of adjustment, amendments to zoning ordinances, and building permits.

The petitioners said that previous State Appeal Board decisions have been based on the jurisdiction of the zoning department. The petitioners believe the decision should be based on whom the decisions are made for. The petitioners provided a chart, which indicated that there were more requests for zoning services from urban areas than there were from rural areas. Accordingly, the petitioners requested these expenditures be made from the general fund and not the rural services fund as they primarily benefit urban residents. Such change should result in a reduced rural services basic rate.

The county responded by noting that the State Appeal Board has previously allowed these expenditures to remain in the rural services fund. Further, the county said it is under litigation from Farm Bureau for funding these land use expenditures from the rural services fund. The attorney for the county has directed the county to not discuss the matter because of the litigation.

Unreserved/designated fund balance. The petitioners complimented the county in that the county has improved budgeting practices as indicated by noting that actual v. budgeted ending fund balances are close. However, the petitioners expressed concern that for the last three years the county has put money in reserve for a new jail but this money hasn't been spent. The petitioners stated that for FY02 the county put \$680,600 into unreserved/designated general fund ending balance for the jail project. They said that the voters recently turned down the bond vote to build a new jail. They said it shows a lack of public support.

The county believes it justified the unreserved/designated classification by referring to the budget instructions from the Iowa Department of Management. The instructions state that term 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."

In adopting the budget on March 5, 2001 the board of supervisors specifically classified \$680,600 as unreserved/designated. Of that amount \$500,000 was for the new jail. On December 5, 2001 the county held an election for a law enforcement center. There were 1,548 votes cast indicating 57% approval, 47 votes short of 60% required by law. There is a six-month waiting period before another election can be scheduled.

An independent study was done to determine if there should be a regional jail built. The recommendation was not to build a regional jail because of the increased travel expenses.

The jail ballot question asked whether the county should issue General Obligation bonds in the amount of \$3,570,000, which is the total estimated cost of the jail project. When questioned why the vote for the GO bonds was for the full estimated cost of the jail instead of the cost minus the \$500,000 in reserve, the county said the estimated cost did not include any reserve for contingencies.

According to the county, total estimated costs of the jail included \$253,000 in expenditures that have been or will be expended during FY2001 for such items as architectural services, bidding process, site preparation, etc.

In response to the county's comments, the petitioners asked that the \$500,000 designated for the jail be move to unreserved/undesignated ending fund balance to be used for cash flow purposes.

Rural services fund ending balance. The petitioners maintain that the ending fund balance for the rural services fund is budgeted to be 42% for the budget year. They said that as a general rule of thumb 25-30% of expenditures is sufficient for cash flow purposes and emergencies. The petitioners ask that balance be reduced accordingly.

The county believes the total expenditure figure must include the budgeted transfer of \$875,000 to the secondary road fund. The total expenditures with the transfer are \$1,400,950. The ending fund balance is estimated at \$220,512.

Other specific expenditures. The petitioners noted that the salaries have already been negotiated and the health care package is in place, resulting in nearly an 8% increase in employee compensation. The petitioners believe the county has an obligation to save the taxpayers money in other parts of the budget to accommodate the 8% increase in employee compensation.

The petitioners highlighted certain expenditure increases because they seemed to be abnormally high. These expenditures are for health administration, general welfare services, real estate and buildings, secondary roads administration and engineering, and treasury management services.

Specifically noted by the petitioners is the \$100,000 annual budget for real estate and building expenses. Since FY92 through FY00 the actual annual expenditures have been from a low of \$674 to a high of \$24,793. The budgeted amount for FY02 is \$150,000. The petitioners asked that this line item be reduced to \$25,000 and the remaining balance be left in the secondary road fund ending balance.

Finally, the petitioners asked the county to show that the expenditures are reasonable, necessary and in the interest of the public welfare.

In response, the county noted that for health administration the expenditures for salaries and health insurance are estimated to increase \$35,418. The total increase in expenditures from the "revised" FY01 to budgeted FY02 is \$39,662 or 8.4%

The budget for general welfare services is \$32,700, a decrease of \$5,000 over FY01. The FY01 budget was \$2,225 lower than FY00 budget. Actual expenditures from FY96 through FY00 ranged from a low of \$592 (FY00) to a high of \$7,465. To date, only \$2,750 has been expended for FY01. The county maintains that the expenditures are budgeted each year at this general level because the services must be readily available each year for the residents in need. The county further believes that public assistance applications could likely increase January 2, 2002 as the first group of persons exhaust their 60-month lifetime limit on FIP benefits.

The county provided documentation showing that actual expenditures in the real estate and buildings line item for the secondary roads department were actually much higher than the amount budgeted and the amount reported in the audited financial statements. In the preparation of the financial statements these expenditures were reclassified as capital projects.

County officials said that the increase for secondary roads administration in FY02 over FY01 budget is \$93,645 or 47%. New items in the budget are \$60,000 for data processing equipment and \$20,000 for office equipment. Salary and health insurance expenditures increased \$6,215.

The increase in secondary roads engineering budget totaled \$7,975 or 5% from the FY01 budgeted amount to the FY02 budgeted amount. The increase is for salaries and health insurance, which exceeds the total amount of increase for this budget item.

According to the county the increase in treasury management services in service area nine is \$5,623 from FY01 budgeted amount. The increases are due to increased salaries and health insurance.

FINDINGS OF FACT

1. Section 331.421 of the Iowa Code states that rural county services are “the services which are primarily intended to benefit those persons residing in the county outside of incorporated city areas...”
2. The Iowa Department of Management County Budget Instructions for Fiscal Year 2001/2002 states “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 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.”

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

Payment of law enforcement services from the rural services fund.

This issue is currently under litigation. As for the current year (FY2001), the State Appeal Board concurs with the decision of the Board of Supervisors that the law enforcement costs to be paid from the rural services fund are “primarily intended to benefit those persons residing in the county outside of incorporated city areas.”

Reduce specific law enforcement program expenditures.

The increases in the budget for salaries and health insurance are determined through collective bargaining. Contract employees will receive a 4.25% increase. The increase in health insurance premiums paid by the county is approximately 33%.

The amount budgeted for uniformed patrol was \$546,780, an increase of \$43,545 or 8.7% from the FY01 re-estimated amount. Property taxes levied in the rural services fund for this item totaled \$443,980.

The budget increase for communications is largely attributable to the purchase of a new dispatch console system.

The increase for adult corrections was for salary and benefit increases and for the housing and maintenance of prisoners.

The budget for administration was estimated at \$205,870, an increase of \$97,830 from the FY01 re-estimated amount. Increases of \$11,400 for a new part-time employee, \$27,500 to replace a new computer, and \$50,000 for the new jail, account for most of the increase. The balance, \$8,930, is available for salary increases, health insurance, and unemployment.

Land use expenditures.

This issue is currently under litigation. As for the current year (FY2001), the State Appeal Board concurs with the decision of the Board of Supervisors that the land use costs to be paid from the rural services fund are “primarily intended to benefit those persons residing in the county outside of incorporated city areas.”

Unreserved/designated fund balance.

The \$500,000 identified for the jail is appropriate for cash flow until used for construction of the jail. The county designated this money for the jail and so it should be used for this purpose in order to reduce the amount of the bond.

Rural services fund ending balance.

Transfers out of the rural services fund are to be included in the total amount of expenditures to determine the percentage of ending fund balance to expenditures. The percent of ending fund balance to expenditures is 15.7%, after including the transfers. A reduction in taxes would make the percent of ending fund balance even smaller.

Other specific expenditures.

The increase in expenditures for health administration, secondary roads – administration, secondary roads – engineering, and treasury management services are predominately for increased salaries and insurance. The budgeted expenditures for general welfare may be somewhat overstated but any balance at the end of the year can be used for cash flow. The budget for real estate & buildings is realistic based on the additional information provided by the county.

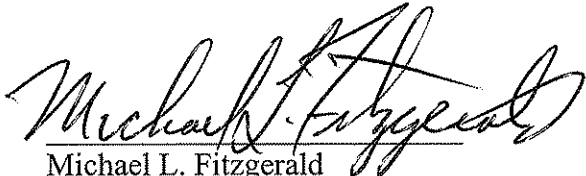
ORDER

Based on the financial position of the County, information provided by the parties involved, and in reviewing the historical data of Lyon County, the State Appeal Board sustains the FY2002 Lyon County budget as adopted.

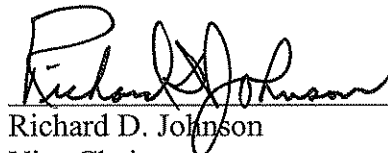
Other Observation:

The State Appeal Board notes that the estimated expenditures for the new jail are \$3,570,000. By June 30, 2001 the county expects to have spent \$253,000 for this project. Further, there is \$50,000 in the sheriff's budget for the new jail. In addition, there is \$500,000 in the unreserved designated fund balance for the jail. Accordingly, it is the State Appeal Board's belief that the amount bonded for the jail could be less than \$2,800,000 instead of the \$3,570,000, the amount requested in the last election.

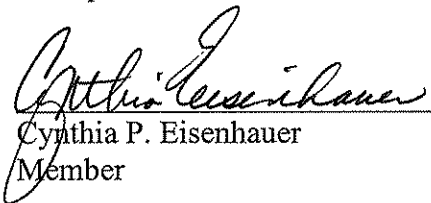
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Michael L. Fitzgerald
Chairperson



Richard D. Johnson
Vice Chairperson



Cynthia P. Eisenhauer
Member

April 24, 2001
Date