

## STATE APPEAL BOARD

In Re:	Cedar Rapids Community School District Budget Appeal	)	Order
		)	
		)	
	FY 2002-2003	)	June 3, 2002

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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:**

A hearing on the above captioned matter was held pursuant to the provisions of Chapter 24 of the Code of Iowa, on May 9, 2002. The hearing was before a panel consisting of Stephen Larson, Executive Officer III and presiding hearing officer, Office of the State Treasurer; Lisa Oakley, School Finance Director, Department of Management; and Kevin J. Borchert, Professional Development Director, Office of the State Auditor.

The spokespersons for the petitioners were Ted Bulmer, Dick Spencer, and Dick Fredericks. Superintendent Lew Finch and Steve Graham, Executive Director of Business Services, represented the Cedar Rapids Community School District.

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 Iowa Cedar Rapids Community School District's fiscal year (FY) 2003 budget as described herein.

### PROCEDURAL HISTORY

The FY2003 Cedar Rapids Community School District proposed budget summary was published in The Gazette on March 29, 2002. A public hearing was held and the budget was adopted on April 11, 2002.

A petition protesting the certified FY2003 Cedar Rapids Community School District budget was filed with the Linn County Auditor on April 19, 2002, and was received by the State Appeal Board on April 22, 2002.

On the petition document, the petitioners objected to the proposed property tax increases.

Their reasons for the objection, as stated on the petition document, are as follows:

1. The School District's lack of evidence of commitment to fully utilize existing classrooms and space to capacity, to limit borrowing and to limit new classroom and building projects to match a continued decline in enrollment.

2. The School District's lack of evidence of commitment for realizing economies of the School District's large size and enrollment and for removing excess non-teaching staff and for making better use of available funding before raising taxes.
3. The School District's lack of evidence of commitment to improve efficiency and effectiveness of instruction processes and teacher output.
4. The School District's lack of evidence of commitment to make 3% annual cost reductions for the next six years to gradually bring School District cost-per-student down to the Iowa average for a district this size.
5. The School District's approval of annual salary increases for teachers and administrators while the School District's ITBS (Iowa Test of Basic Skills) scores fell for the years under Superintendent Finch.
6. The School District's lack of evidence of commitment to raise ITBS scores over the next six years.
7. The School District's lack of evidence to obtain relief from any state laws or regulations that may impede improvement of the School District's performance, operating efficiency, and student achievement.
8. The School District's bonding for unneeded classrooms and a new building, retirement buyout package, increased funding for smaller enrollment and untested special education students, too aggressive replenishment of cash reserves and the highest cost or spending per student in the metro Cedar Rapids area.

### **DISCUSSION**

The petitioners and the representatives of Cedar Rapids Community School District provided various written summaries and exhibits in support of their positions. A summary of this information is as follows:

### **PETITIONERS**

Ted Bulmer, Dick Spencer, and Dick Fredericks gave the petitioners' opening statement, in which they identified the petitioners' requests to the State Appeal Board.

1. Reduce the FY2003 property tax increase to the FY2002 level.
2. Stop or defer any additional expenditures and or contracts for classroom additions that have not been obligated as of this date until a publication of a comprehensive analysis of enrollment projections and space utilization (including the elimination of non state funded childcare) have been performed by September 2002.

3. Spread the replenishment of financial reserves to the absolute minimum possible over a five-year period in lieu of one year.
4. Eliminate the "Early Retirement Program" as a standard yearly bonus.
5. Eliminate the planned local district taxpayer replenishment of the State Aid Reduction for the FY2003 school year.

The petitioners explained their appeal in greater detail and a summary is as follows:

In 1999, a group known as ALOT (Against Local Option Taxes) was formed to educate the public about a ten-year local option sales tax for the Cedar Rapids Community School District. Since then, the petitioners feel that the Cedar Rapids Community School District has not been complying fairly with public records requests and have not been cooperating with the public.

After the local option sales tax failed to pass in the Cedar Rapids Community School District, the School District prepared for a 46 million-dollar bond issue for building repairs. They conducted a public survey emphasizing a 14% increase in enrollment between 2000 and 2004 and based on that information, the bond issue passed in 2000. Now after two years, the School District is 1277 students below the projected increase. The petitioners believe that this was a deliberate deception by the School District and that if the public had been told that enrollment would remain flat or decline as it has actually done, then the bond issue would never have passed.

Furthermore, the School District has a substantially higher cost of items on a per student basis than other smaller districts. The petitioners believe that the School District's larger size should result in economy of scale savings and are disappointed that the School District has never conducted an economy of scale analysis nor developed a plan for its incorporation. The petitioners made reference to College Community School District as an example of lower costs per student, in their exhibits. If the School District could lower their cost to that of the College Community School District, the savings would negate the 19% property tax increase.

Moreover, the School District paid an unprecedented bonus to the most experienced teachers this past year to entice them to retire. This incentive constitutes the largest portion of the 19% property tax increase. Other districts have reduced staff without paying added bonuses and without increasing taxes. The petitioners feel that the School District needs to implement policies to keep the most experienced teachers, which, in the end, would result in higher student achievement, higher teacher output, and greater utilization of classroom space.

The School District's ITBS (Iowa Test of Basic Skills) scores fell below the 30<sup>th</sup> percentile rank for the School District. This occurred while the School District increased the number of teachers by 174 and total staff by 377, while there was only an increase of 57 students during that time period. The petitioners believe that the School District

has failed to address or seek relief from the problem of decreasing test scores and that salary increases provide the teachers with a false notion that they are performing well despite failing student achievement.

At the end of the hearing, several audience members spoke in support of the petitioners, citing ways the Cedar Rapids Community School District could improve efficiency and how the property tax increase would affect them.

### **CEDAR RAPIDS COMMUNITY SCHOOL DISTRICT RESPONSE**

Superintendent Lew Finch gave the Cedar Rapids Community School District's opening remarks. The following is a summary of the School District's response.

The increase in the levy is necessary to maintain the quality of the educational programs and to minimize the impact of the state's mid-year revenue rescission of 4.3%. The increase in the levy is reasonable as the School District first made \$4 million cuts in expenditures and revised the retirement benefit distribution plan to save taxpayers \$500,000. The increase in the levy is in the interest of the public welfare as it will maintain the quality of the educational programs and the quality of the public schools is linked to the economic vitality of the community.

The School District made several cuts to the FY2002 current budget. Those reductions include 20 full-time non-categorical teaching staff for a savings of \$1 million, reduction of the central office administration budget for supplies, services and equipment for a savings of \$500,000. The School District's FY2003 budget is \$2,682,416 less than the FY2002 budget. The School District reduced the FY2003 budget by eliminating 40 full-time teaching positions, 4 central office administrators and making \$107,989 in building budget cuts. The School District has saved over \$4 million combined between the FY2002 budget and the FY2003 budget.

Furthermore, the School District has received the Certificate of Achievement for Excellence in Financial Reporting from the Government Finance Officers' Association and the Certificate of Excellence in Financial Reporting from the Association of School Business Officials International for the FY2000 Comprehensive Annual Financial Report and was one of only six school districts in Iowa to receive both of these awards. In 1997, an independent study of the Cedar Rapids Community School District conducted by the Cedar Rapids Chamber of Commerce Report Card Commission reported that there was "no wanton waste" in the School District.

From FY1995 to FY2002 School District FTEs have increased by 299.1. The increases were in special education (190.0), teachers (58.1), technology (25.0), health secretaries (4.2), nurses (3.6), food and nutrition (4.5), administrators (4.0) and supervisor/technicians (9.6).

The School Board is sensitive to property tax increases and the FY2003 increase would still put the School District's levy below three other school districts in Linn County.

The \$2.45 increase in the FY2003 school tax levy rate is a result of a state aid rescission of 4.3%, and an estimated \$421,000 under funding of FY2003 state aid. The School District will be forced to replenish the state aid reductions to adjust a negative cash position. The levy is also needed to offset the cost of unfunded and underfunded state and federal mandates and to reestablish fiscally responsible minimum reserves.

All parties submitted other materials after the hearing in support of their respective positions.

### **FINDINGS OF FACT**

1. Annually, the Cedar Rapids Community 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.
2. Section 24.27 of the Iowa Code 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, a hearing was scheduled and conducted.
3. 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. " Accordingly, the School District bears the burden of proof to show that the property taxes certified for Fiscal Year 2003 be increased.
4. Section 24.30 of the Iowa Code states in part "It shall be the duty of the state board to review and finally pass upon all proposed budget expenditures, tax levies and tax assessments from which appeal is taken and it shall have power and authority to approve, disapprove, or reduce all such proposed budgets, expenditures, and tax levies so submitted....".
5. Chapter 24 of the Code of Iowa limits the authority of the State Appeal Board to items specifically related to the local government budget process. Therefore, the State Appeal Board does not have authority to issue any rulings on the other petition items, which were related to student test scores, utilizing classroom space, or retirement bonuses.
6. The School District certified a FY2003 budget that results in a 19% increase in the property tax rate over FY2002. The property tax increase is \$2.45 per \$1,000

of net taxable valuation for a total increase from FY2002 to FY2003 of \$12,093,407.

The School District's adopted budget increases property taxes as follows:

Levy Description	FY 2002 Budget		FY 2003 Budget		Rate Increase
	Dollars	Rate	Dollars	Rate	
Levy to Fund Combined District Cost	35,555,574		38,548,631		
Instructional Support	638,880		718,414		
Cash Reserve	4,675,000		7,054,000		
<b>SUBTOTAL GENERAL FUND LEVY</b>	40,869,454	11.13042	46,321,045	12.00563	7.9%
Management	2,280,000	0.62094	5,421,555	1.40517	126.3%
Voted Physical Plant & Equipment	2,552,378	0.67000	2,711,942	0.67000	0.0%
Regular Physical Plant & Equipment	1,257,141	0.33000	1,335,733	0.33000	0.0%
Debt Service	745,550	0.19571	4,007,655	0.99011	405.9%
<b>GRAND TOTAL</b>	47,704,523	12.94707	59,797,930	15.40091	19.0%

7. The Levy to Fund Combined District Cost is increasing due to increased special education funding, a change in the way students are counted for dropout prevention funding and the budget guarantee. The formula driven budget guarantee allows the previous year's level of funding to be maintained despite an enrollment decline. In accordance with statutory provisions, the School Board adopted a resolution authorizing the budget guarantee and the budget guarantee is funded entirely by property taxes.
8. The School District increased the Cash Reserve Levy to offset the FY2002 mid-year 4.3% reduction in state aid funding (\$2,751,408) and the projected shortfall (\$421,000) in FY2003 funding because the 1% allowable growth is not fully funded by the State. The School District's total FY2003 Cash Reserve Levy is \$7,054,000. Under Iowa code subsection 257.31(15), the School Budget Review Committee is required to review the amount of property tax levied by each school district for cash reserve and if in the Committee's judgment the amount is unreasonably high, the Committee shall instruct the Department of Management to reduce that district's tax levy. Iowa Administrative Code 289-6.5(3) establishes the cash reserve levy limit and under these provisions, the Cedar Rapids School District's FY2003 Cash Reserve Levy could have been \$27,972,032.
9. The School District's FY 2001 General Fund Ending Fund Balance was 2.9% of expenditures. The School District's FY2003 estimated General Fund Ending Balance is \$6,058,493, or 4.6% of estimated General Fund expenditures.
10. The Management Levy was increased to fund an enhancement of the School District's early retirement incentive program as approved by the School Board.
11. The School Board, as required by statute, approved the early retirement programs.

12. The Debt Service Levy was increased to pay the principal and interest on bonded indebtedness as approved by 73% of voters in December 2000.
13. The School District is in the fourth year of a four-year collective bargaining agreement. Under the agreement salary increases are tied to funding growth. Since the School District will receive no "new money" in FY2003 there are no salary increases in the budget.
14. The School District FY2003 budgeted expenditures are \$6,267,315 or 3.5% less than the FY2002 budgeted expenditures. The School District reduced the FY2003 General Fund budget expenditures by \$2,682,416 from the FY2002 budget.

**CONCLUSIONS OF LAW**

The State Appeal Board has jurisdiction over the parties and the subject matter of this appeal, pursuant to Iowa Code Section 24.28 and 257.7.

**BASIS OF DECISION**

The School District's budget and property tax levy were adopted by the School Board in accordance with statutory provisions.

The School District reduced expenditures in FY2002 and the adopted FY2003 budgeted expenditures are below FY2002.

The School District FY2001 General Fund ending fund balance of \$3,672,812 was 2.9% of expenditures. The School District's estimated FY2003 General Fund ending fund balance with the tax increase is \$6,058,493 and with no increase in taxes the ending fund balance would be \$3,673,493, or 2.8% of estimated expenditures.

A summary of the ending fund balance by fiscal year is as follows:

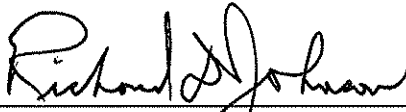
	Expenditures	Ending Fund Balance	Percent
FY 2001 General Fund Actual	\$126,579,375	\$3,672,812	2.9%
FY 2002 General Fund Budget Estimate	\$128,256,817	\$6,936,513	5.4%
FY 2003 General Fund Budget Estimate	\$130,504,158	\$6,058,493	4.6%
FY 2003 General Fund Budget Estimate without CR Levy Increase	\$130,504,158	\$3,673,493	2.8%


The Iowa Code provides authority for school districts to include in the Management Levy and the Debt Service Levy amounts to pay the total estimated accumulated cost of incentives for employees who retire and to pay interest and principal on general obligation debt.

**ORDER**

The Fiscal Year 2003 adopted budget for the Cedar Rapids School District is sustained.

**STATE APPEAL BOARD**

  
Richard D. Johnson  
Chairperson

  
Cynthia P. Eisenhower  
Vice Chairperson

- Absent -  
Michael L. Fitzgerald  
Member

June 3, 2002  
Date