

STATE APPEAL BOARD

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

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 15, 2002. The hearing was before a panel consisting of Stephen Larson, Executive Officer III and presiding hearing officer; Office of the State Treasurer; Stephen Ford, City Budget Supervisor, Department of Management; and Donna Kruger, Senior Auditor II, Office of the State Auditor.

The spokesperson for the petitioners was Keith Meyer. Marsha Tangen, Chief Financial Officer, and Richard Davidson, District Attorney, represented the Davenport 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 Davenport Community School District's fiscal year (FY) 2003 budget as described herein.

PROCEDURAL HISTORY

The FY2003 Davenport Community School District proposed budget summary was published in The Quad City Times on March 26, 2002. The budget was adopted on April 8, 2002.

A petition protesting the certified FY2003 Davenport Community School District budget was filed with the Scott County Auditor on April 25, 2002, and was received by the State Appeal Board on April 29, 2002.

The petitioners objected to the action of the officials of the Davenport Community School District in certification of its FY2003 budget, specifically regarding the closing of Johnson and Grant elementary schools.

DISCUSSION

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

PETITIONERS

Keith Meyer gave the petitioners' opening statement, in which he identified the petitioners' requests to the State Appeal Board.

The petitioners request that the State Appeal Board undertake a study of the Davenport Community School District's financial records and establish an alternative budget that allocates funding for the operation of Johnson and Grant School in the FY2003 budget.

The petitioners included the following items in the petition document as reasons the District should be able to maintain the operation of the schools:

1. The FY2003 budget projects an increase in revenues from taxes levied on property in the amount of \$5,330,000 over the FY2002 budget.
2. President Bush signed the new education bill calling for a 27% increase in federal funding for schools and an 18% increase in Title I funds.
3. The School District has not undertaken fund borrowing from sales tax revenues to meet projected financial needs.
4. The administrative cost of the School District ranks at the top of large schools in the State of Iowa.
5. The School District task force has identified savings in excess of \$3 million without closing schools or eliminating programs.
6. There is a need to examine costs of legal and debt service.

The petitioners also indicated that the School District has been less than forthcoming of educational and financial planning and has not shown that closing the schools of Johnson and Grant are necessary, reasonable, and in the interest of public welfare.

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

On January 28, 2002 the School Board voted to close Johnson and Grant elementary schools in the Davenport Community School District after the deadline for open enrollment. The students from Johnson School would be moved to Adams School and the students from Adams School would move to Buchanan. The students from Grant School would move to Madison.

The Federal Government has labeled both Buchanan and Madison schools as failing schools. The School District did not inform Johnson parents of the open enrollment policy. On March 5, 2002, there was an Appeal Hearing in Des Moines concerning the closing of these two elementary schools. In June, a decision on whether the School District violated rules for closing is expected to be issued by the Iowa Department of Education.

The petitioners feel that the estimated savings from closing Johnson and Grant Elementary Schools are too high. The total savings is estimated to be \$2.2 million dollars for the FY2003 budget which increased from the \$1.4 million estimated in November 2000. When Roosevelt and Perry elementary schools closed, the total savings was only \$357,349.

The Local Option Sales Tax Levy was sold as "pay as you go" to the Davenport Community. The School District announced that it paid \$5.4 million in interest to achieve \$5.3 in construction cost savings. The petitioners would like to know why it wouldn't be feasible for the School District to approach the voters and request that the sales tax money be used for operating expenses instead of long-term construction projects.

The School District has a goal to build their cash reserves to \$7 million. This surplus may risk the Davenport schools. The petitioners feel that this money should be used to address the problems of falling enrollment.

Lastly, the petitioners are concerned with the stock value of Edison, which has dropped from \$20 a share to \$2.60 a share and the competency of using this private company to run one of the elementary schools

In closing, Mr. Meyer stated that he is not opposed to the property tax increase for the FY2003 budget.

DAVENPORT COMMUNITY SCHOOL DISTRICT RESPONSE

Marsha Tangen and Richard Davidson gave the School District's response. The School District, similar to many other urban districts, is experiencing declining enrollment. With a fund balance deficit of over \$2 million dollars and an unspent balance of less than \$500,000 for FY2001, the School District has no cash reserve to address funding emergencies. Furthermore, in November 2001, the State announced a 4.3% state aid reduction for FY2002 and FY2003 will also be under funded. Consequently, the School District increased the cash reserve levy by over \$3.5 million.

The School District determined that the closing of Johnson and Grant Elementary Schools was necessary in order to balance the FY2003 budget. The cost of delivering educational services at Johnson and Grant are high when compared to other buildings due to their age and small size.

The School Board felt that two other neighborhood schools could accommodate Johnson and Grant students. In March 2002, the District organized a task force to identify possible alternatives to the closing of Johnson and Grant Elementary Schools. They held nine public meetings and identified thirteen cost savings alternatives, however, the School District determined that the closing of Johnson and Grant were necessary and in the best interests of the School District, instead of other alternatives presented by the task force.

Moreover, in regards to the Local Option Sales Tax issue, the School District promised that the Local Option Sales Tax money would be spent on infrastructure improvements to upgrade the School District's existing buildings and facilities. The entire amount of the ten year Local Option Sales Tax funding has been committed to these capital improvement projects; therefore, it is not feasible to reduce the capital improvement projects and to seek approval from the voters to transfer the Local Option Sales Tax funds to the General Fund.

FINDINGS OF FACT

1. Annually, the Davenport 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."
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 rule on the closing of Johnson and Grant elementary schools.

6. In accordance with Chapter 422E of the Code of Iowa, a local sales and service tax for schools may only be used for school infrastructure purposes.


CONCLUSIONS OF LAW


The State Appeal Board has jurisdiction over the parties and the subject matter of this appeal, pursuant to Iowa Code Chapter 24.

ORDER

Based on the financial position of the School District and information provided by the parties involved, the State Appeal Board sustains the Davenport Community School District Budget as adopted.

STATE APPEAL BOARD


Richard D. Johnson
Chairperson


Cynthia P. Eisenhauer
Vice Chairperson

Absent
Michael L. Fitzgerald
Member

June 3, 2002
Date