

STATE APPEAL BOARD

In Re:	Ballard Community School District Budget Appeal FY 2003-2004))))	Order June 2, 2003
--------	--	------------------	-------------------------------

BEFORE STATE AUDITOR, DAVID A. VAUDT; 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, 2003. The hearing was before a panel consisting of Stephen Larson, Executive Officer IV and presiding hearing officer; Office of the State Treasurer; Lisa Oakley, School Finance Director, Department of Management; and Warren Jenkins, Chief Deputy Auditor, Office of the State Auditor.

The spokesperson for the petitioners was Barbara Finch. Ms. Sue Luetjohann Seitz of the Belin Lamson McCormick Zumbach Flynn law firm, Superintendent Mike Krumm and Business Manager Janice Halverson of the Ballard Community School District represented the 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 Ballard Community School District's fiscal year (FY) 2004 budget as described herein.

PROCEDURAL HISTORY

The FY 2004 Ballard Community School District proposed budget summary was published in The Tribune on April 1, 2003. A public hearing was held and the budget was adopted on April 14, 2003.

A petition protesting the certified FY2004 Ballard Community School District budget was filed with the Story County Auditor on April 25, 2003, and was received by the State Appeal Board on April 28, 2003.

On the petition document, the petitioners requested that the Ballard Community School District use \$200,000 of the local option sales tax revenue to reduce the Schoolhouse Funds Debt Service Levy in FY 2004.

DISCUSSION

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

PETITIONERS

At the budget appeal public hearing, petitioner Barbara Finch represented the petitioners. She provided written remarks with various exhibits.

In her remarks, Ms. Finch discussed her background, involvement and her participation during the budgetary process of the Ballard Community School District. She started by commenting that she had requested the School Board use \$200,000 of the Local Option Sales Tax to reduce the Schoolhouse Fund Debt Service Levy. She spoke about the history, ballot language, statutory code provisions and content of newspaper articles appearing over a period of time. During this time period, numerous references about retiring debt were made by school officials and from all accounts, it was the number one priority of the school district.

She continued by stating that on April 14, 2003 she attended the school budget hearing and requested that the school district use \$200,000 of the Local Option Sales Tax Revenue to reduce the Schoolhouse Fund Debt Service levy. This request would allow the board an alternative to keep their campaign pledge to retire debt. Additionally, this proposal is consistent with the Iowa Code and would reduce the reliance by the school district on property taxes to pay off bonds.

Ms. Finch continued by providing information on how she calculated the amount to be reduced and additional reasons for the request that she presented at the Ballard Community School District Budget Hearing of April 14, 2003. She further explained at this hearing that "patrons of the Ballard district do not understand the difference between Physical Plant and Equipment Levy loan note debt and bond debt." Therefore the school board should use the local option sales tax revenue to pay down the debt, which would reduce the reliance on property taxes. She provided information that her recommendation was defeated by a 4-1 vote and because of that action, an appeal process began. She concluded her opening remarks by commenting on various issues that led her to file the appeal, questions regarding financial management and use of local option sales tax to reduce debt.

Ms. Finch ended her presentation with a rebuttal and closing remarks by requesting that the State Appeal Board do the following.

1. Amend the Ballard School Budget and apply \$200,000 from the Local Option Sales Tax and reduce the School Debt Levy. In granting this request, the School Debt Levy and the Total Property Tax Rate be amended and reduced to reflect the change.
2. Provide clarification on the use of the voter-approved Physical Plant and Equipment Levy.
3. State whether using \$31,200 of the voter-approved, Physical Plant and Equipment Levy money for improvement costs is excessive for a building the district does not own and plans to lease for only 60 months.
4. State whether the Ballard Community School district was required to publish a Notice of Public Bid Hearing for a building lease option contract and for the \$31,200 renovation cost for the leased building.

BALLARD COMMUNITY SCHOOL DISTRICT RESPONSE

Ms. Sue Luettjohann Seitz, attorney for the school district and Mr. Michael Krumm, Superintendent were the primary spokesperson for the Ballard Community School District. They presented written materials with various exhibits to support its position and a summary is as follows:

Ms. Seitz began by saying her comments would follow the school's written materials. She began by commenting that the burden of proof regarding this matter is on the petitioners because the tax rate certified by the school district for FY 2004 is less than the rate certified for FY 2003. Other issues raised by the petitioners are not germane to this appeal and the school district will not formally comment on those items. However, she pointed out that the school district was not even aware of these other issues until a few days before the hearing.

Ms. Seitz provided an overview of the District's debt, explained that there is no outstanding bonded indebtedness for high school projects, that debt service and debt reduction are not the same and that prepaying debt would not result in a reduction in taxes. Then she continued by addressing the voter-approved Physical Plant and Equipment levy (PPEL), capital loan notes and other bonded indebtedness tied to Local Option Sales Tax.

As to the petitioners' comments that the school district has misrepresented its intentions to the public, no evidence exists that this happened. In fact, what the voters voted for is what was on the ballot. Also, at the time of the election, the Ballard School Board believed that the 1996 Capital Loan Notes could be retired with local option sales taxes, thus freeing up the 67 cent voter-approved levy for purposes allowed for PPEL but not from the local option sales tax proceeds.

In closing their opening remarks, Ms. Seitz commented on the school district's tax rate and taxable property valuation, that the school district has exercised responsible restraint in attempting to keep the tax rate from going higher and the school district does not believe that there is a contract to retire debt.

The spokespersons for the school, responded to the petitioners' rebuttal and closing comments by commenting further on information provided in the written materials. Additionally, the school district is focused on fixing up its high school and that the State Appeal Board deny the petitioners' request and uphold the budget for fiscal year 2004.

FINDINGS OF FACT

1. The Ballard 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 any 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 issue any rulings on the other items requested by the petitioners, which were related to a building lease.
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. School infrastructure purposes includes the payment or retirement of outstanding bonds previously issued for school infrastructure purposes and the payment or retirement of bonds issued under Section 422E.4.

7. The School District certified a budget that results in a 4.0% increase in property tax dollars but a .00473 per cent decrease in the property tax rate. Following is a summary of the School District's adopted budget regarding property taxes:

Levy Description	FY 2003 Final		FY 2004 Budget		% Change	
	Dollars	Rate	Dollars	Rate	\$	Rate
Levy to Fund Combined District Cost	2,098,142		2,119,260		1.0%	
Instructional Support	291,828		302,816		3.8%	
Cash Reserve	79,498		162,000		103.8%	
SUBTOTAL GENERAL FUND LEVY	2,469,468	14.09150	2,584,076	14.22311	4.6%	0.9%
Management	184,999	1.05566	195,000	1.07331	5.4%	1.7%
Voted Physical Plant & Equipment	142,616	0.67000	151,863	0.67000	6.5%	0.0%
Regular Physical Plant & Equipment	70,244	0.33000	74,794	0.32998	6.5%	0.0%
Debt Service	469,648	2.20638	465,203	2.05241	-0.9%	-7.0%
GRAND TOTAL	3,336,975	18.35354	3,470,936	18.34881	4.0%	0.0%

8. The school district certified a budget with a .9% decrease in debt service tax dollars and a 7% decrease in the debt service tax levy rate.
9. The school district's certified budget includes a debt service levy of \$465,203 for bonded indebtedness. This levy meets the requirements of Iowa Code section 298.18 related to bond tax.
10. The voters approved the local option sales tax on October 8, 2002. The ballot states "The money received from the tax shall be spent for school infrastructure as defined by Iowa Code Section 422E.1. "School infrastructure" is defined by law to include purchasing, building, furnishing, reconstructing, repairing, improving or remodeling of a schoolhouse or schoolhouses and additions thereto, gymnasium, stadium, field house, or school bus garage, and procuring a site or sites therefore or purchasing land to add to a site already owned, or procuring and improving a site for an athletic field, or improving a site already owned for an athletic field, the payment or retirement of outstanding bonds previously issued for school infrastructure purposes or the payment or retirement of bonds issued under Iowa Code Section 422E.4, or for any one or more of such purposes." The school district is using the local options sales tax for purposes specified in the ballot.

11. The Ballard Community School District's campaign for the local option sales tax identified projects that were being considered, including retiring high school remodeling debt, as well as various infrastructure expenditures.
12. The school district did present information on usage of local option sales tax funds to the public (as recently as September of 2002), prior to the October 2002 election. This information included a ten-year plan divided into two five-year segments. In the first five-year segment, one of eight possible uses of those funds was to retire the remaining high school remodeling debt incurred in 1996 of \$290,000.
13. Within the boundaries of the voter approved ballot language, the school district has the authority to determine how the local option sales tax revenue will be used.

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 257.7.

BASIS OF DECISIONS

The School District's budget, budget hearings and property tax levies were adopted by the School Board in accordance with statutory provisions. Ballard Community School District has demonstrated that the debt service levy in question by the petitioners is necessary, reasonable, and in the interest of public welfare.

The State Appeal Board, pursuant to Section 24.20; has authority only in regards to the budget.


ORDER

Based on the financial position of the School District, information provided by the parties involved and a review of historical data of the Ballard Community School District, the State Appeal Board sustains the FY2004 Ballard Community School District budget as adjusted by the Department of Management.

STATE APPEAL BOARD

Absent

Cynthia P. Eisenhauer
Chairperson



Michael L. Fitzgerald
Vice Chairperson



David A. Vaudt
Member

6/2/03

Date