

STATE APPEAL BOARD

In Re:	Hancock County 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 Section 331.436 and Chapter 24 of the Code of Iowa on April 23, 2003. The hearing was before a panel consisting of Stephen Larson, Executive Officer IV and presiding Hearing Officer, Office of the State Treasurer; Jim Nervig, County Budget Director, Department of Management; and Kevin J. Borchert, Professional Development Director, Office of the State Auditor.

The primary spokespersons for the petitioners were Doug Thompson, Greg Rayhons, Brent Renner and Wendell Davison. Jerry Tlach, Chairman of the Board of Supervisors, Karen Kaufman, County Attorney, and Debra Bellinghausen, County Auditor, represented Hancock County.

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 Hancock County FY2004 budget as described herein.

**PROCEDURAL HISTORY**

The FY2004 Hancock County proposed budget summary was published in the Britt News Tribune and the Garner Leader and Signal on February 26, 2003. The budget was originally adopted on March 10, 2003. On March 26, 2003 the County submitted a request for an extension to recertify the budget due to a clerical error. On March 27, 2003 an extension was granted giving the County until April 7, 2003 to recertify the budget. The budget was recertified on April 7, 2003.

A petition protesting the certified FY2004 Hancock County budget was filed with the Hancock County Auditor on March 21, 2003 and was received by the State Appeal Board on March 24, 2003.

A summary of the petitioners' objections and the reasons for the objections that were listed on the petition document follows.

The petitioners objected to a rural property tax rate increase of 42% and an urban property tax rate increase of 59%, an increase in operating expenditures of over 5% and expenditures exceeding revenues by over \$1.9 million. They also objected to the shifting of \$300,000 of local option sales tax from the Rural Basic Fund to the General Basic Fund.

## DISCUSSION

The petitioners and the representatives of Hancock County provided various written summaries, exhibits and verbal commentary in support of their positions. A summary of this information presented at the public hearing is as follows:

### PETITIONERS

Mr. Thompson, Mr. Rayhons, Mr. Renner and Mr. Davison represented the petitioners. In their presentations, the petitioners expressed the following concerns:

- The local option sales tax was moved back to the Rural Basic Fund when the County recertified the budget. The petitioners were opposed to this recertification, but recognize that their objection is effectively nullified.
- Spending continues to rise as officials give out large raises and benefit increases in the face of declining fund balances, a projected \$1.9 million deficit and a \$1 million tax increase.
- The petitioners have identified \$579,000 in spending and tax reductions. The items recommended for reduction represented an 11% increase in spending. These reductions would have little impact on services. Essential services such as road and bridge maintenance and law enforcement would continue as they are today.

The Petitioners made the following request:

- Roll back the spending items identified by the petitioners and correspondingly reduce property taxes in the General and Rural Funds by an equal amount because the proposed new items and increased items in the budget are not necessary, reasonable and in the public interest.

### HANCOCK COUNTY RESPONSE

Ms. Kaufman, Ms. Bellinghausen and Mr. Tlach were the primary spokespersons for Hancock County. A summary of the County response is as follows:

- The property tax levy has been artificially low for the past several years, providing property tax relief to taxpayers while spending down reserve funds. The proposed property tax levy is lower than it was 5 and 10 years ago, is lower than most counties and is the lowest of all the surrounding counties. Lower County property tax levy rates may not have been noticed by taxpayers because tax levy rates of other governmental entities in the County have been going up. The Board of Supervisors has tried to keep the levy as low as possible.
- The County is trying to balance required governmental functions with finite resources. State revenues have been decreasing and counties must make up the difference. The demand for County services is increasing.
- The County has increased revenues from non-tax sources, including grants, increased fees for services and assisted County residents in accessing other benefits.

- The Board of Supervisors has limited expenditures while attempting not to cut services by reducing staff. They have closed a building, consolidated positions and are sharing positions with other entities.
- The cash reserve is projected to be at 25% of expenditures in FY2004.
- No suggestions were made by the petitioners prior to the adoption of the budget. The entire budget process was open to the public and there was little participation by the petitioners or the general public.
- The cuts in expenditures suggested by the petitioners are contrary to the interests of the public. Most objections seem to be directed toward salary increases. The Compensation Board recommendations for elected officials were reduced by the Board of Supervisors. Department head salaries are in line with statewide averages and surrounding counties. Employee salaries are well below the state average for their position. Health insurance rates are increasing, but health insurance is a common benefit for employees of counties and private industry.

In closing, the County stated that the suggestions made by petitioners at this time are unwise because they are arbitrary, they don't take into account new line items that are simply transferred from one department budget to another, they do not account for the many line items which were decreased, and misrepresents the increase of expenditures as being 11% when the overall increase is closer to 5.32%. They ask that the State Appeal Board uphold the FY2004 County Budget.

#### **FINDINGS OF FACT**

1. Hancock County, subject to various state laws and administrative rules, shall prepare and adopt a budget, certify taxes and authorize expenditures. The County 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. The County Board of Supervisors determines, as provided in Chapters 331.904 through 331.907 of the Code of Iowa, the annual increase in compensation for elected officials, deputies, assistants and clerks. The statutory procedures appear to have been properly followed in establishing salaries for County employees. The State Appeal Board has historically not adjusted the salaries of local officials or employees if the proper statutory procedures have been followed.
5. 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..."

6. Iowa Code Section 331.434 requires that Hancock County prepare, adopt, certify taxes and provide appropriations for the amount required for each class of proposed expenditures to be expended.
7. The following chart shows the history of the General Fund ending balance, disbursements and property taxes levied since 1999 for Hancock County.

Year Ended June 30,	Ending Fund Balance	Disbursement			Taxes Levied
		Budget	Actual/ Estimated	Differences	
1999	\$ 4,081,648	3,404,072	3,098,181	(305,891)	1,669,979
2000	3,311,021	3,214,800	2,999,421	(215,379)	1,670,447
2001	3,726,273	3,529,444	3,166,654	(362,790)	1,504,717
2002	3,424,746	3,768,625	3,354,233	(414,392)	1,442,611
2003 (1)	1,886,374	4,044,990	4,319,783 (3)	274,793	1,283,839
2004 (2)	615,786	4,361,638 (4)	-	-	1,933,670

- (1) Reestimated budgeted amounts.
- (2) FY2004 budgeted amounts.
- (3) Major increases from the prior year include the construction of an E911 Communication Center, Economic Development, building repairs and increases in the conservation department.
- (4) Starting in FY2004, the County is the fiscal agent for a nine County area and is responsible for the administration of several grants totaling approximately \$500,000, including a \$300,000 bio-terrorism grant. These grant receipts and disbursements inflate the budgetary figures.

8. As indicated by the above chart, Hancock County had reduced property taxes in previous years that is expected to lead, in part, to a reduction of the County's cash reserves in the General Fund by over \$2 million dollars from FY1999 to FY2003. Even with the proposed property tax increases in FY2004, the Hancock County FY2004 budget projects that disbursements will exceed receipts by \$1,945,745. The proposed FY2004 property tax levy represents a significant tax increase. However, due to reductions in property taxes in previous years, the proposed increase appears to be necessary and reasonable to help bring the County into a more favorable financial position.

As indicated by the above chart, the County has not historically expended it's entire proposed General Fund budget. The FY2004 budget projects a deficit (excess of expenditures over revenues) of \$1,945,745. This deficit consist of a budgeted deficit of \$591,966 in the General Fund, \$592,922 in the Rural Fund, \$216,467 in the Mental Health Fund, \$492,890 in the Secondary Roads Fund and \$51,500 in the other Special Revenue Funds.

In FY2005 and subsequent years, the County needs to exercise spending restraint as well as looking for additional areas to reduce expenses to help avoid such significant property tax increases in future years.

**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 OF DECISION**

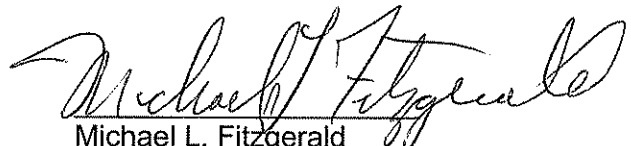
Section 24.28 states in part, "The burden of proof shall be upon the certifying board or the levying board, as the case may be, to show that any new item in the budget, or any increase in any item in the budget, is necessary, reasonable, and in the interest of the public welfare". Hancock County has demonstrated that the budget line items questioned by the petitioners which represented increases over the prior year were necessary, reasonable, and in the interest of the public welfare.


**ORDER**

Based on the financial position of the County, information provided by the parties involved, historical data of Hancock County and the Iowa Code, the State Appeal Board sustains the FY2004 Hancock County Budget as adopted.

**STATE APPEAL BOARD**

Absent  
Cynthia P. Eisenhauer  
Chairperson

  
Michael L. Fitzgerald  
Vice Chairperson

  
David A. Vaudt  
Member

6/2/03  
Date