

STATE APPEAL BOARD

In re: Lyon County)	
Budget Appeal)	Order
)	
)	
FY1999-2000)	May 18, 1999

BEFORE STATE AUDITOR, RICHARD D. JOHNSON; STATE TREASURER, MICHAEL L. FITZGERALD; AND THE DIRECTOR OF THE DEPARTMENT OF MANAGEMENT, CYNTHIA P. EISENHAUER:

The above captioned matter was heard on April 16, 1999 via the Iowa Communications Network before a hearing panel consisting of Ronald J. Amosson, Executive Secretary to the State Appeal Board and presiding officer; Stephen E. Larson, Executive Officer II, Office of State Treasurer, and Katherine L. Rupp, Senior Auditor II, Office of State Auditor.

The hearing was held pursuant to Section 331.436 and Chapter 24 of the Code of Iowa. Lyon County Auditor Kenneth Mellema represented the County and the spokesperson for the petitioners was Gary Twedt, Lyon County farmer and president of the Lyon County Farm Bureau.

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 in part and reduce in part Lyon County's fiscal year 2000 budget as described herein.

PROCEDURAL HISTORY

The FY2000 Lyon County proposed budget summary was published in the Lyon County Reporter, Rock Rapids, Iowa on February 17, 1999, and in the Doon Press, Doon, Iowa, on February 18, 1999. The date of the public hearing for the budget was March 1, 1999, and the budget was adopted that same day.

A petition protesting the certified FY2000 Lyon County budget was filed with the Lyon County Auditor on March 24, 1999 and was received by the State Appeal Board on March 26, 1999. On the petition document, the petitioners outlined two basic objections. They objected to (1) the appropriation of local option sales tax revenues, and (2) excessive ending fund balances. The reason for the first objection, as stated on the petition, was that the voters in the unincorporated area of the county had voted to have 100% of the revenues from the local option sales and services tax be used for property tax relief in the unincorporated area of the County. However, the proposed budget allocated 94% of the revenues for general property tax relief and 6% for specific property tax relief

for the unincorporated area. The reason given for the petitioners second objection was that the county has historically under-budgeted ending fund balances.

DISCUSSION

At the public hearing, Gary Twedt presented the petitioners objections to the FY2000 Lyon County budget.

Mr. Twedt requested that the State Appeal Board direct Lyon County to take three actions.

1. Deposit all of the Local Option Sales Tax (LOST) revenues in the rural services basic fund.
2. Reduce the rural services basic tax levy to \$0.85471 per \$1,000 of taxable valuation.
3. Transfer the Fair Board appropriation to the General Fund.

A summary of Mr. Twedt's remarks follows:

1. The portion of the ballot addressing the allocation of the LOST revenues reads as follows: *"Revenues from the sales and services tax are to be allocated in the unincorporated area of the County of Lyon as follows: One Hundred percent (100%) for property tax relief to be used as an alternative to raising property taxes."*
2. To accomplish 100% property tax relief in the unincorporated area, the County must deposit 100% of the revenues in the rural services basic fund. The current budget deposits 94% of the revenue in the general fund.
3. The reallocation of the local option sales tax revenues from the general fund to the rural services basic fund will not affect the proposed expenditures in the general fund. The general fund ending balance will be able to cover the revenue reallocation from fund balance. Historical trend indicates that the actual ending fund balances will certainly exceed any budget or re-estimated figures for FY 1999 and FY 2000.
4. We request that all of the local option sales tax revenues be deposited in the rural services fund, and the rate be reduced to reflect the transfer.
5. We also request that the budgeted local option sales tax revenue amount of \$200,000 be revised to accurately reflect the recent trend of revenues collected within the County. The re-estimated amount of local option sales tax revenue for FY 1999 is \$275,000 and the actual revenue collected for FY 1998 was over \$290,000. The practice of under-budgeting the local option sales tax receipts will result in increases in the rural services basic ending fund balance.
6. The rural services basic ending fund balance is budgeted at \$793,549. This amount accounts for 81% of the total expenditures and transfers from the rural services basic fund. We realize that a portion of the rural services basic ending fund balance is from a disaster assistance loan that the County received to help with the secondary road expenses incurred during 1996/97. The amount of the assistance loan is approximately \$222,000 and will be repaid over a ten-year period. Even with the loan amount factored out of the ending fund balance, this will still leave a balance of well

over \$571,000. We request that the rural services basic ending fund balance be reduced to \$223,762. This amount would consist of the assistance loan amount, which could be used for cash flow.

7. The third issue is the county fair board appropriation of \$18,000 for FY 2000. The entire fair board appropriation is applied to the rural services basic fund rather than the general fund in violation of Chapter 331.427(2)(f) of the Code of Iowa. We are not asking for any spending reduction for the county fair. We are simply asking that the county fair board appropriation be applied to the proper fund.

In his closing remarks, Mr. Twedt stated that the petitioners objected to the build up of the general fund balances for a future communication center since it represented a tax on current residents that would benefit future residents. He would prefer the County put the decision to a vote of the residents on issuing bonds to fund the project.

Lyon County's responses to part one of the petitioners' concerns are as follows:

1. The Local Option Sales Tax statute does not limit the County use of funds per Chapter 422B.10(6) of the Iowa Code.
2. The local option sales tax ballot language was faulty as evidenced by wording changes in the Secretary of State's Administrative Rules, effective August 7, 1998. The County believes this will bring the ballot in agreement with the statute. The County felt the intention of the change was clear.
3. The General Fund provides services to the unincorporated residents.
 - A. The Sheriff provides uniformed patrol services for the unincorporated areas only. The cities have their own police force or are charged by the Sheriff's department for those services. If LOST revenues are to be designated for Rural Services, the balance of the Uniformed Patrol Services of \$402,475 should be paid by the Rural Services Fund.
 - B. Ambulance Services are now funded through the General Basic Fund. The value of volunteer time at the ambulance service is \$310,066. This should also be funded by the Rural Services Fund.
 - C. Township Officials is clearly a Rural Services Fund expenditure. Per diem for township officials for attending township meetings budget line has been \$3,000 for the last five years.
 - D. Land Use Planning and County Zoning are clearly a Rural Services Fund function. Cities have their own zoning rules, regulations, and officers.
4. Part two of the appeal addresses fund balance reserves. Fund balances are needed for assisting in cash flow the first three months of the fiscal year, capital projects such as the new jail and communication center and road projects and bridges, new equipment, and unforeseen expenses such as blizzards, floods, or costly criminal trials.
5. Lyon County's levy rates are consistently among one of the six lowest levy rates in the state of Iowa and we rely on our reserve fund balances.
6. General Basic Fund is reserved for the construction of a law enforcement communication center. Current reserves are insufficient to fund a new

communication center. If reserves are allowed to grow, there is a possibility of funding the facility in the next few years.

- A. The reserved Rural Services Fund balance is used to fund current and projected Secondary Roads expenditures. The Rural Services Fund balance is reserved for \$221,864 for a non interest bearing loan that must be transferred into the Secondary Road Fund.
 - B. Secondary Road Fund reserves are not available for building projects and are used for current and projected road projects. The county budget needs to tax property at 75% of \$3.00375 (\$2.25281) or lose Road Use Tax Dollars per Code Sections 312.2 & 331.429.
 - C. Mental Health Fund Reserves are not available for building projects. The County must tax at maximum or lose growth funds. The State determines the level of property taxes that qualify for growth funds.
7. The County stated that a county government can not go to a bank and borrow money when they are short. Counties must have reserves in place. County also stated that they do purposely underestimate revenue 19% and overbudget expenditures 10% in the General Fund so that they can build up reserves for contingencies.

In supplemental information provided to the State Appeal Board, the February 8, 1999 minutes included the establishment of a separate expendable trust fund for the jail facilities through a \$200,000 transfer from the General Fund.

Also, the County provided information about the Rural Services Fund balance being the disaster relief fund within Lyon County. The Rural Services Fund balance is held for catastrophic incidents that are usually weather related. The County discussed the winter of 1996/1997 and the extra costs that the County had to fund for snow and ice removal. The only aid the County received was a no interest loan from the State of Iowa.

The county also stated that if the Rural Services Fund levy would be reduced it would affect the Secondary Roads transfer to an amount less than the 75% minimum.

The county also provided a timeline for the construction of the communication center jail project which included construction in the summer of 2000. The county stated that \$1,000,000 of fund balances were to be used to finance the project with an anticipated \$1,500,000 in bonds that would have to be issued.

FINDINGS OF FACT

1. Section 24.28 of the Iowa Code states in part: "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 levying board, as the case may be, 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." The requested

property tax levy for the rural services basic fund was higher for Fiscal Year 2000 than the tax levied in Fiscal Year 1999. Accordingly, the county bears the burden of proof to show that the property taxes in the rural basic fund should be increased.

2. The ballot language creating the local option sales and services tax stated that the tax rate shall be 1% effective October 1, 1998, the tax shall be imposed in the unincorporated area of the County, *revenues from the LOST are to be allocated in the unincorporated area, and the revenues are to be used for property tax relief* (emphasis added).

3. Section 331.427(2)(f) of the Iowa Code states that the board may make appropriations from the general fund for expenses relating to county fairs.

4. The County has hired a project manager for the proposed construction of a communication center jail facility.

5. Section 331.421 of the Iowa Code state that rural county services are "the services which are primarily intended to benefit those persons residing in the county outside of incorporated city areas..."

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.

ORDER

Based on the financial position of the County, information provided by the parties involved, the wording on the LOST ballot, and in reviewing the historical data of Lyon County, the State Appeal Board orders the following action:

General Fund:

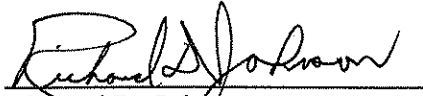
Include General Fund disbursements of \$18,000 for support of the county fair previously included in the Rural Services Basic Fund. Remove the LOST revenue from the General Fund. The County has demonstrated that the fund balance in the General Fund will be used in the FY 2000 and FY 2001 for a communication center jail project.

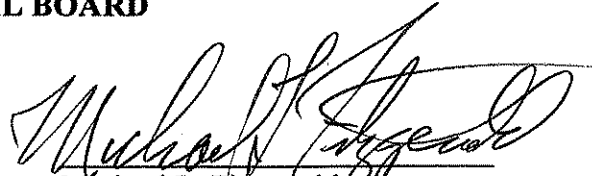
Rural Basic Fund:


LOST revenues are to be deposited in the Rural Services Basic Fund in compliance with the ballot. The County may expend the LOST revenues on expenditures which meet statutory criteria for the Rural Services Basic Fund, even though previously budgeted in the General Fund.

Reduce the Rural Services tax levy by \$350,000. This reduction is made because of the significant ending fund balance (81% of the estimated transfers and expenditures) in the Rural Services Fund as estimated by the County. The ordered tax reduction of \$350,000 will reduce the estimated fund balance to 28% of the estimated transfers and expenditures.

STATE APPEAL BOARD


Richard D. Johnson
Chairperson


Michael L. Fitzgerald
Vice Chairperson


Cynthia P. Eisenhauer
Member

May 18, 1999
Date

**Lyon County
Fiscal 2000 Budget Protest
General Fund Analysis**

Property Taxes Levied:

Fiscal Year	Taxes Levied	Dollar Change Prior Year	Percent Change Prior Year	Percent Change from 1995	Net Current Property Taxes
1995	\$ 1,389,764				\$ 1,259,139
1996	1,441,994	52,230	3.758%	3.758%	1,098,213
1997	892,506	(549,488)	-38.106%	-35.780%	(1) 803,295
1998	937,327	44,821	5.022%	-32.555%	850,832
1999	1,500,000	562,673	60.030%	7.932%	1,379,456
2000	1,558,800	58,800	3.920%	12.163%	1,438,256
2000 - Alt.	1,558,800	58,800	3.920%	12.163%	(2) 1,438,256 (2)

(1) Beginning in FY97, mental health is budgeted in the MH-DD Services Fund.

Other County Tax (Includes LOST)

Fiscal Year	Budget	Actual/Estimated	Percent Difference	Source of Actual Amounts
1995	1,111	3,588	222.952%	County
1996	1,100	1,183	7.545%	County
1997	850	82,652	9623.765%	County (2)
1998	146,186	290,968	99.040%	County
1999	180,200	275,700	52.997%	County re-estimate
2000	187,600	287,022	52.997%	Estimate (1)
2000 - Alt	600	1,100		Estimate (3)(4)

(1) FY 99 was the first budget with history to estimate LOST. Used FY 99 percentage change.

(2) Fiscal year 1997 was the first year for local option sales tax.

(3) Reduce by \$187,000 for LOST moved to Rural Services Fund.

(4) Estimated at FY 1996 actual which is last year without LOST revenues.

Other Receipts

Fiscal Year	Budget	Actual/Estimated	Percent Difference	Source of Actual Amounts	Transfers In
1995	\$ 953,076	1,279,658	34.266%	County	\$ -
1996	967,321	1,608,007	66.233%	County	-
1997	888,547	1,291,807	45.384%	County	-
1998	934,674	1,174,813	25.692%	County	276
1999 - Alt	926,766	1,164,871	25.692%	Estimated (1)	-
2000 - Alt	994,092	1,249,494	25.692%	Estimated (1)	-

(1) Estimated at 125.692% of budget which is the 1998. County has shown a trend toward more accurate budgeting.

**Lyon County
Fiscal 2000 Budget Protest
General Fund Analysis**

Disbursements

Fiscal Year	Budget	Actual/Estimated	Percent Difference	Source of Actual Amounts	Transfers Out
1995	\$ 3,325,051	2,996,799	-9.872%	County	\$ 60,500
1996	3,367,011	2,979,744	-11.502%	County	50,000
1997	2,469,323	2,231,008	-9.651%	County	76,000
1998	2,584,949	2,325,747	-10.027%	County	50,276
1999	2,773,414	2,487,004	-10.327%	Estimated (1)	50,000
2000	2,875,609	2,578,645	-10.327%	Estimated (1)	300,000
2000-Alt	2,603,609	2,334,734	-10.327%	Estimated (1) (2)(3)	300,000

- (1) Estimated at 89.673% of budget which is the average of 1995 through 1998.
(2) Budgeted disbursements increase by \$18,000 move fair board expenditures from rural basic.
(3) Moved \$290,000 in disbursement to the Rural Fund.

Fund Balances

Fiscal Year Ended June 30,	Budget	Actual/Estimated	Difference	% Budgeted Balance to Disbursements	% Actual Balance to Disbursements
1995	\$ 321,404	1,513,201	(1,191,797)	9.666%	50.494%
1996	30,035	1,190,860	(1,160,825)	0.892%	39.965%
1997	25,016	1,061,606	(1,036,590)	1.013%	47.584%
1998	1,216	1,002,472	(1,001,256)	0.047%	43.103%
1999	342,325	1,285,495	(943,170)	12.343%	51.689%
2000	547,049	1,381,623	(834,574)	19.024%	53.579%
2000 - Alt.	632,049	1,339,611	(707,562)	24.276%	51.950% (1)

- (1) Fund balance includes \$800,000 for jail project. \$200,000 of jail project in expendable trust fund. Undesignated balance is \$539,611 which is 23.11% of disbursements.

**Lyon County
Fiscal 2000 Budget Protest
Rural Basic fund Analysis**

Property Taxes Levied:

Fiscal Year	Taxes Levied	Dollar Change Prior Year	Percent Change Prior Year	Percent Change from 1995	Net Current Property Taxes
1995	\$ 922,338				\$ 843,870
1996	953,793	31,455	3.410%	3.410%	859,174
1997	994,946	41,153	4.315%	7.872%	899,946
1998	1,028,036	33,090	3.326%	11.460%	938,688
1999	948,194	(79,842)	-7.766%	2.803%	877,828
2000	1,075,187	126,993	13.393%	16.572%	1,004,821
2000 - Alt.	725,187	(223,007)	-23.519%	-21.375%	(1) 654,821

(1) Reduce property taxes by \$350,000.

Other County Tax (Includes LOST)

Fiscal Year	Budget	Actual/Estimated	Percent Difference	Source of Actual Amounts
1995	-	-	#DIV/0!	County
1996	1,020	75	-92.647%	County
1997	20	53	165.000%	County (2)
1998	25	30	20.000%	County
1999	20	52	160.000%	County re-estimate
2000	12,620	19,308	52.997%	Estimated (1)
2000 - Alt	12,620	290,000		Petitioners request-FY98 actual (3)

(1) Estimated at 152.997% which is the General fund 1999 percentage change.

(2) Fiscal year 1997 was the first year for local option sales tax.

(3) Petitioners requested all LOST revenue to be recorded in Rural and a more accurate number.

Other Receipts

Fiscal Year	Budget	Actual/Estimated	Percent Difference	Source of Actual Amounts	Transfers In
1995	\$ 84,750	96,691	14.090%	County	
1996	84,850	112,369	32.433%	County	
1997	89,800	105,117	17.057%	County	
1998	98,675	113,394	14.917%	County	
1999	109,770	131,074	19.408%	Estimated (1)	(2)
2000	106,435	127,092	19.408%	Estimated (1)	
2000 - Alt.	106,435	127,092	19.408%	Estimated (1)	

(1) Estimated at 119.408% of budget which is the average of 1995 through 1998.

(2) Removed the disaster assistance loan which the County was moving to the Secondary Road fund \$221,865

**Lyon County
Fiscal 2000 Budget Protest
Rural Basic fund Analysis**

Disbursements

Fiscal Year	Budget	Actual/ Estimated	Percent Difference	Source of Actual Amounts	Transfers Out
1995	\$ 48,502	43,087	-11.164%	County	\$ 850,000
1996	51,360	49,984	-2.679%	County	850,000
1997	116,770	95,782	-17.974%	County	850,000
1998	104,220	97,713	-6.244%	County	850,000
1999	78,210	69,852	-10.686%	Estimated (1)	875,000
2000	101,892	91,004	-10.686%	Estimated (1)	875,000
2000-Alt	373,892	333,938	-10.686%	Estimated (1) (2)(3)	875,000

(1) Estimated at 89.314% of budget which is the average of 1995 through 1998.

(2) Reduced expenditures \$18,000 for fair board.

(3) Increase disbursements by \$290,000 for disbursements transferred from General Fund

Fund Balances

Fiscal Year Ended June 30,	Budget	Actual/ Estimated	Difference	% Budgeted Balance to Disbursements	% Actual Balance to Disbursements
1995	\$ 182,054	179,357	2,697	21.597%	20.083%
1996	252,966	250,991	1,975	29.116%	27.888%
1997	304,243	310,325	(6,082)	26.642%	32.811%
1998	406,659	414,724	(8,065)	35.425%	43.761%
1999	431,245	478,826	(47,581)	31.487%	50.677%
2000	793,549	664,043	129,506	54.510%	68.741%
2000 - Alt.	215,609	341,801	(126,192)	22.071%	28.273%

**Lyon County
Fiscal 2000 Budget Protest
Rural Basic fund Analysis**

Property Taxes Levied:

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1996	953,793	31,455	3.410%	3.410%	859,174
1997	994,946	41,153	4.315%	7.872%	899,946
1998	1,028,036	33,090	3.326%	11.460%	938,688
1999	948,194	(79,842)	-7.766%	2.803%	877,828
2000	1,075,187	126,993	13.393%	16.572%	1,004,821
2000 - Alt.	725,187	(223,007)	-23.519%	-21.375%	(1) 654,821

(1) Reduce property taxes by \$350,000.

Other County Tax (Includes LOST)

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1996	1,020	75	-92.647%	County
1997	20	53	165.000%	County (2)
1998	25	30	20.000%	County
1999	20	52	160.000%	County re-estimate
2000	12,620	19,308	52.997%	Estimated (1)
2000 - Alt.	12,620	290,000		Petitioners request-FY98 actual (3)

(1) Estimated at 152.997% which is the General fund 1999 percentage change.

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2000	106,435	127,092	19.408%	Estimated (1)	
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**Lyon County
Fiscal 2000 Budget Protest
Rural Basic fund Analysis**

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2000	106,435	127,092	19.408%	Estimated (1)	
2000 - Alt.	106,435	127,092	19.408%	Estimated (1)	

(1) Estimated at 119.408% of budget which is the average of 1995 through 1998.

(2) Removed the disaster assistance loan which the County was moving to the Secondary Road fund \$221,865