

STATE APPEAL BOARD

In Re:	Manson Northwest Webster Community School District Budget Appeal)	Order
)	
)	
)	
	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 22, 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 Donna Kruger, Senior Auditor II, Office of the State Auditor.

The spokespersons for the petitioners were Kurt Benson and Joe Condon. Bill Garner, Arrowhead AEA Chief Administrator, and Superintendent Mark Egli represented the Manson Northwest Webster 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 Manson Northwest Webster Community School District's fiscal year (FY) 2003 budget as described herein.

PROCEDURAL HISTORY

The FY2003 Manson Northwest Webster Community School District proposed budget summary was published in The Calhoun County Journal Herald on March 7, 2002. The budget was adopted on March 20, 2002.

A petition protesting the certified FY2003 Manson Northwest Webster Community School District budget was filed with the Webster County Auditor on April 25, 2002, and was received by the State Appeal Board on April 26, 2002. On the petition document, the petitioners objected to the following:

1. There is a \$500,000 difference in the ending fund balance of the FY2002 budget and the FY2003 beginning fund balance as published in the Manson Journal Herald.
2. It is of great concern that the School Board chose to raise the budget by almost \$1 million or 11.5% when the elementary school at the Barnum center is closing.

The reasons for their objections as stated on the petition document are as follows:

1. Line 39 of the ending fund balance was \$1,342,903 but the beginning fund balance was \$725,619. By changing the figure by \$500,000 it made the figure look smaller and the public was misled to think that the budget was \$8,928,522 instead of \$9,428,890.
2. The Instruction line shows an increase of 13% when the School District has been eliminating elementary school positions. In the past year the patrons of Manson Northwest Webster Community School District have had a 13% state income surtax for FY2003, a 3.8% increase in property tax and for the past four years a .5 cent sales tax which places too great a burden on the District.

DISCUSSION

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

PETITIONERS

Kurt Benson and Joe Condon gave the petitioners' opening statement, in which they identified the petitioners' requests to the State Appeal Board.

1. The petitioners asked that the State Appeal Board consider the legality of a public notice that contains an error.
2. The petitioners want the State Appeal Board to look at total expenditures and review the amount of increases that have occurred and reduce the proposed property tax increase to the FY2002 level.

The budget published in the Manson Journal Herald showed the ending fund balance for FY2002 as \$1,342,903 but the beginning fund balance for FY2003 was \$725,619 for a difference of \$617,284. The budget that the School Board adopted and filed with the Webster County Auditor showed the beginning fund balance for FY2003 and the ending fund balance for FY2002 to be the same at \$1,342,903. The petitioners feel that this error in the published budget misled the public. The petitioners attended the budget hearing on March 20, 2002 and were told that the increase in the budget was due to an addition of flow through dollars for the Rabiner Boys Ranch. The petitioners dispute this claim and are confident that Line 23 of the adopted FY2003 budget for Instruction does not include the flow through money for the Rabiner Boys Ranch.

Secondly, the petitioners were concerned that the FY2003 budget has increased by \$1,383,649 over the FY2002 budget. This is a 17% overall increase from the FY2002 budget. Neither of those figures included the flow through monies for the Rabiner Boys Ranch. The petitioners assert that flow through monies will not change the final increase percentages because expenditures and revenues will offset each other. Line 23 (Instruction) of the adopted FY2003 budget showed an increase from the FY2002 budget of \$868,420 or a 21% increase. The petitioners are shocked by the increase when the School District has claimed to make cost savings measures. If cuts were made, the petitioners expect that they would be reflected in a reduction of expenditures. To date, there have been no decreases, only a 17% increase in the General Budget from the FY2002 budget. The petitioners feel that the School District has not made as many cuts to the FY2003 budget as possible and that the School District could do more to curb spending.

The petitioners, in closing, stated that they are overwhelmed that the taxes and the budget are skyrocketing and that there appears to be an ever-increasing tax burden on the District. They find it unfortunate that they cannot trust public notices published in the paper and that the school administrators fail to furnish accurate financial information.

MANSON NORTHWEST WEBSTER COMMUNITY SCHOOL DISTRICT RESPONSE

Superintendent Mark Egli gave the School District's response. In 2000, Mark Egli accepted the position of superintendent for the Manson Northwest Webster Community School District. He soon realized the School District faced two problems. The first one was because reorganization incentives had ended with the 1998-1999 fiscal year, yet the School District had done nothing to match this reduction in revenue with any reduction in expenditures. His projection in the fall of 2000 was that the District would end the year with a negative General Fund Balance and would need reductions and revenue enhancements to recover. The District's General Fund balance will be increasingly negative at the end of FY2002 and the State's removal of the \$104,000 in state foundation aid has further exacerbated the problem. In response to this crisis, the School Board approved additional cash reserve levy for FY2003 in an attempt to gain an adequate General Fund balance. These measures are necessary as the School District prepares itself for another upcoming problem, that of declining enrollment.

Furthermore, the discrepancy between total fund balances, ending FY2002 and beginning FY2003, in the published budget was an error. He and the business manager were attempting to revise the budget more toward an actual figure rather than budget capacity and overrode the program and that is when the error occurred. They corrected the error in cash balances before sending the certified budget to the auditor. There was no attempt to deceive the public and would have republished the budget if he had realized this error at the time. Also, this correction did not affect the tax rate.

The increase in the School District's budget and to Line 23 (Instruction) in particular can be attributed almost entirely to the Rabiner Treatment Center located within the Manson Northwest Webster Community School District. The Center has grown from 7 students to 60 students over the course of the school year. There was no way that the School District could have predicted this growth. They have amended the FY2002 budget to increase the Instruction expenditure category upward from \$4,085,930 to \$4,750,000 and this, in return, would decrease the FY2002 estimated end of year cash balance in all funds to \$872,303 a more realistic figure. If the Center continues to grow rapidly, the School District will be amending the projected figure for Instruction in the upcoming year as well. Changing these figures will not change the tax rate and the School District's need for additional dollars in the General Fund.

Moreover, the School District has been forced to defer the payment of teacher salaries into the next fiscal year. At the end of FY2002, two months of teacher salaries will lie in FY2003. Deferring expenses has allowed the District to avoid a negative unspent balance while the negative fund balance increases.

The Superintendent and business manager understand the School District's financial position and are using numerous measures to track it. They ask the State Appeal Board not to interfere with the steps that the School District has taken and, of which, a large majority of its patrons approve.

Bill Garner went on to explain the school budgeting process in greater detail. He asserts that there is confusion with the overall budget that is published in the paper and the line item budget. He maintains that the published budget should contain the school's spending capacity, not spending expectations. Superintendent Egli stated those not fully support this ideology, however, and therefore created a budget based more on actual projections than capacity. He believes the line item budget, not the published budget is the control budget that helps control revenue and spending in the School District.

FINDINGS OF FACT

1. Annually, the Manson-Northwest Webster 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." Based on the information provided by the school district, they met the burden of proof.
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 24.30 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 issues outside of the authority given under Chapter 24.30.
6. The School District certified a budget that results in a 7.7% increase in property tax dollars and a 10.2% increase in the property tax rate. Following is a summary of the School District's adopted budget regarding property taxes:

Levy Description	FY 2002 Final		FY 2003 Prelim		% Increase	
	Dollars	Rate	Dollars	Rate	\$	Rate
Levy to Fund Combined District Cost	2,077,188		2,065,997		-0.5%	
Instructional Support	43,082		46,058		6.9%	
Cash Reserve	225,000		432,521		92.2%	
SUBTOTAL GENERAL FUND LEVY	2,345,270	9.96164	2,544,576	11.05593	8.5%	11.0%
Management	75,000	0.31857	85,000	0.36932	13.3%	15.9%
Voted Physical Plant & Equipment	157,658	0.66966	154,204	0.67000	-2.2%	0.1%
Regular Physical Plant & Equipment	77,653	0.32983	75,951	0.33000	-2.2%	0.1%
Debt Service	0	0.00000	0	0.00000	0.0%	0.0%
GRAND TOTAL	2,655,581	11.27970	2,859,731	12.42525	7.7%	10.2%

7. The School District increased its Cash Reserve Levy from \$225,000 to \$432,521, or 92.2%, to offset the FY2002 state aid reduction and correct a negative fund balance position. The School District's FY 2001 General Fund Cash Ending Balance was \$427,342, or 7.6% of expenditures.

8. Iowa Administrative Code 289-6.5(3) defines the cash reserve levy limit established by the School Budget Review Committee and under these provisions, the Manson-Northwest Webster Community School District's FY2003 Cash Reserve Levy could be \$986,226. If the School District's Cash Reserve Levy is not increased from the 2002 amount, total property taxes would go down \$3,371 from FY2002 to FY2003.

9. The School District certified a budget that results in FY2003 expenditures that are \$851,196, or 12%, more than the original FY2002 budgeted expenditures. The School District amended the FY2002 budget for Instruction expenditures for increases due to the Rabiner Treatment Center. When the amended FY2002 budget is compared to FY2003, total expenditures are increased by \$380,596, or 5%. The School District expects additional cost increases for the Rabiner Treatment Center in FY2003.

Summary of the School District's budgets are as follows:

	FY 2002	FY 2003	% Change
	Re-estimated		
*Instruction	4,750,000	4,954,400	4.3%
Student Support Services	155,500	160,500	3.2%
Instructional Staff Support Services	285,500	290,500	1.8%
General Administration	202,500	205,500	1.5%
Building Administration	306,000	310,000	1.3%
Business Administration	45,000	47,000	4.4%
Plant Operation and Maintenance	700,000	730,000	4.3%
Student Transportation	335,000	345,000	3.0%
Central Support Services	0	0	0.0%
*Total Support Services	2,029,500	2,088,500	2.9%
*Noninstructional Programs	410,500	460,500	12.2%
Facilities Acquisition and Construction	150,000	200,000	33.3%
Debt Service	0	0	0.0%
AEA Support - Direct to AEA	246,912	264,108	7.0%
*Total Other Expenditures	396,912	464,108	16.9%
Total Expenditures	7,586,912	7,967,508	5.0%
Other Financing Uses: Operating Transfers Out	0	0	0.0%
Total Expenditures & Other Uses	7,586,912	7,967,508	5.0%
Ending Fund Balance	872,303	1,461,382	67.5%
Total Requirements	8,459,215	9,428,890	11.5%

10. Audit reports for both FY2000 and FY2001 disclosed that the School District's expenditures exceeded the budget. Those expenditure categories exceeded were the Other Expenditures and Non-Instructional Programs.

11. The School District's published budget had an error in the FY2003 beginning fund balance so consequently the FY2003 ending fund balance was also incorrect. There is no requirement to republish the budget to correct this error. Chapter 24.15 of the Code of Iowa does prohibit increases in the taxes levied over the estimate published however; the correction did not increase property taxes or total expenditures.

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 DECISIONS

The School District's budget and property tax levy were adopted by the School Board in accordance with statutory provisions and a public meeting was held where the opportunity was provided for public input. The School District's correction to the FY2003 beginning and ending fund balances was appropriate. The correction did not increase property taxes or total expenditures.

The School District provided information on the increase in the FY2003 Cash Reserve Levy to replenish the state aid reductions and correct a negative fund balance. The School District's FY2001 General Fund ending fund balance of \$427,342 it was 7.6% of expenditures. Without the cash reserve levy tax increase, the estimated General Fund ending balance would be \$188,551 or 2.8% of expenditures.

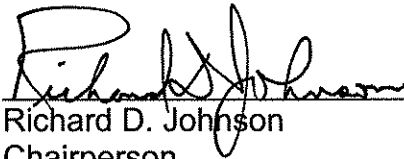
	Expenditures	Ending Fund Balance	Percent
FY 2001 General Fund Budget Actual	\$5,654,271	\$427,642	7.6%
FY 2002 General Fund Budget Estimate	\$6,515,512	\$264,128	4.1%
FY 2003 General Fund Budget Estimate	\$6,791,108	\$866,672	12.8%
FY 2003 General Fund Budget Estimate Revised	\$6,791,108	\$396,072	5.8%
FY 2003 General Fund Budget Estimate without CR Levy Increase	\$6,791,108	\$188,551	2.8%

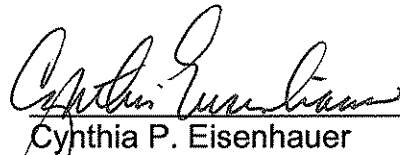
Iowa Code chapter 24 requires all public bodies that have the power to levy a tax, including school districts, to publish budget estimates for citizen review. Estimated budgeted expenditures adopted and certified should be as accurate and reliable as possible.

ORDER

Based on the financial position of the School District and information provided by the parties involved, the State Appeal Board sustains the FY2003 Manson Northwest Webster Community School District Budget as adopted. However, the State Appeal Board also reminds the School District that budget estimates should be based on the true estimated expenditures and budget amendments should be filed before expenditures exceed the budget.

STATE APPEAL BOARD


Richard D. Johnson
Chairperson


Cynthia P. Eisenhower
Vice Chairperson

Absent
Michael L. Fitzgerald
Member

June 3, 2002
Date