

STATE APPEAL BOARD

In Re:	Ringgold County Hospital) Budget Appeal) FY 2015)	Order April 28, 2014
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BEFORE THE DIRECTOR OF THE DEPARTMENT OF MANAGEMENT, DAVID ROEDERER; STATE AUDITOR MARY MOSIMAN; AND STATE TREASURER MICHAEL L. FITZGERALD.

A hearing on the above captioned matter was held pursuant to the provisions of Chapter 24 of the Code of Iowa on April 10, 2014. The hearing was before a panel consisting of Mr. Luke Donahe, Investment Officer, Office of the State Treasurer and presiding Hearing Officer; Ms. Carrie Johnson, Property Valuation and County Budget Administrator, Department of Management; and Ms. Suzanne Dahlstrom, Manager, Office of the State Auditor.

The primary spokesperson for the petitioners was Mr. Kevin Kilgore. The primary spokesperson for the Ringgold County Hospital was the Ringgold County Hospital Chief Financial Officer Teresa Roberts.

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 Ringgold County Hospital fiscal year (FY) 2015 budget as described herein.

PROCEDURAL HISTORY

The FY2015 Ringgold County Hospital proposed budget summary was published in the Mount Ayr Record-News on February 27, 2014. The budget was adopted at a public meeting held on March 10, 2014.

A petition protesting the certified FY2015 Ringgold County Hospital budget was filed with the Ringgold County Auditor on March 25, 2014 and was received by the State Appeal Board on March 26, 2014. The petitioners' objections and their reasons listed on the petition document are as follows:

- Objection number one stated the adopted budgeted invokes a larger property tax levy rate than the hospital is allowed to collect.
- Objection number two stated Form 676 (Sheet 1 of 2) columns I and AW do not match.
- Objection number three stated the Iowa Department of Management (IDOM) Form 676 ADOPTED BUDGET SUMMARY provides no actual budget balance for any fund or as a total (lines E&F).

- Objection number four stated the public record advises of a 3% pay increase and a 21% increase in employee health insurance costs. The budget reflects a \$546,810 increase in budgeted deficit.

The petitioners indicated the best interests of the taxpayers of Ringgold County will be best served by reducing the hospital budget rather than continuing to overtax to support increase deficit spending.

DISCUSSION

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

PETITIONERS

Mr. Kilgore requested the hearing be terminated because the Ringgold County Hospital Board did not attend. Mr. Donahe stated the hearing was informal and was intended to gather information needed to assist the State Appeal Board in rendering a decision. Therefore, the hearing would continue.

During his opening remarks, Mr. Kilgore referenced Petitioners' Exhibit 2, which contains pages from the FY2015 adopted Ringgold County Hospital budget as well as a copy of an article from the Mt Ayr Record News dated March 20, 2014.

- Objection number one stated the adopted budget invokes a larger property tax levy rate than the Hospital is allowed to collect. Mr. Kilgore stated FICA and IPERS may not be levied by hospitals and the Tort Liability/Insurance Levy amount is not supported by the Supplemental Detail pages.
- Objection number two stated Form 676 (Sheet 1 of 2) columns I and AW do not match.
- Objection number three stated the Iowa Department of Management (IDOM) Form 676 ADOPTED BUDGET SUMMARY provides no actual budget balance for any fund or as a total (lines E&F). Repeat from FY2014 budget protest. Mr. Kilgore stated the budget reflects a \$30,223 over expenditure in FY2013.
- Objection number four stated the public record advises of a 3% pay increase and a 21% increase in employee health insurance costs. The budget reflects a \$546,810 increase in budgeted deficit. Mr. Kilgore asserted the percentage reduction in levy rate is equal to the percentage increase in taxable valuation.

Mr. Kilgore asserted the FY2014 budget protest included Objection 2 which read: Restricted Funds line 9 from IDOM Form 676 Adopted Budget Summary has no carryover balance; Restricted Use Funds lines 2-8 are transferred to the General Fund rather than being expended (accounted for) in their own fund. He stated therefore, legitimacy of the tax levies aside (Objection 1 above), there is no ability to ensure the taxes are actually used for the purpose for which taxed given transfer to the General Fund.

RINGGOLD COUNTY HOSPITAL RESPONSE

The Ringgold County Hospital's Chief Executive Officer, Gordon Winkler, introduced himself and stated he believed they do follow statutory requirements. He then passed the floor to Ms. Teresa Roberts to serve as the primary spokesperson for the Hospital. In the response to the petition, she expanded upon the written remarks submitted prior to the hearing in the Hospital's Exhibit 1.

Ms. Roberts' written comments and statements presented the following response to the petitioners' objections:

- In response to Objection 1, Ms. Roberts indicated the Hospital is a Chapter 347 Hospital under the Iowa Code and is based on a tax levy which is 58% of the allowable asking defined in Chapters 347 and 97 of the Iowa Code. She referenced the following statutory references for property tax levy authority:
 - i. Iowa Code section 347.7(1)(a) allows for a General Fund levy rate not to exceed \$0.27/\$1,000 of taxable valuation for the "improvement, maintenance, and replacement of the hospital, as certified by the board of hospital trustees."
 - ii. Iowa Code section 97B.9(3) allows a political subdivision to pay its IPERS contribution from tax dollars.
 - iii. Iowa Code section 97C.10 allows a political subdivision to levy property tax to meet its FICA obligation.
 - iv. Iowa Code section 347.13(1) allows political subdivisions to levy property tax to pay the premium costs on various insurance obligations.
 - v. Iowa Code section 347.7(3) allows hospital trustees to levy a tax not to exceed \$0.27/\$1,000 of taxable valuation for "support of ambulance services as authorized in section 347.14, subsection 8."

Ms. Roberts stated the Hospital has the levy authority as described in the above Iowa Code sections, but only levied at the following amounts:

Levy Source	Allowed Amount	Actual Levy Amount	Amount Not Levied
General	\$75,105	\$75,105	\$0
Ambulance	\$75,105	\$75,105	\$0
FICA	\$382,747	\$322,982	\$59,765
IPERS	\$551,014	\$427,621	\$123,393
Tort Liability	\$1,123,331	\$379,658	\$743,673
Total Levy	\$2,207,303	\$1,280,472	\$926,831
Total per \$1,000 of taxable valuation	\$7.93515	\$4.60324	\$3,331.91 or 41.99%

- In response to Objection 2, Ms. Roberts stated Columns I and AW on Form 676 (Sheet 1 of 2) are not supposed to match as Column I represents the amount of funds to be raised by property tax and Column AW represents the amount of funds to be raised by property tax plus utility replacement excise tax. The Total "Property Taxes Levied" in Column EW matches Column I as intended by both the forms and the instructions for the forms. Ms. Roberts directed attention to her exhibit, which included a sheet from the IDOM budget form instructions illustrating this point.
- In response to Objection 3, Ms. Roberts stated the Ringgold County Hospital must follow enterprise accounting rules which do not support fund accounting. Therefore, the only balance reported on Form 676 is the General Fund. She indicated the Hospital does not use Restricted Use Funds listed on lines 4, 6, 7 and 9 and, therefore, there is no carryover balance. She stated lines 2 and 3 are for FICA and IPERS and both Iowa Code section 97B.9 (3) and the IDOM budget instructions direct FICA and IPERS contributions to be paid from the same fund as employee salaries. Therefore, per the IDOM instructions, a transfer must be made and the Hospital transferred the levy amount to the General Fund where the salary costs are expended and, therefore, there is no carryover balance for FICA and IPERS.
- In response to Objection 4, Ms. Roberts stated over 81% of payroll costs at the Hospital are for professional staff with advanced degrees or certifications and specialized skills. She asserted the Hospital's recent financial position resulted in little to no raises, which hampers the ability to meet market demands in most job classifications. A 1 ½% raise was given the last month of FY2013 and another 1 ½% raise was given during the third month of FY2014. She stated wages and benefits account for 53% of the Hospital's annual expenditures.

In regards to the health insurance increase, Ms. Roberts stated the Hospital must increase its allocation to the self-insured health plan by 21% to meet FY2015 year-end account balance requirements as determined by Iowa Insurance Division regulations. The levy for Tort Liability, which includes the cost of the health insurance plan, increased \$5,095. Ms. Roberts indicated if the Board of Trustees levied for the entire added cost of health insurance, the levy would have increased \$199,775.

In response to concerns over the budgeted deficit, Ms. Roberts listed a variety of strategies the Hospital has undertaken to improve its financial position. The Hospital is part of a State of Iowa Flex Grant program with a study conducted by a healthcare financial consulting firm to improve hospital operations. The Hospital has worked with an audit firm, which resulted in implementation of numerous changes to maximize Medicare reimbursement. She stated six full-time equivalents (FTEs) have been eliminated, maintenance agreements have been negotiated downward and supply costs have been reduced. She indicated implementation of the Electronic Health Record (EHR) to meet federal regulations decreased physician productivity and impacted revenues. Ms. Roberts asserted the interest rate charge on revenue bonds to fund the new facility completed during FY2010 are high and the Hospital continues to work to obtain more favorable rates. The Hospital budget also reflects depreciation and amortization costs associated with the new facility. On the revenue side, Ms. Roberts stated the Hospital is undertaking a variety of new services to increase revenue and meet the community's needs.

PETITIONERS' REBUTTAL

In his rebuttal to the Hospital, Mr. Kilgore referenced Petitioners' Exhibit 2A distributed at the hearing. He indicated he had not seen the budget instructions provided by the hospital. Mr. Kilgore then referenced the newspaper article regarding the Hospital budget and the statement "Overall the budget showed...a net cash flow of \$1.272 million." Mr. Kilgore then also stated the budget taxes for \$1,280,472.

MEMBERS OF THE PUBLIC

During the public comment time, one individual expressed their belief the IDOM budget instructions should be made available to the public.

FINDINGS OF FACT

1. Iowa Code section 24.27 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 Iowa Code sections 24.28 and 24.29, a hearing was scheduled and conducted.
2. The Ringgold County Hospital FY2015 budget reflects the same amount of property tax and utility tax dollar request as FY2014 at \$1,280,472. The FY2015 budget reflects \$32 more in property tax than in FY2014. The FY2015 overall total tax rate decreased to \$4.60325/\$1,000 of taxable valuation from the overall rate of \$4.69386/\$1,000 of taxable valuation in FY2014.
3. For the FY2015 budget, the Hospital levied the maximum General Fund tax rate of \$0.27/\$1,000 of taxable valuation and levied the maximum Ambulance rate of \$0.27/\$1,000

of taxable valuation. These rates are the same as FY2014, but generated \$1,410 more property tax revenue each due to increased taxable valuation.

In FY2015, property tax levied by the Hospital is approximately 8% of its subtotal of Net Other Receipts of \$16,017,395.

4. Iowa Code section 97B.9(4) allows every political subdivision to levy a tax sufficient to meet its IPERS obligations if any tax is needed. In addition, Iowa Code section 97C.10 allows a political subdivision to levy property tax to meet its FICA obligations. County hospitals are included within the definition of political subdivision and, thus, are allowed to levy for FICA and IPERS if needed. FICA and IPERS levies are not limited by rate, but instead by their use. Combined, the property tax levied for FICA and IPERS decreased \$8,960 for FY2015 from FY2014.
5. Hospitals are directed via the IDOM budget instructions to transfer the amount levied for FICA and IPERS to the fund from which salaries are paid as Iowa Code Section 97B.9 states, in part, "...the contributions shall be paid from the same fund as the employee salary." Therefore, the Hospital transfers the FICA levy and IPERS levy to the General Fund.
6. Iowa Code section 347.13(1) states, in part, a hospital may "Certify levies for a tax in excess of any tax levy limit to meet its obligations to pay the premium costs on tort liability insurance, property insurance, workers' compensation insurance, and any other insurance which may be necessary for the prudent management and operation of the county public hospital, the costs of a self-insurance program, the costs of a local government risk pool, and amounts payable under any insurance agreements to provide or procure such insurance, self-insurance program, or local government risk pool." The Tort Liability/Insurance levy is not limited by rate, but instead by use. The property tax levied for tort liability and other insurance increased \$6,172 for FY2015 from FY2014.
7. The FY2015 ending fund balance for the General Fund was budgeted at \$(2,465,877). The Hospital indicated this is due to different factors and is taking a variety of steps to improve the financial position.
8. The budgeted FY2015 expenses decreased overall by \$1,058,035.
9. Mr. Kilgore stated petitioners - on behalf of what he believes are the majority of the citizens in Ringgold County - believe the interests of the taxpayers in Ringgold County will be best served by minimizing the costs of government - limiting budget growth - in order to minimize property tax increases. However, Mr. Kilgore serves as a spokesperson only for himself and those individuals who signed the various budget protest petitions.
10. According to Iowa Code section 24.9, "The department of management shall prescribe the form for public hearing notices for use by municipalities."
11. Columns I and AW on Form 676 (Sheet 1 of 2) do not represent the same value. Column I represents the amount to be raised by property tax only and Column AW represents the amount of funds to be raised by property tax plus utility replacement excise tax. The Total "Property Taxes Levied" in Column EW matches Column I.

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.

BASIS OF DECISION

Iowa Code section 24.28 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 previous year and which the objectors propose should be reduced or excluded...". The Code continues, "...the burden shall be upon the certifying board or the levying board, as the case may be, to show 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 Ringgold County Hospital budget increase property tax asking is \$32. The amount requested for utility replacement tax and property tax dollars remained steady. The amount the Hospital levied for FICA, IPERS and Tort Liability/Insurance was less than the statutory amount allowed. The hospital budget reflected a decrease in expenditures for FY2015 when compared to FY2014.

The petitioners did not adequately satisfy the burden of proof requirement to justify a change in the FY2015 budget. The Hospital adequately satisfied the burden of proof requirement for the increase in the FY2015 budget.

ORDER


Based on the information provided by the parties involved and the Iowa Code, the State Appeal Board sustains the FY2015 Ringgold County Hospital budget as adopted.

The increasing deficits of the Hospital's ending fund balance do not reflect favorably on the Hospital's ability to continue as a viable, on-going entity. The Hospital should continue to investigate alternatives to return the Hospital to a sound financial position.

STATE APPEAL BOARD


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David Roederer
Member

4/28/14
Date