

STATE APPEAL BOARD

In Re: **Sioux City, Iowa**) **Order**
 Budget Appeal)
)
 FY 1999-2000) **June 25, 1999**

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

The above captioned matter was heard on May 19, 1999, before a panel consisting of Ronald J. Amosson, Executive Secretary to the State Appeal Board and presiding officer; Stephen E. Larson, Executive Officer II, Office of the State Treasurer; and Donna Kruger, Senior Auditor II, Office of State Auditor.

The hearing was held pursuant to Iowa Code Chapters 24 and 384. The city was represented by Finance Director, John Meyers, and the spokesperson for the petitioners was Bob Scott.

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 subsequent to the hearing and after a public meeting to consider the matter, the State Appeal Board has voted to sustain the budget as filed.

PROCEDURAL HISTORY

The FY2000 Sioux City proposed budget summary was published on February 19, 1999 in The Reporter, a newspaper printed and published in the City of Sioux City. The required public hearing for the budget was held on March 1, 1999, and budget was adopted on that same date, and certified to the county auditor on March 13, 1999.

A petition protesting the certified FY2000 Sioux City budget was filed with the Woodbury County Auditor on March 19, 1999 and was received by the State Appeal Board on March 26, 1999. The petitioners outlined in the petition document five reasons for the protest. The reasons were: (1) The proposed increase in the salaries of council members is excessive, (2) The year-end cash balances as budgeted are excessive in the general fund as to the cash needs of the city, (3) The insurance fund year-end proposed balance is excessive for the amount of claims in the past, (4) The budget discriminated against departments that are run by city boards when compared to those administered by the city manager and, (5) The use of river boat funds as proposed in the budget should not be allowed.

DISCUSSION

Bob Scott, former Sioux City mayor and city council member, outlined the concerns of the petitioners. Mr. Scott said that the city would make much about the City expenditures increasing only 1.7%. However, he said that the property taxes were increasing from \$22.4 million to \$23.375 million or 4.4%. Because of these increases the petitioners made the following suggestions in order to decrease property taxes in FY2000.

1. Mr. Scott said that the pay increases for council members is not large in nature but it appears that based upon the raises given to staff members and the private sector in this area, the pay request for council members is excessive. He said council members spend an average of no more than ten hours a week performing their jobs as council members. Mr. Scott said that considering council members receive health insurance benefits in excess of \$6,000 per year and a salary of \$7,500, it seems that \$26 per hour is reasonable for the services performed. According to Mr. Scott, all council members feel they need to compare their wages with those of the County Supervisors, but because one system is outdated and people are over-compensated, this is not reason enough to increase council members pay at this time.
2. According to the reserve analysis report on the health insurance fund prepared for the City by a private company, the City should maintain a balance of \$1.2 million for the year ended June 30, 1998. Mr. Scott said that if the claims and premiums remain close to the FY1998-99 levels in FY1999-2000, it appears the City's reserve of \$2,858,103 is over \$1.5 million more than necessary. Past practice was to make sure that the City kept nearly six months of funding on hand in this enterprise fund for no apparent reason. In the recent past, when the city needed funding for other purposes they took over \$1.0 million from the fund. Mr. Scott said that he believed the excess money could be transferred to the general fund and this would allow a reduction in property taxes rather than an increase.
3. Mr. Scott said that the City's use of riverboat revenue to reduce debt is laudable but he questioned whether the timing is correct. The City, according to the Moody's Report, has been aggressive in retiring its debt. Mr. Scott said that no one could argue that, with the additional projects, the City's debt has increased dramatically. However, he believes that if one looks carefully at how well the City has done in retiring its outstanding debt, Mr. Scott believes that it is more logical to "roll" \$600,000 in debt than to be as aggressive as the City has been in retiring its debt. Mr. Scott reasoned that if the riverboat

funds were used to reduce the tax levy instead of being as aggressive as it has been in paying off its debt, the tax increase could be reduced dramatically.

4. According to the petitioners, revenues from the local option sales tax have been decreasing every year since FY1996-97, when it was \$9.3 million. Mr. Scott said that this is difficult to understand considering all the new retail shops in the city. He stated that even Moody's most recent report indicated this revenue has been increasing at a rate of five percent per year. According to Mr. Scott, the city staff has concerns about the accuracy of the state's accounting for this revenue. Mr. Scott suggested that both the city and state need to look at this issue to determine the reason for the decline. If the local option sales tax revenue is increasing at the rate suggested by Moody's, it would be over \$10 million and this could lower property taxes.
5. Mr. Scott commented on staff reductions. He stated that in view of the budget he personally agreed with the reductions made. However, he said that it might be appropriate to look into why manager-run departments were not targeted for cuts.

John Meyers responded to the petitioners' concerns on behalf of the City.

1. Mr. Meyers said there is no legal or economic basis to allege the proposed increase in the City Council salaries is excessive. The FY2000 budget contemplates a \$1,000 increase in the compensation of the Mayor and Council Members. The Mayor's salary would increase from \$9,000 per year to \$10,000 per year. A Council member's salary would increase from \$7,500 per year to \$8,500 per year. The total amount of this increase, \$2,500 for FY2000, would take effect on January 1, 2000. Mr. Meyers said that legally, the Code of Iowa authorizes Councils to prescribe the compensation of the mayor, council members, and other elected city officers.

Mr. Meyers said the City's increase in compensation will occur after several years of no increases and would be roughly equal to the increases given to employees through collective bargaining. He provided a schedule showing that in 1986 the council members' salaries were \$6,864. They remained at that level until 1996 when they were increased to \$7,500. The FY2000 budget contemplates an increase in salaries to \$8,500. The mayor's salary was \$9,610 in 1986, but was decreased to \$9,000 in 1996. The proposed Mayor's salary in FY2000 would be \$10,000.

2. With respect to the allegation that the general fund balances are too high, Mr. Meyer indicated that the level of these balances have been steady over the past several years. According to documents supplied to the State Appeal Board by the City, general fund balances have been approximately 14% to

19% of expenditures and transfers since 1990. Mr. Meyer stated that the City needs operating cash to cover the approximately 25% to 30% of each year during which it receives no property taxes. He said that some miscellaneous income is received during that time so a balance of somewhat less than 25% can be prudent.

3. Mr. Meyers said that Sioux City determined that it is more economical to be self-insured for automotive liability, general liability, and workers' compensation. He said the City is also self-insured (with umbrella coverage) for its employees' health insurance and property damage coverage. Reserves for health insurance are reviewed annually by an actuary. Mr. Meyers said that based on the amount of reserves established by the City Council in resolutions made in 1987 and 1995, versus the amount of reserves estimated at June 30, 2000, the insurance fund is under-funded and not over-funded.

Catastrophic		\$1,000,000
Workers' Comp		300,000
General Liability		500,000
Property		300,000
Health (Determined by Actuary):		
Incurred but not reported		
Medical	\$722,624	
Dental	64,910	
Prescription	100,922	
Minimum Claims	288,634	
Chapter 513 Reserve	<u>28,863</u>	<u>1,205,953</u>
Total Legal Reserve Req.		\$3,305,953
Est. FY2000 Reserves		<u>1,000,000</u>
(Under-funded Reserves)		<u>(\$2,305,953)</u>

4. According to Mr. Meyers, Sioux City has included \$1.6 million of Riverboat revenues in the proposed budget. Of this amount \$425,000 is allocated to pay for parking lot improvements benefiting the Riverboat and \$1.175 million is transferred from the general fund to the debt service fund for use in paying obligations of the debt service fund. Mr. Meyers said that although the use of the Riverboat funds has been challenged, the use of the funds is legal according to the Iowa Code. Mr. Meyer said that if the revenue from the local option sales taxes were higher than estimated and could be used for debt service, the Riverboat revenue would be used for capital projects. He said that practically no one in Sioux City is a fan of using Riverboat funds for any reoccurring purpose.
5. Mr. Meyer said that fluctuations of the local option sales tax revenue make it difficult to rely on this revenue source for servicing the City's debt. This is

why Riverboat revenue is being contemplated for this purpose. The City is at a loss why the sales tax revenue fluctuates as much as it does. The City has written the Iowa Department of Revenue concerning this issue and its response is that their estimates are accurate.

6. The budget petition stated the budget discriminated against departments that are run by city boards when compared to those administered by the city manager. Mr. Meyers said that this is not true. He said the City allocates resources according to the priorities of the community. For example, he said the City spends more on Public Safety than it does on Parks. The City spends more on its Convention and Tourism Department than it does on Community Development. He offered that this is called setting priorities while for those who wish to receive more public money, it is called "discrimination".

FINDINGS OF FACT

1. Section 364.4(5) of the Iowa Code permits a city to: "Enter into insurance agreements obligating the city to make payments beyond its current budget year to procure or provide for a policy of insurance, a self-insurance program, or a local government risk pool to protect the city against tort liability, loss of property, or any other risk associated with the operation of the city.
2. According to Section 99F.11 of the Iowa Code, Riverboat gambling revenues are general fund revenues to the City. Chapter 384 states that general fund revenues may be used for any public purpose.
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."


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 384.19.


IT IS THEREFORE ORDERED

The Fiscal Year 2000 budget for the City of Sioux City, Iowa is sustained.

STATE APPEAL BOARD


Richard D. Johnson
Chairperson


Michael L. Fitzgerald
Vice-Chairperson


Cynthia P. Eisenhauer
Member

June 25, 1999

**City of Sioux City
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 & Other City Taxes
1995	\$ 16,256,581				\$ 16,176,087
1996	16,931,879	675,298	4.154%	4.154%	16,920,191
1997	17,083,980	152,101	0.898%	5.090%	17,054,704
1998	17,306,654	222,674	1.303%	6.459%	17,354,863
1999	18,350,282	1,043,628	6.030%	12.879%	18,450,282
2000	18,999,886	649,604	3.540%	16.875%	18,999,886

Non Tax Receipts

Fiscal Year	Budget	Actual/Estimated	Percent Difference	Source of Actual Amounts	Transfers In
1995	\$ 6,599,559	7,320,678	10.927%	City	\$ 10,207,222
1996	11,454,437	7,096,613	-38.045%	City	7,588,267
1997	8,115,549	7,734,935	-4.690%	City	7,242,811
1998	8,688,185	8,438,383	-2.875%	City	8,524,630
1999	8,831,802	8,877,452	0.517%	City re-estimated	6,009,796
2000	9,813,033	9,444,848	-3.752%	Estimated (1)	8,098,264

(1) Estimated at 3.752% lower than budget (average difference 1997 through 1998)

Disbursements

Fiscal Year	Budget	Actual/Estimated	Percent Difference	Source of Actual Amounts	Transfers Out
1995	\$ 25,940,211	26,734,859	3.063%	City	\$ 7,666,111
1996	31,400,484	25,421,154	-19.042%	City	5,294,363
1997	27,101,802	27,493,418	1.445%	City	4,635,106
1998	29,590,745	29,656,598	0.223%	City	4,097,208
1999	30,466,845	29,360,649	-3.631%	City re-estimated	3,976,881
2000	32,069,980	32,328,785	0.807%	Estimated (1)	4,822,303

(1) Estimated at .807% higher than budget (average of 1997 through 1998)

**City of Sioux City
Fiscal 2000 Budget Protest
General Fund Analysis**

Fund Balances					
Fiscal Year Ended June 30,	Budget	Actual/ Estimated	Difference	% Budgeted Balance to Disbursements	% Actual Balance to Disbursements
1995	\$ 4,505,969	3,934,621	571,348	17.371%	14.717%
1996	4,151,308	4,824,175	(672,867)	13.221%	18.977%
1997	3,874,778	4,728,101	(853,323)	14.297%	17.197%
1998	4,704,664	5,292,171	(587,507)	15.899%	17.845%
1999	3,650,000	5,292,171	(1,642,171)	11.980%	18.025%
2000	3,650,000	4,684,081	(1,034,081)	11.381%	14.489%