STATE APPEAL BOARD

In Re:	**Spencer Community School District Budget Appeal**	))))	**Order**
	FY 2001-2002	)	**JUNE 11, 2001**

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

The above captioned matter was heard on May 11, 2001, before a panel consisting of Ronald J. Amosson, Executive Secretary to the State Appeal Board and presiding officer; Stephen E. Larson, Executive Officer III, Office of the State Treasurer; Kevin J. Borchert, Professional Development Director, Office of the State Auditor, and Lisa Oakley, School Finance Director, Iowa Department of Management.

The hearing was held pursuant to Chapter 24 of the Code of Iowa. The primary spokesperson for the petitioners was Pat Jones and Superintendent Glen Lohman represented the Spencer School District.

Upon consideration of the specific objections raised by the petitioners, the testimony presented to the hearing panel at the public hearing, and after a public meeting to consider the matter, the State Appeal Board has voted to sustain the budget as described herein.

PROCEDURAL HISTORY

The FY2002 proposed budget summary for the Spencer Community School District was published in the Daily Reporter on March 31, 2001. The required public hearing was held on April 12, 2001, and the budget was adopted on that same day.

A petition appealing the certified FY2002 Spencer County Community School District budget was filed with the Clay County Auditor's Office on April 12, 2001 and was received by the State Appeal Board on that same day. On the petition document, the petitioners outlined four objections and reasons for those objections. The petition stated that the "Citizens of Spencer, Iowa" objected to the following:

1. The Estimated Budget FY2002 expenditures for General Administration, Building Administration, and Business Administration.
   - The petitioners requested a reduction in administrative expenses "...due to downsizing options that the community members requested during community meetings."

2. <u>The Estimated Budget FY2002 Total Expenditures and Other Uses of $17,128,568.</u>

   - The reason stated for their second objection was that the citizens wanted the Estimated FY2002 Expenditures to be equal to or less than the Estimated FY2002 Revenues. As budgeted, the total Expenditures & Other Uses, $17,128,568, is $967,640 more than the Estimated FY2002 Total Revenues & Other Sources, $16,160,928.

3. <u>The Estimated Budget 2002 Ending Fund Balance of $2,379,925 which is less than the Estimated Budget FY2001 Ending Fund Balance of $3,347,565.</u>

   - The citizens want the FY2002 ending balance to be equal to the FY2001 ending balance.

4. <u>The funding from the Physical Plant and Equipment Levy (PPEL) or the Local Option Sales Tax (LOST) or any other local funding to be used for the remodeling of Jefferson School.</u>

   - The stated reason for this objection is that Jefferson School will be closed for K-6 students at the end of FY2001.

   - The citizens of Spencer are requesting "...K-1 students transferring to Johnson School from Jefferson School and the Spencer Community preschool programs to remain at Johnson School for FY2002. Therefore, Jefferson School would be closed for FY2002 unless a lease agreement would be made. Then after three to four years, ...the property should be sold."

<u>DISCUSSION</u>

Petitioners

Pat Jones presented the opening statement for the petitioners and the following is a brief summary.

A reduction in expenditures due to downsizing options be applied to administration expenses because enrollment has declined but administration expenses have increased. The petitioners stated that it seemed evident that the school board and administrators were not cutting any administrative costs. All the expense cuts were coming from the elementary and high school areas and very little from the middle school. The public stressed not to downsize the number of people "who work directly with the children".

The petitioners asked why the administrators couldn't pay for their own family insurance package, which will be $10,600 next year. The teachers receive health insurance for only themselves and have to pay additional for the full family plan. In addition at a "downsizing meeting", the petitioners made suggestions for eliminating one or two administrators.

Other comments were targeted towards size of the expenditures, overspending by the district, Jefferson School usage and fund balances. Summaries of those comments are as follows:

- There needs to be a $1,000,000 separation between the income and expenditures and this separation would provide a cushion or reserve, which was important to them.

- Size of ending fund balance affects the "solvency rate" and they said the solvency rate on July 1 was 26.8%, 22.9%, 19.3% and 17%, respectively in 1997, 1998, 1999, and 2000. The petitioners expressed concern over the decline of almost 10% in four years. They mentioned that the district's auditors said that the rate was "good but declining".

- Use of Jefferson School in which using PPEL funds, LOST funds, or any other funds for remodeling. The petitioners said Jefferson school will be closed for K-6 students at the end of the year FY2001. The petitioners requested that those students transferring from Jefferson School to Johnson School remain at Johnson School for the school year 2002 and Jefferson School could be closed for the year, unless it could be leased for the year. Pending any possible leasing arrangements, Jefferson School could be sold. The petitioners outlined several proposals the District could consider to permanently accommodate the Jefferson students in the Johnson School.

Additional opening remarks regarding the possibility of administrators paying their own insurance costs, using the school building as a head start center, and concerns about State funding reductions for the early child development program that puts that program at risk, were presented by Rosamae Osterberg, formerly an educator.

School District

Superintendent Lohman reviewed the dialog the District has had with the citizens. Prior to the budget hearing on April 12, the District had four meetings, which he said provided opportunities for public input on educational programming. The meeting on January 31 identified priorities; the February 26 meeting was for comments; the March 14 meeting was for ideas; and the March 20 meeting was for solutions. Many suggestions were discussed not only to reduce costs but also to change school policies.

The School district commented on those areas addressed on the petition and those comments are as follows:

Administrative Expenses

On March 14, the District presented possible staff reductions to the Board of Education. The reduction possibilities included one administrator, an elementary school principal. At the March 14 and March 20 meetings, comments were received from the citizens regarding the ideas for cost savings. According to the comments paraphrased from these two meetings, there were a number of citizens that said that they did not want a reduction in the number of elementary principals. In addition, the District did not believe its administrative expenses were too high. The District compared its central office costs with 16 other school districts of comparable size. The data was converted to a cost per pupil and under this analysis the District was 3rd from the lowest in costs compared to the other school districts. The data also indicated that 15 of the 16 schools paid full cost of the hospital family plan for administrators.
Size of Expenditures.

Superintendent Lohman said that over the past few years the District has built cash reserve in anticipation of declining revenue resulting from declining enrollment. He realizes that for the budget year, expenditures will exceed revenues but the reason that they could budget a deficit is because they have the cash reserve. He agreed with the petitioners' desire to have revenue higher than expenditures, but with declining enrollment the District has had to use some of its cash reserves.

Superintendent Lohman further explained that the Board of Education made a decision in November 2000 to put the issue of building a new middle school on hold. As a result, other projects under District consideration were accelerated and, accordingly, funds greater than the amount of anticipated revenue were needed to pay for the accelerated projects. These projects will be funded from the reserves.

Mr. Lohman said that much of the deficit spending is due to the use of the physical plant and equipment levy budget. The Board of Education approved special projects to be done in the summer of 2001 and gave tentative approval of a three-year facility program. Also, funds were set aside for miscellaneous building repair that needs to be completed during FY2002. In addition, PPEL funds are budgeted to purchase a new bus in FY2002.

Size of Ending Fund Balance.

Superintendent Lohman said that declining enrollment over the past several years has had an adverse impact on the amount of General Fund revenue. However, prior to the decline the District purposely increased the General Fund balance so it could be used when the enrollment began to go down. This balance is being used during the time of declining enrollment as was intended.

Remodeling Jefferson School.

In response to the petitioners' objections of the District spending PPEL funds or any other funds to remodel Jefferson School, of the District's plans to move kindergarten and first grade from Jefferson School to Johnson School, and of moving the early childhood classes to Johnson School, the superintendent outlined a number of reasons for this proposed action. Some of the reasons were that there were no longer enough students residing in the Jefferson area to fill the classrooms creating a class size equity issue. Additional room is needed at the Johnson School and moving five early childhood classes (3 and 4 year old children) from Johnson School to Jefferson creates additional room at Johnson to accommodate Jefferson kindergarten and first grade sections, an additional computer lab, and a workroom for the staff to meet and plan. The concept of an early childhood center at Jefferson School seemed desirable from the District's and early childhood advocates' points of view.

Superintendent Lohman also said that the District and Head Start work collaboratively on the early childhood program, which has facilitated a smooth transition for students moving from the 3 and 4 year-old program into the regular school system, and from Head Start to the District's early childhood programs. Further, he said that moving 5 sections of early childhood from Johnson to Jefferson and adding one classroom of Head Start would utilize the classrooms 100%. Mr. Lohman concluded that at the present time, it would be impossible for the District to operate without the Jefferson School. He said that it is also anticipated that if enrollment remains the same at the first grade level for the FY2003 school year, an additional section of second grade will need to be added at Johnson School for FY2003.

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 FOR DECISION

Administrative Expenses.

The Board of Education considered eliminating an administrative position (school principal) but chose not to partly because of the citizens' concerns for such a cut.
The Board of Education has the authority to set administrative salaries and benefits and in this case these items seem reasonable.

Size of Expenses.

The total increase in estimated expenditures in FY2002 is $1,728,653 or 11.2%. Of the total increase, $966,459 is due to the acceleration of the facilities and transportation projects.

Size of Ending Fund Balance.

The petitioners expressed concern over the reduction of the ending fund balance and how this affects the "solvency rate" (financial solvency ratio).
This ratio is computed by dividing the Unreserved, Undesignated General Fund Balance by the Actual Revenues. According to the Iowa Association of School Boards, a target solvency position with an Unreserved, Undesignated General Fund Balance equal to five to ten percent of actual revenues, or approximately one month's revenues, is considered adequate for purposes of demonstrating management control of financial performance. A school corporation with an Unreserved, Undesignated General Fund Balance at the targeted level is able to meet unforeseen financing requirements and presents a sound risk for the timely repayment of short-term debt. Although declining, the current solvency ratio for the Spencer Community School District is not a significant factor in this decision.

Remodeling of Jefferson School.

The Board of Education has a reasonable and detailed plan for accommodating the infrastructure needs of the District.

ORDER

Based on the information provided by the parties involved in this appeal, the State Appeal Board sustains the FY2002 Spencer Community School District budget as adopted.

STATE APPEAL BOARD

Michael L. Fitzgerald
Michael L. Fitzgerald
Chairperson

Richard D. Johnson
Richard D. Johnson
Vice Chairperson

Absent
Cynthia P. Eisenhauer
Member

June 11, 2001
Date