

STATE APPEAL BOARD

In Re:	Wapsie Valley Community School)	Order
	District Budget Appeal)	
	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 9, 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 Kevin J. Borchert, Professional Development Director, Office of the State Auditor.

The spokespersons for the petitioners were Gene Wilson and Jerry Van Daele. Superintendent Steve Wehr and Bill Garner, Arrowhead AEA Chief Administrator, represented the Wapsie Valley 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 Wapsie Valley Community School District's fiscal year (FY) 2003 budget as described herein.

PROCEDURAL HISTORY

The FY2003 Wapsie Valley Community School District proposed budget summary was published in The Waterloo-Cedar Falls Courier on March 5, 2002. The budget was adopted on March 21, 2002.

A petition protesting the certified FY2003 Wapsie Valley Community School District budget was filed with the Bremer County Auditor on April 24, 2002, and was received by the State Appeal Board on April 26, 2002.

On the petition document, the petitioners objected to the action of the officials of the Wapsie Valley Community School Board and Superintendent in certification of their FY2003 budget.

DISCUSSION

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

PETITIONERS

Gene Wilson and Jerry Van Daele gave the petitioners' opening statement, in which they identified the petitioners' requests to the State Appeal Board as follows:

1. The public was shut out of the budget making process.
2. The School District should undertake a competitive bidding process for banking services.
3. All costs associated with the sports center should be reimbursed by the Physical Plant and Equipment Levy Fund (PPEL) to the General Fund
4. Adopt the people's budget which results in a savings of \$639,000 and \$9.21 tax rate.

The petitioners felt that they were shut out of the FY2003 budget-making process and that the budget was not approved for publication. They believe that a mismanagement of funds occurred between FY2000 and FY2001, which cost the District \$50,000, or more. Furthermore, this mismanagement of funds continues today with an average of \$320,000 sitting idly in a checking account earning very little interest. The petitioners believe that these funds earned from investments could be used to benefit the District by paying for a teacher or new textbooks.

Moreover, it appears that all expenses relating to the new construction that should be funded from the PPEL Fund have actually been paid out of the General Fund in the amount of \$47,000. The petitioners can find no evidence of repayment to the General Fund to reimburse the cost of the boiler, which was to be funded from the PPEL Fund.

Also, there has been a 39% increase in the general administrative cost since FY2000. If that increase is adjusted for the reduced number of administrators, it amounts to an 80% increase per administrator. The administrative cost per student will be nearly \$700 for the FY2003 budget as compared to a total per pupil cost of \$728 in 1972.

Jerry Van Daele then presented a revised budget. Mr. Van Daele agreed that the funding is formula driven but believes the issue is whether the District must levy and spend the full amount allowed. In his presentation, he provided ways for the District to save money, reduce property taxes and reduce ending fund balances.

WAPSIE VALLEY SCHOOL DISTRICT RESPONSE

Superintendent Steve Wehr and Bill Garner, Arrowhead AEA Chief Administrator, gave the School District's opening remarks. This is the second budget appeal in three years and the District believes that the petitioners do not understand the budget building process.

The School District believes that spending authority for Iowa Schools is driven by formula, not with the "budget estimating process" as the petitioners believe. The

controlled budget process starts when formula worksheets are completed and numbers are posted to the budget. Estimates are made for the FY2003 year and the School Board approves these budget estimates. The petitioners whole argument centers on whether the petitioners, the State, or the School Board can make better estimates for the FY2003 year.

Superintendent Wehr stated that the one new item in the FY 2003 budget is the Voted Physical Plant and Equipment Levy. All other property tax levies are the same. The budget was developed based on 4% allowable growth. The expenditure increases include increases in salaries, benefits, legal fees, two years of property insurance and the additional cost of the high school building addition. The District also increased the Instruction line item because they received audit comments in both FY 2001 and FY 2002 for exceeding the amount budgeted.

The School District borrowed from ISCAP for about a year when they probably should not have because they started levying for cash reserve. The expenditure report in the petitioners' exhibit includes all funds, not just the General Fund expenditures.

The District asks the State Appeal Board to deny the petitioners' request on the basis that the District has complied with requirements of the law, has used their local discretion in establishing their certified expenditure level, and has certified with the County Auditor the levying of appropriate property taxes to fund the Wapsie Valley Community School District Budget.

FINDINGS OF FACT

1. The Wapsie Valley 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. "

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 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 the other petition items, which were related to competitive bidding.
6. Property taxes that were certified for FY2003 resulted in an 18.7% increase in total property tax dollars and an 11.7% increase in the total property tax rate over the FY2002 budget. This total property tax increase resulted in a \$1.39 per \$1,000 of net taxable valuation.

A summary of the School District's property taxes is as follows:

Levy Description	FY 2002 Final		FY 2003 Prelim		% Increase	
	Dollars	Rate	Dollars	Rate	\$	Rate
Levy to Fund Combined District Cost	1,232,924		1,323,229		7.3%	
Instructional Support	3,353		5,430		61.9%	
Cash Reserve	200,000		200,000		0.0%	
SUBTOTAL GENERAL FUND LEVY	1,436,277	10.95715	1,528,659	11.03936	6.4%	0.8%
Management	75,000	0.57216	75,000	0.54162	0.0%	-5.3%
Voted Physical Plant & Equipment	0	0.00000	196,545	1.34000	100.0%	100.0%
Regular Physical Plant & Equipment	45,765	0.33000	48,403	0.33000	5.8%	0.0%
Debt Service	0	0.00000	0	0.00000	0.0%	0.0%
GRAND TOTAL	1,557,042	11.85931	1,848,607	13.25098	18.7%	11.7%

7. The tax levy to Fund Combined District Cost is primarily driven by the state foundation aid formula. Many factors are in this formula, however the main ones are enrollment and a cost per pupil factor. Last year, the cost per pupil growth for FY 2003 was set by State statute at 4%. During the time, when school districts were developing and publishing their budgets, the Legislature was deliberating a change and on March 28, 2002, the allowable growth of 1% became law. Wapsie Valley Community School District's adopted budget and property taxes were based on 4% allowable growth. As part of the property tax certification process, the Iowa Department of Management will re-calculate the School District's Levy to Fund Combined District Cost with the 1% allowable growth rate.
8. The Voted Physical Plant and Equipment Levy was approved by the voters in August 2001.

9. Budgeted expenditures certified in FY2003 are \$1,999,603 or 36.9% more than the FY2002 budgeted expenditures. A summary is as follows:

	FY 2002	FY 2003	% Change
*Instruction	3,645,826	3,855,764	5.8%
Student Support Services	80,000	90,000	12.5%
Instructional Staff Support Services	56,000	65,000	16.1%
General Administration	165,000	185,000	12.1%
Building Administration	220,000	240,000	9.1%
Business Administration	46,000	56,000	21.7%
Plant Operation and Maintenance	417,000	452,000	8.4%
Student Transportation	225,000	240,000	6.7%
Central Support Services	0	95,249	100.0%
*Total Support Services (lines 24-31)	1,209,000	1,423,249	17.7%
*Noninstructional Programs	225,000	221,910	-1.4%
Facilities Acquisition and Construction	100,000	1,489,311	1389.3%
Debt Service	19,685	184,355	836.5%
AEA Support - Direct to AEA	214,667	239,192	11.4%
*Total Other Expenditures (lines 33-35)	334,352	1,912,858	472.1%
Total Expenditures	5,414,178	7,413,781	36.9%
Other Financing Uses: Operating Transfers Out	0	0	0.0%
Total Expenditures & Other Uses	5,414,178	7,413,781	36.9%
Ending Fund Balance	1,578,462	420,344	-73.4%
Total Requirements	6,992,640	7,834,125	12.0%

10. The School District increased the budgets for Facilities Acquisition and Construction and Debt Service for the addition to the high school to accommodate the junior high school students and to pay the long term debt funded through the Voted Physical Plant and Equipment Levy. If these budget items are excluded the total budget increase is \$421,907 or 8.3%.

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, budget hearings and property tax levies were adopted by the School Board in accordance with statutory provisions.

The total property tax levy increase is primarily due to the new Voted Physical Plant and Equipment Levy and the increase in the General Fund property tax levy is driven by the state foundation aid formula.

The District's 36.9% budgeted expenditure increase is largely due to the new Voted PPEL for an addition to the high school. Budgeted expenditures for FY2003 increased by 8.3% when Facilities Construction and Debt Service expenditures are excluded.

Those increases are because of increases in salaries, benefits, legal fees, and two years of property insurance. Those expenditure increases appear to be necessary, reasonable and in the interest of public welfare.

The School District's actual expenditures for FY2001 was 96% of the amended budget and in FY2000 was 93% of the amended budget. Audit reports in both FY2000 and FY2001 disclosed that the School District's expenditures exceeded the budget in the Instruction category.

The Department of Management, as required by statute, will adjust the General Fund levy to the 1% allowable growth under the state foundation aid formula.

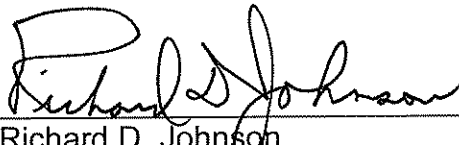
The State Appeal Board, pursuant to Iowa Code Section 24.30, has authority only in regards to the budget.

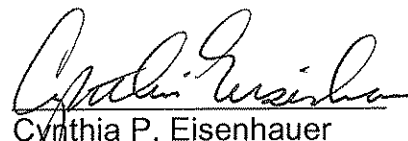
Iowa Code Chapter 24 requires all public bodies that have the power to levy a tax, including school districts, to publish budget estimates for citizen review. Estimated budgeted expenditures adopted and certified should be as accurate and reliable as possible.

ORDER

Based on the information provided by the parties involved and the review of historical data of Wapsie Valley Community School District, the State Appeal Board sustains the FY2003 Wapsie Valley Community School District Budget as adjusted by the Department of Management. 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