
SALT LAKE CITY COUNCIL STAFF REPORT

DATE: May 7, 2002

SUBJECT: Salt Lake City Library System Budget for Fiscal Year 2002-2003

STAFF REPORT BY: Russell Weeks

Document Type	Budget-Related Facts	Policy-Related Facts	Miscellaneous Facts
Budget	The budget is from the Salt Lake City Library System, a separate taxing district.	The City Council is the final budget authority for the Library System. The System was created by the City's "governing body," and the City Council sets the tax rate for the Library System.	The Library System has clearly stated positive aspects of the budget.

OPTIONS AND MOTIONS:

1. I move that the City Council adopt the Library System budget for Fiscal Year 2002-2003.
2. I move that the City Council not adopt the Library System budget for Fiscal Year 2002-2003.

ISSUES/POTENTIAL QUESTIONS FOR CONSIDERATION:

- The proposed budget for Fiscal Year 2002-2003 appears to depict a Library System that is cash-rich due to healthy fund balances. However, projected anemic "natural growth" in property taxes – the System's main revenue source – plus projected spending needs in the first year of the new Main Library's operation may pose uncertainties in Fiscal Year 2003-2004.
- The City Council may wish to inquire about the Library System's alternative plans if fund-raising efforts do not meet expectations.
- The City Council may wish to see operating fund balances as a separate revenue line item in future Library System budgets.

DISCUSSION AND POLICY CONSIDERATIONS:

The proposed Salt Lake City Library System budget for Fiscal Year 2002-2003 indicates a variety of changes from previous budgets. Some changes involve revenue – particularly estimates of revenue derived from property taxes and ideas to augment property taxes. Other changes involve an emphasis on operations instead of capital projects as the new Main Library nears its opening in January 2003.

The Salt Lake Library System Board of Directors adopted the budget for Fiscal Year 2002-2003 at its April 18 meeting. Board President Alexius M. Gallegos is scheduled to present the budget to the City Council on May 14. The Council will receive a briefing on the budget before or after the formal meeting.

CITY COUNCIL POLICY OBJECTIVES AND SERVICE LEVEL INDICATORS

Historically, the City Council has had three policy objectives and service level expectations for the Salt Lake City Library System.

- To provide the best library services and resources possible to Salt Lake City residents and visitors.
- To provide sufficient and equitable access to library information and services to all members of the community.
- To provide economical and efficient library services to meet the needs of the community.

It should be noted that the City Council has not reviewed the policy objectives and service level expectations for eight years. It also should be noted that the City Council had a management review of the Library System conducted in 1997, and the System received high marks for service, performance and efficiency.

The authority for the City Council to review and act on the City Library System's budget appears in *Title 9, Chapter 7* of the *Utah Code*. The Chapter includes the following sections:

9-7-401. Tax for establishment and maintenance of public library -- Library fund.

- (1) A city governing body may establish and maintain a public library.
- (2) For this purpose, cities may levy annually a tax not to exceed .001 of taxable value of taxable property in the city. The tax is in addition to all taxes levied by cities and is not limited by the levy limitation imposed on cities by law. However, if bonds are issued for purchasing a site, or constructing or furnishing a building, then taxes sufficient for the payment of the bonds and any interest may be levied.
- (3) The taxes shall be levied and collected in the same manner as other general taxes of the city and shall constitute a fund to be known as the city library fund.
- (4) The city library fund shall receive a portion of the uniform fee on tangible personal property in accordance with the procedures established in Subsection **59-2-405(5)**.

9-7-402. Library board of directors -- Expenses.

- (1) When the city governing body decides to establish and maintain a city public library under the provisions of this part, it shall appoint a library board of directors of not less than five members and not more than nine members, chosen from the citizens of the city and based upon their fitness for the office.
- (2) Only one member of the city governing body may be, at any one time, a member of the board.

9-7-404. Board powers and duties -- Library fund deposits and disbursements.

- (1) The library board of directors may, with the approval of the city governing body:
- (a) have control of the expenditure of the library fund, of construction, lease, or sale of library buildings and land, and of the operation and care of the library; and
 - (b) purchase, lease, or sell land, and purchase, lease, erect, or sell buildings for the benefit of the library.
- (2) The board shall:
- (a) maintain and care for the library;
 - (b) establish policies for its operation; and
 - (c) in general, carry out the spirit and intent of the provisions of this part.
- (3) All tax moneys received for the library shall be deposited in the city treasury to the credit of the library fund, and may not be used for any purpose except that of the city library. These funds shall be drawn upon by the authorized officers of the city upon presentation of the properly authenticated vouchers of the library board. All moneys collected by the library shall be deposited to the credit of the library fund.

9-7-406. Reports to governing body and State Library Board. The library board of directors shall:

- (1) make an annual report to the city governing body on the condition and operation of the library, including a financial statement; and
- (2) provide for the keeping of records required by the State Library Board in its request for an annual report from the public libraries, and submit that annual report to the State Library Board.

It should be noted that it is an internal City Council policy not to have City Council Members serve on City boards and commissions except in an *ex officio* capacity.

REVIEW OF LIBRARY SYSTEM REVENUE FOR FISCAL YEAR 2002-2003

City Council staff prepared the following tables with the intent of showing projected revenue with the general obligation bond for construction of the new Main Library and without the general obligation bond.

FULL PROPOSED REVENUE BUDGET

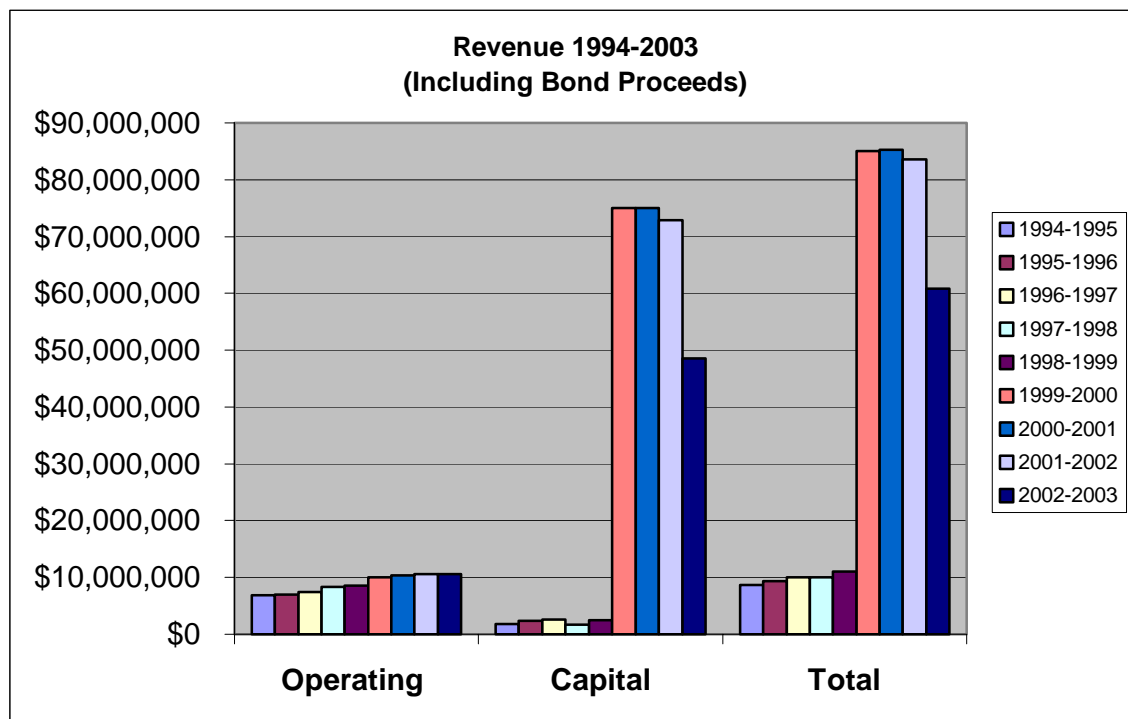
Major Category	Adopted 2001-2002	Proposed 2002-2003	Difference	Percent Change
Property taxes	\$ 10,561,103	\$ 10,613,202	\$ 52,099	0.49%
Interest	375,000	280,000	(95,000)	-25.33%
Grants/Donations	368,282	604,704	236,422	64.20%
Fines/Charges/Intergovernmental/Leases	251,000	358,000	107,000	42.63%
Fund Balances	2,000,000	3,950,000	1,950,000	97.50%
Bond Revenue	70,000,000	45,000,000	(25,000,000)	-35.71%
Total	\$ 83,555,385	\$ 60,805,906	\$ (22,749,479)	-27.23%

PROPOSED REVENUE BUDGET WITHOUT BOND REVENUE

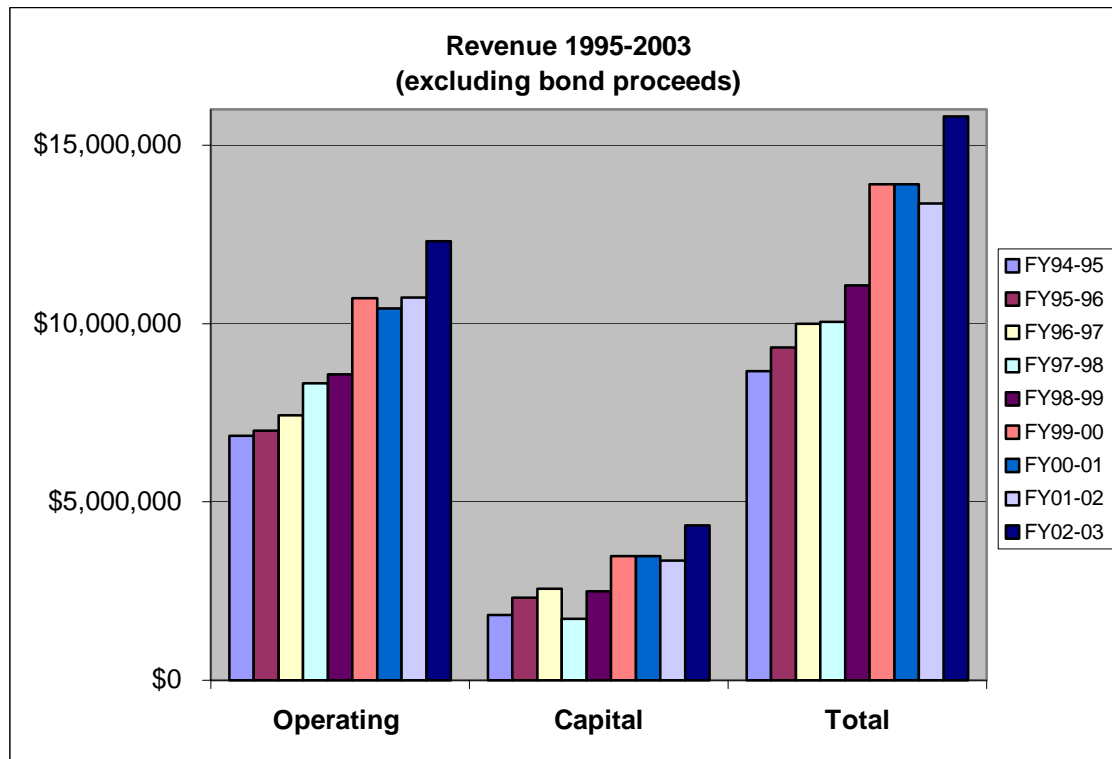
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Fines/Charges/Intergovernmental/Leases	251,000	358,000	107,000	42.63%
Fund Balances	2,000,000	3,950,000	1,950,000	97.50%
Bond Revenue	-	-	-	
Total	\$ 13,555,385	\$ 15,805,906	\$ 2,250,521	16.60%

Staff also has prepared two graphs intended to indicate revenue growth from 1994 to Fiscal Year 2002-2003 to give Council Members a historical perspective. The first graph includes revenue from the general obligation bond. The second omits it.

REVENUE GROWTH INCLUDING BOND



REVENUE GROWTH WITHOUT BOND



As one may see from the tables and graphs above, Council staff has attempted to give a more detailed picture of projected Library System revenue by eliminating the bond revenue from the second table and the second graph. It should be noted that the Library System traditionally divides its budget into operating and capital budgets. The revenue figures in the tables incorporate projected revenue for both budgets. Expenditure tables later in the report include the Library System's capital budget as part of a category of the total expense budget.

FUND BALANCES

One also may see from the second revenue table that, minus revenue from the general obligation bond, the Library System's projected total revenue for Fiscal Year 2002-2003 is \$15,805,906 – a 16.60 percent increase. The bulk of the increase is due to fund balances. They are projected to rise by \$1.95 million in the next fiscal year – a 97.5 percent increase. It probably should be noted that if the fund balances are subtracted from the \$15.8 million figure, projected revenue falls to \$13,855,906. The figure is \$300,521 more than the \$13,555,385 in the current year's adopted budget – roughly a 2 percent increase.

Again, the Library System's proposed budget has broken down the fund balances into two categories. The first is a \$950,000 line item in the operating budget titled *Contingency Savings*.

The second is a line item in its capital revenue budget titled *Prior Year Capital Fund Balance*. That line item is projected to rise by \$1 million from the current fiscal year to a total of \$3 million.

According to the proposed budget (Page 6), the \$950,000 “is part of the Operating Fund Balance.” The Library System has “reserved unexpended and unanticipated revenues” since 1998 “to supplement one-time, first-year operating needs for the new Main Library.” Page 25 of the proposed budget says, the Library System plans to allocate the \$950,000 in the following ways:

- Buildings and Grounds -- \$150,000
- Personnel -- \$300,000
- Services -- \$250,000
- Contingency -- \$250,000

According to the proposed budget, the Library System plans to use the \$950,000 largely for one-time costs associated with the first-year of operating the new Main Library including “added custodial supplies and maintenance, temporary personnel, and events and programs. The remaining contingency will be allocated “for those unexpected system-wide demands and needs and possible shortfall in property tax revenues.”

It should be noted that previous Library System budgets have not included the Operating Fund Balance as a line item in its revenue projections. The City Council may wish to have future budgets include the figure as a line item.

The Prior Year Capital Fund Balance also is projected to increase by \$1 million to a total of \$3 million in the next fiscal year. According to the proposed budget, \$2 million will be allocated for Main Library and Branch Contingency (Page 28). According to the proposed budget, the \$2 million will be allocated to cover “needs beyond the scope of the bond” for construction of the new Main Library and expansion of the Anderson-Foothill Branch Library and as a “safety net” for the two projects funded by the general obligation bond issue.

According to Library System Director Nancy Tessman, the money will be used largely to buy items that, although eligible for purchase with bond funds, would depreciate in value faster than the life of bond repayments. Ms. Tessman used computers as an example of the kinds of purchases the Library System contemplates. She also said that by using the \$2 million money from the bonds could be used for more permanent capital items connected with the two projects.

Another \$930,000 is allocated in the proposed budget for Prior Year/Contingency. According to the proposed budget, “This fund is maintained to deal with carryover projects and emergency or unanticipated needs.” However, Ms. Tessman said that the Library System also plans to use the money to save for construction of a new branch library in the southwestern sector of the City. She said the System plans to have about \$2 million – about half the cost of construction – saved within three to four years.

PROPERTY TAXES

Minus revenue from the general obligation bond, property taxes make up the bulk of the Library System’s projected revenue for Fiscal Year 2002-2003. Using the \$15,805,906 figure, property taxes make up about 67 percent of the Library System’s total anticipated revenue. Property taxes make up 85 percent of the System’s anticipated operating revenue.

According to the proposed budget, the Library System's projections of property tax revenue fell about \$105,000 short for the current fiscal year (Page 3), and the System plans to make up the sum through its Operating Fund Balance. The proposed budget projects that revenue from property taxes will grow by about 1.5 percent in the next fiscal year. The current property tax rate for the Library System is .000773. The proposed budget says the Library System will not seek a property tax increase for Fiscal Year 2002-2003. However, Ms. Tessman said that for the fiscal year after that (2003-2004) there might be a request for a property tax increase.

If one looks at the two graphs in this report, particularly the second one, they indicate that total revenue growth has increased steadily in the last nine years. The growth is due to two factors, one probable and one certain. First, in the mid-1990s "natural" growth in property taxes met or exceeded projections ranging from 2.25 percent to 3.3 percent. Second, the City Council approved a property tax increase for the Library System in Fiscal Year 1999-2000 that resulted in a \$1.2 million annual increase in revenue. In each of the last three years the Library System has used \$900,000 of the \$1.2 million to buy books and other material for patrons in anticipation of the new Main Library opening.

DONATIONS AND GRANTS

According to the proposed budget, the Library System "will aggressively seek alternative funding through grants and donations, including an application which is being submitted for a major challenge grant with the National Endowment for the Humanities to support ... programs and build toward a program endowment for the future."

The proposed budget anticipates obtaining \$300,000 in donations and grants for the operating budget, nearly a quadrupling of donations and grants from the adopted budget for the current fiscal year. According to Ms. Tessman, \$250,000 of that is for the National Endowment for the Humanities challenge grant. The Library System anticipates using the challenge grant to raise \$1 million in grants and donations over three years to endow and support library programs. The proposed budget also projects \$250,000 in grants and donations for the capital revenue budget.

It should be noted that the 2000-2001 budget anticipated receiving \$78,718 in donations and grants for the operating budget, but the actual budget for the year indicated that the System received \$34,353. On the capital revenue side the 1999-2000 and the 2000-2001 budgets anticipated that the Library System would receive \$250,000 in donations and grants in each of the two fiscal years. However, actual revenue from donations and grants was \$28,660 in Fiscal Year 1999-2000 and \$131,869 in Fiscal Year 2000-2001. Council Members may wish to explore what the Library System's alternatives are if anticipated revenue from donations and grants does not meet expectations, particularly in a lean year for property tax revenue.

LEASE REVENUE

The 2002-2003 proposed budget is the first time the Library System lists revenue from leased space in the new Main Library. The proposed budget anticipates that the System will collect \$60,000 from leasing about 2,800 square feet inside the new library and 6,500 square feet outside the new library. According to Ms. Tessman, the Library System was scheduled to publish in mid-May requests for proposals to locate in the planned retail areas. According to the tentative timeline prepared for the City Council's briefing last March on Library Block issues, the Council

is scheduled in October or November to formally consider rezoning the Library Block to allow retail uses in the new Main Library.

BOND REVENUE

The proposed budget projects that revenue from the general obligation bond will fall from \$70 million in the current year's adopted budget to \$45 million at the July 1 start of the 2002-2003 Fiscal Year. In Fiscal Year 1999-2000 the total bond proceeds allocated to the Library System was \$72,115,756. If one subtracts \$45 million from the previous sum, the remainder indicates that \$27,115,756 will have been spent on the library project by the start of the 2002-2003 Fiscal Year. (Three things should be noted: 1.) The expenditures include expansion of the Sprague Branch Library. 2.) About \$25 million of the original \$84 million bond was allocated for Salt Lake City projects connected to construction of the new Main Library. The projects included demolition, construction of underground parking, and the installation of a new heating and cooling plant to serve the new Main Library, the existing Main Library and the City & County Building. 3.) The original estimate for construction of the new Main Library was \$55 million. The estimate did not include the cost of the arc-wall on the new Main Library's east side.)

Page 6 of the proposed budget says, "The remaining \$3 million of the \$84 million bond authorization will be issued for the Main Library project by summer 2002. Approximately \$8 million in earned interest has been earmarked to complete the projects originally planned for Library Square, bringing total expenditures to \$92 million." It is Council staff's understanding that the bulk of the \$8 million in earned interest will be used to complete the arc-wall.

EXPENDITURES BY MAJOR CATEGORY LEVEL

FULL PROPOSED EXPENDITURE BUDGET

Major Category	Adopted 2001-2002	Proposed 2002-2003	Difference	Percent Change
Personal Services	\$ 6,862,078	\$ 7,686,800	\$ 824,722	12.02%
Materials/Supplies	2,513,507	1,970,606	(542,901)	-21.60%
Charges/Services	806,000	1,809,000	1,003,000	124.44%
Capital Outlay & Improvements	73,362,300	49,339,500	(24,022,800)	-32.74%
Debt Service (Copier Contracts)	11,500	-	(11,500)	-100.00%
Total	\$ 83,555,385	\$ 60,805,906	\$ (22,749,479)	-27.23%

EXPENDITURES MINUS BOND MONEY

Major Category	Adopted 2001-2002	Proposed 2002-2003	Difference	Percent Change
Personal Services	\$ 6,862,078	\$ 7,686,800	\$ 824,722	12.02%
Materials/Supplies	2,513,507	1,970,606	(542,901)	-21.60%
Charges/Services	806,000	1,809,000	1,003,000	124.44%
Capital Outlay & Improvements	3,362,300	4,339,500	977,200	29.06%
Debt Service (Copier Contracts)	11,500	-	(11,500)	-100.00%

Total	\$	13,555,385	\$	15,805,906	\$	2,250,521	16.60%
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The expenditure tables again indicate a change in direction for the Library System as the project to build a new Main Library nears an end. The tables indicate that the System is beginning to focus on operating the new facility instead of building it. It should be noted that while there are significant projected increases in expenditures for Charges/Services and Capital Outlay & Improvements, the major factor in each case is a large fund balance or contingency.

PERSONAL SERVICES

The projected increase in personal services reflects in part an additional 8 full-time equivalent positions throughout the Library System. The proposed budget calls for increasing the full-time equivalent positions from 146.5 to 154.7. Because the Library System employs numerous people part-time the proposed budget projects that the number of total positions will rise from 218 to 232. Nine of the additional positions appear to be at the new Main Library, according to the staffing level appendix on Page B-1 of the proposed budget. Positions at the Anderson-Foothill, Day-Riverside, Sprague and Sweet branch libraries also have been added. The proposed budget also includes a 2 percent salary increase across the board plus continuation of employee performance appraisal and merit system. In addition, the Library System anticipates hiring one-time, temporary personnel to help staff the new Main Library for six to nine months after the facility opens.

The budget projects a more than 12 percent increase in health insurance premiums even though the Library System will join public agencies in the Utah Local Governments Trust group insurance pool. The Public Employees Health Plan still will provide health insurance to System employees, but they no longer will be part of the Salt Lake City Corporation pool. According to Ms. Tessman, the System made the move to continue to provide health insurance to its part-time employees.

MATERIALS AND SUPPLIES

The 21.6 percent drop in the materials and supplies line item also reflects the Library System's change in emphasis from preparing to open the new Main Library to operating it. As mentioned earlier in the report, the Library System has used \$900,000 a year of the 1999 property tax increase to buy books and other items to stock the new library. Ms. Tessman said the System still is buying material. She estimated that by the time the new library opens the System will have spent \$3 million on new material – roughly 150,000 books and other items.

Spending for supplies is projected to increase in Fiscal Year 2002-2003 in anticipation of the opening of the new Main Library.

Charges/Services

The major element included in this category is the \$950,000 "contingency savings" referenced in the revenue section of the proposed budget. The sum subtracted from the \$1,809,000 in the table above leaves \$859,000 in planned expenditures – a 7 percent increase over the current year's adopted budget. Nevertheless, there are significant increases in planned spending in this category for programming and publicity. Programming expenses are projected to rise from \$55,000 in the current year's adopted budget to \$255,000 in the proposed budget.

Expenditures for publicity are planned to climb from \$51,000 in the current year's adopted budget to \$81,000 in Fiscal Year 2002-2003.

According to the proposed budget (Page 23), "plans have been developed for a regular lecture series bringing in voices and ideas from some of the most prominent lecturers throughout the world." The Library System plans to pay for increased programming through the fund-raising campaign including the National Endowment for Humanities challenge grant. The Library System's goal is to program the new Main Library during the first year it opens, according to Ms. Tessman. Major fund-raising events are scheduled for fall 2002 and when the new library opens, she said. In concert with increased programming the Library System plans to spend the extra money allocated for publicity on the opening of the new library and efforts to reach Salt Lake City residents. Part of the efforts involves a campaign to register every resident for a new library card. In addition, the Library System plans to experiment with keeping the new Main Library open on a Friday or Saturday night once a month.

CAPITAL OUTLAY AND IMPROVEMENTS

This category contain two major components – \$2 million the Library System has set aside to pay for items that could be paid for with funds from the general obligation bond, and a \$930,000 prior year contingency fund. The other major component is \$839,500 for on-going building maintenance and utilities. Among the latter allocation, the Library System expects significant increases in contract services (up \$140,000), lights and power (up \$95,000) and overall building maintenance (up \$32,000). Much of the increase in maintenance costs involves the opening of the new library plus increased space at the Sprague and Anderson-Foothill branch libraries, according to the proposed budget (Page 10). The Library System also plans to remodel the children's area at the Chapman Branch Library in the next fiscal year. The proposed budget notes on Page 9, "The size of the new Main Library is double the present facility, and costs have been adjusted accordingly."

Finally, the category includes \$350,000 set aside to replace computers used by patrons throughout the system. The Library System has allocated the sum in each of the last two budgets to stay prepared to replace computers in the main and branch libraries as they age.

