
SALT LAKE CITY COUNCIL STAFF REPORT

Date: April 30, 2004

Subject: Briefing – Salt Lake City Library System Proposed Budget FY 2004-2005

Affected Council Districts: All

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Administrative Dept. and Contact Person: Library System Director – Nancy Tessman

This report pertains to the proposed Salt Lake City Library System budget for fiscal year 2004-2005. The City Council is scheduled to be briefed on the document at its May 4 meeting.

KEY ELEMENTS:

- The Salt Lake City Library System Board of Directors has proposed a \$1.7 million property tax increase for the next fiscal year. The increase is proposed to:
 1. Increase the amount of items such as books, periodicals, sound and visual recordings by \$522,388 over the current year.
 2. Increase the amount of funds for personnel costs by \$404,637.
 3. Earmark about \$250,000 for capital improvements and maintenance plus (\$150,000 of the \$250,000) new technology designed to improve the scheduling and monitoring of Internet service, introducing a payment system for paper copies of items on the Internet, and, possibly, installing an Internet filtering system.
 4. Increase funds by about \$200,000 for contract services pertaining to the Main Library. The figure includes \$145,000 earmarked for increased security services in all System libraries. Increase the amount of funds earmarked for heat, electrical power and water by \$180,000 over the current year.
 5. The remaining expenses appear to be incremental increases spread among a variety of cost centers.
- The Board of Directors also has submitted a budget containing no tax increase for the City Council's consideration. That budget will be addressed later in this report.
- Library System administrators estimate that the proposed tax increase would increase the property taxes of the owner of a \$175,000 home by \$12 to \$15 a year.

- If the City Council adopts the proposed tax increase, it would have to hold a truth-in-taxation hearing later in the summer. It is Council staff's understanding that the hearing would be held the second Tuesday in August.
- It should be noted that, according to the budget the Board submitted, actual property tax revenue for the current fiscal year was \$192,311 more than budgeted. However, other potential actual revenue was less than budgeted, according to Library System administrators.
- Both budgets the Library Board submitted appear to contemplate a potential \$22,000 loss in State revenue for not installing Internet filters required under House Bill 341.
- Neither budget anticipates a City Administration proposal to have the Library System contribute \$37,500 for the maintenance and operation of the boiler and boiler room that provides heat for the City & County Building, the Main Library, and the old main library.
- The Library System has used funds raised through parking charges in the parking lot below the Main Library for small improvements to the facility. However, neither of the budgets proposed by the Library Board appears to contemplate major future maintenance for the garage. It still remains unclear whether the Library System or the City is responsible for maintaining the garage.
- The City Attorney's Office is preparing a memorandum of understanding between the Library System and the City to address issues such as who is responsible for maintaining the parking garage and other facilities on the Library Block.

POTENTIAL OPTIONS:

- Adopt the proposed budget that includes the proposed property tax increase.
- Adopt the proposed budget that does not include the proposed property tax increase.
- Adopt a budget that includes a smaller property tax increase and elements of the budget that does not include the property tax increase.

POTENTIAL MOTIONS:

Council staff will prepare motions after the Council's briefing on May 4.

MATTERS AT ISSUE/POTENTIAL ITEMS FOR CONSIDERATION:

- I. The Library System has four stated goals for Fiscal Year 2004-2005:
 - To restore the System's books and other materials budget to 15 percent of its total operating budget. The current year's materials cost center is about 12.5 percent of its operating budget.
 - To restore performance based merit raises for eligible staff. It should be noted that the System eliminated merit raises for the current fiscal year to meet budget constraints.
 - To maintain current service hours at all libraries within the system.
 - To ensure good maintenance and security at all library in the System.
- II. The submitted budget includes a column outlining a potential budget for the 2005-2006. However, Council staff has concentrated on the 2004-2005 budget because – except for a

\$150,000 projected increase in operational revenue and a \$150,000 decrease in operational contingency – the potential budget for 2005-2006 is largely the same as the proposed 2004-2005 budget that includes a property tax increase.

According to System administrators the potential 2005-2006 budget is to indicate how potential increased revenue from property taxes would be used in that fiscal year.

III. The Library System's main arguments for a potential property tax increase appear to be:

- The lack of growth in property tax revenue since FY 1999-2000 has eroded the last \$1.2 million property tax increase the City Council adopted. That tax increase largely was designed to allow the Library System to purchase books, audio and visual tapes and other material for the Main Library when it was under construction. After the Main Library opened the tax increase was to go toward operating the facility which was twice as large as the old main library.
- Due to the lack of property tax revenue growth, particularly at the end of the last fiscal year and the start of the current fiscal year, the Library System cut back to meet budget. The cuts included:
 1. Reducing staff by 10 full-time equivalent employees.
 2. Cutting its budget for books and other materials by 18 percent.
 3. Eliminating merit pay increases for Library System staff.
 4. Reducing its services cost center by 15 percent.

It should be noted that the reductions were in addition to using \$573,000 in fund balances and cutting operating funds by \$150,000 to meet a shortfall before the 2003-2004 fiscal year began. Again, the Library System attributed the shortfall to lack of projected property tax revenue growth.

System officials now estimate that the lack of growth has eroded about \$1.4 million in projected revenue. The submitted budget that includes the proposed tax increase also would earmark an additional \$300,000 to purchase and operate equipment that would do two things: track the use of copier paper at Internet terminals so the System could charge for paper use, and schedule the use of Internet terminals. If the System decides to install Internet filters at terminals the equipment also would do that. The \$300,000 would be for a one-time expense. However, the Library System proposes to use the money in fiscal year 2005-2006 for continued operating expenses.

IV. The proposed budget that does not contemplate a tax increase projects a 1 percent increase in property tax revenue from natural growth. The budget would seek to increase System expenditures for books and other materials to about 15 percent of the total operating budget. However, the budget projects spending for audio and visual materials at \$300,000 less than the budget that proposes a property tax increase. The budget that does not include a tax increase also contemplates reducing Library System staff by 10 to 12 full-time equivalent employees and reducing the hours all libraries within the System would be open.

V. The 2004 Legislature passed House Bill 341 titled *Children's Internet Protection Act*. (Please See Attachment No. 1.) According to the "Highlighted Provisions" of the bill, the intent of the law is to:

- Prohibit a public library from receiving state funds unless the library implements and enforces measures to filter Internet access to certain types of images.
- Allow a public library to block materials that are not specified in the bill.
- Allow a public library to disable a filter under certain circumstances.

A key provision in the bill reads: “State funds may not be provided to any public library that offers use of the Internet or an online service to the public unless the library” has in place a policy of Internet safety for minors including the operation of technology protection measure that protects children from “visual depictions that are” child pornography, harmful to minors or obscene. The law allows adults to request that an Internet filter be turned off, but the adult must ask “an administrator, supervisor, or other representative of a public library” to turn off a filter.

In discussions attended by City Council staff, the theory behind the application of the law was that a state wide education Internet network already has a filter available that could be used to comply with the law. The Library system is connected to the Internet network. However, Library System administrators contend that the network’s filter screens too much from the Internet to work well. Library System administrators estimate that at minimum it would cost about \$80,000 to install a workable filtering mechanism that could be turned off and on easily. In addition, the Library System Board of Directors adopted a policy about Internet use several years ago. (Please see attachment.) A pertinent passage of the policy reads:

The Library cannot fully monitor, and has no control over, the vast content accessed through the Internet and other remote electronic resources, much of which grows and changes rapidly. Use of library equipment or network access for illegal purposes is expressly prohibited. Access to obscene materials by minors is restricted in order to comply with Rule 223-2. Administrative procedures and guidelines for staff to follow enforcing the policy and procedures for complaints are established and available at the library. (Note: Rule 223-2 is a State law.)

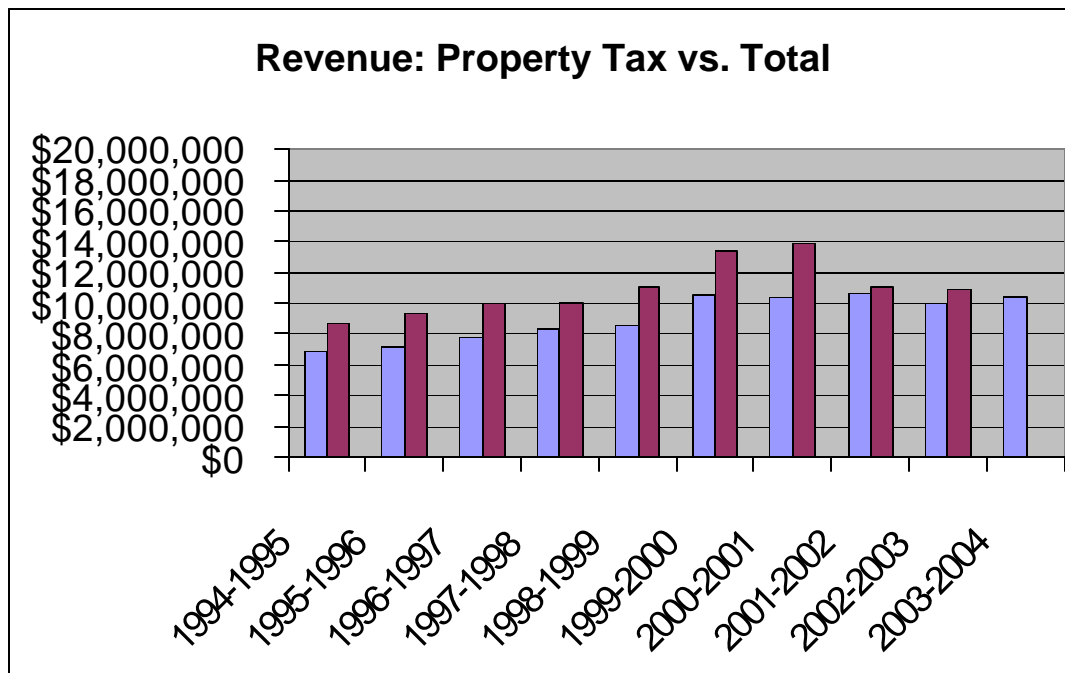
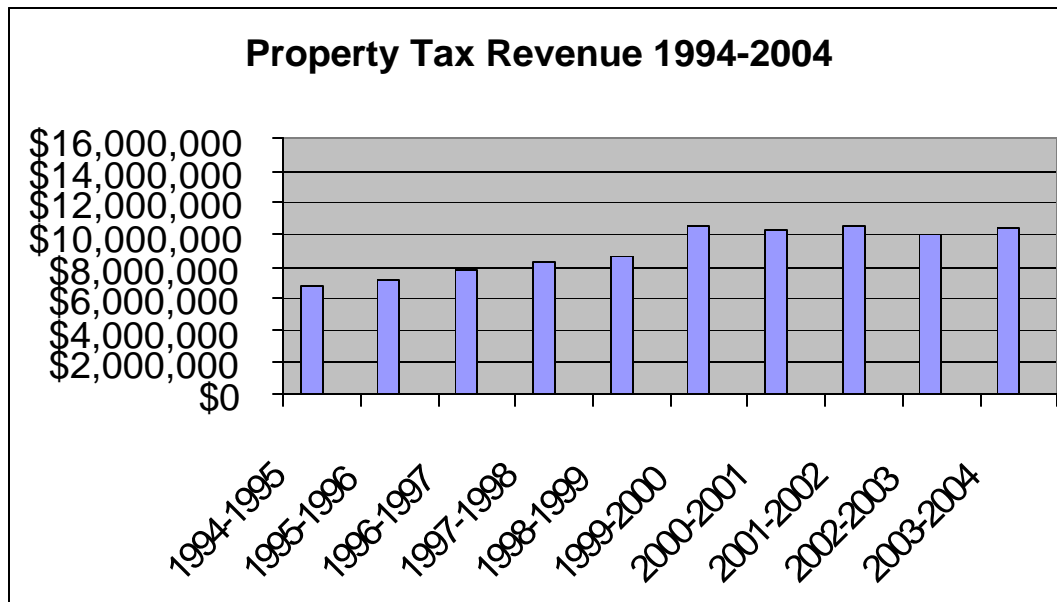
The Library Board of Directors is considering whether to install a filtering system or forego state funds. According to System administrators, the Utah State Library Division is interpreting the new law to mean that libraries that do not install filters would not be eligible for state grant funds. Those grants equal about \$22,000, according to City Library System administrators. However, it should be noted that in early discussions involving HB 341 some interpreted the new law to mean that a public library that did not install filters could not use the statewide education network. Library System administrators are exploring the potential of using other Internet providers to provide an Internet connection equivalent to the statewide network if the law is interpreted differently in the future and if the Library Board decides not to install a filter. If the Board decides to install a filter, its installation would be included in the estimated \$300,000 to install to purchase and operate equipment to track the use of copier paper at Internet terminals so the System could charge for paper use, and schedule the use of Internet terminals. It should be noted that the proposed budget that does not include a property tax increase has no funds earmarked for the installation of that equipment.

DISCUSSION:

REVIEW OF LIBRARY SYSTEM REVENUE FOR FISCAL YEAR 2004-2005

The following is a series of charts intended to indicate: Salt Lake City Library System actual property tax revenue over the last 10 years: a comparison of actual property tax revenue to

actual total revenue over the last nine years, projected revenue if a property tax increase is adopted; and projected revenue if a property tax increase is not adopted.



Again, the two charts above are intended to depict a couple of things. The first chart indicates the flow of actual property tax revenue in the last 10 years. Between Fiscal Years 1995 and 1999 there appears to be small but steady growth in property tax revenue. Fiscal Years 2000 to 2002 appear to indicate the effects of the last property tax increase. The remaining fiscal years appear to indicate a leveling off of property tax revenue. The second chart is meant to depict the Library System's historical reliance on property tax revenue to the System's total budgets. Total

revenue for Fiscal Year's 1999, 2000, and 2001 are somewhat skewed because, although they do not contain revenue from the \$84 million bond to build the new Main Library, they contain interest earned from that revenue. Total actual revenue for Fiscal Year 2004 was not available because the fiscal year has not ended.

PROPOSED REVENUE BUDGET WITH PROPERTY TAX INCREASE

Major Category	Adopted 2003-2004	Proposed 2004-2005	Difference	Percent
Property tax	\$10,250,276	\$11,934,338	\$1,684,062	16.43%
Interest	125,000	45,000	(\$80,000)	-64.00%
Grants/Donations	347,411	185,000	(\$162,411)	-46.75%
Fines/Copy Charges/Intergovernmental	446,626	532,000	\$85,374	19.12%
Capital Fund Balances	750,000	250,000	(\$500,000)	-66.67%
TOTAL	11,919,313	12,946,338	1,027,025	8.62%

PROPOSED REVENUE BUDGET WITHOUT PROPERTY TAX INCREASE

Major Category	Adopted 2003-2004	Proposed 2004-2005	Difference	Percent
Property tax	\$10,250,276	\$10,547,013	\$296,737	2.89%
Interest	125,000	40,000	(\$85,000)	-68.00%
Grants/Donations	347,411	165,000	(\$182,411)	-52.51%
Fines/Copy Charges/Intergovernmental	446,626	431,000	(\$15,626)	-3.50%
Capital Fund Balances	750,000	250,000	(\$500,000)	-66.67%
TOTAL	11,919,313	11,433,013	-486,300	-4.08%

Comparing the two proposed budgets one might note the following. Except for an increase in fines, copy charges and intergovernmental revenue category all other revenue categories are projected to decrease. The increase in the lone category is based on the Library Board's recommendation to double the fine for overdue books from 10-cents to 20-cents a day. Income in that category is projected to decline in the revenue budget without a property tax increase because it is assumed that libraries within the System would not be open for as many hours as they currently are. It should be noted that in both charts total property tax revenue includes property taxes projected to be allocated to capital funds as well as operations.

(Expenditure Charts are on Page 7.)

EXPENSES BY MAJOR CATEGORIES WITH PROPERTY TAX INCREASE

Major Category	Adopted 2003-2004	Proposed 2004-2005	Difference	Percent Change
Personal Services	\$ 7,560,000	\$7,964,637	\$ 404,637	5.35%
Materials/Supplies	1,655,313	2,229,701	574,388	34.70%
Charges/Services	684,000	744,000	60,000	8.77%
Capital Outlay & Improvements	1,708,000	1,708,000	-	0.00%
Operating Contingency	312,000	300,000	(12,000)	-3.85%
Total	\$ 11,919,313	\$ 12,946,338	\$ 1,027,025	8.62%

EXPENSES BY MAJOR CATEGORIES WITHOUT PROPERTY TAX INCREASE

Major Category	Adopted 2003-2004	Proposed 2004-2005	Difference	Percent Change
Personal Services	\$ 7,560,000	\$ 7,657,013	\$ 97,013	1.28%
Materials/Supplies	1,655,313	1,560,000	(95,313)	-5.76%
			-	-
Charges/Services	684,000	603,000	(81,000)	11.84%
Capital Outlay & Improvements	1,708,000	1,613,000	(95,000)	-9.40%
			-	-
Operating Contingency	312,000	150,000	(162,000)	51.92%
Total	\$ 11,919,313	\$ 11,583,013	\$ (336,300)	-2.82%

Much of the proposed budget expenditures in the first chart were covered in the *Key Points* section of this report. However, it should be noted that the \$574,388 figure in the Materials and Supplies category includes Library System supplies related to the purchase of materials such as books and audio and visual items. It also might be worth repeating that the Library System did not fund merit raises to qualified employees during the current fiscal year. The System did give employees a 2 percent cost-of-living increase in January.

Other items that may be of interest include:

- Both budgets have what appear to be fixed costs for utilities. In the proposed budget that includes a property tax increase the Library System projects a \$50,000 increase from \$65,000 to \$115,000 for heating and fuel; a \$115,000 increase from \$195,000 to \$310,000 for electrical lights and power; and a \$15,000 increase from \$25,000 to \$40,000 for water use. In the proposed budget that does not include the proposed property tax increase the figures are slightly less because that budget assumes System libraries would be open fewer hours.
- Both budgets contain an increase for paying contract security firms to help maintain order in the Main and branch libraries. The proposed budget with a tax increase would allocate \$145,000. The proposed budget without a tax increase

would allocate \$120,000. Security contracts used to be included in the Library System's Buildings & Equipment Contract Services line item. However, issues involving public order at all libraries prompted administrators to separate and plan increases for security services.

- Both budgets appear to assume that total capital expenditures would be the same at \$555,000 for the next fiscal year. The figure includes \$200,000 to purchase property for a new branch library in Council District No. 2.

The proposed budget that does not contain the proposed property tax increase includes:

- Spending \$300,000 less for audio and visual items.
- Spending \$45,000 more from \$15,000 to \$60,000 for State unemployment compensation.
- Eliminating the Utah Transit Authority bus pass program for employees for a savings of \$6,000.
- Increasing the allocation for legal attorneys from \$3,000 to \$25,000.

The main basis of the proposed budget without a property tax increase is to have libraries within the System open fewer hours. That must be weighed against a 4 percent to 5 percent increase in the use of libraries system-wide, and a 17 percent increase in the use of the Main Library over the previous year when it opened.

Cc: Cindy Gust-Jenson, Nancy Tessman, Rocky Fluhart, Steve Fawcett, Gary Mumford, Michael Sears

File Location: Salt Lake City Library System