
M E M O R A N D U M

DATE: May 29, 2009
TO: City Council Members
FROM: Russell Weeks, Jennifer Bruno
RE: Salt Lake City Public Library Systems: Potential Property Tax Options
CC: Cindy Gust-Jenson, David Everitt, Beth Elder, Gordon Hoskins, Frank Gray, Rick Graham, Wilf Sommerkorn, Gina Chamness, Pat Comarell, Mary De La Mare Schaefer

This memorandum is intended to help further the City Council discussion about a potential property tax increase for the Salt Lake City Public Library System. The City Council raised the issue for discussion purposes at its May 26 work session. The Library System's proposed budget for Fiscal Year 2009-2010, which the Library Board of Directors presented to the City Council for consideration, does not contain a proposal for a property tax increase.

The memorandum contains two attachments. One is a table of potential items that might be funded by a property tax increase. The other is a memorandum dated January 30, 2009, and updated on May 26, 2009. The second memorandum was used in meetings with the City Council Finance Subcommittee in February and in the City Council's May 26 meeting that focused on a variety of budget issues pertaining to the Library System.

The table uses as its starting point the estimated current property taxes the Library System would collect from a house valued at \$280,000 and a business valued at \$1 million. The \$280,000 figure is the value of a residence that the City Council used in August 2008 to advertise a truth-in-taxation hearing. It was the median home value for Salt Lake City in Fiscal Year 2009, according to Salt Lake County which provided the figure. If the City Council adopts the budget presented by the Library Board, City Council staff estimates the owner of a residence valued at \$280,000 would pay \$95.32 in property taxes to support the Library System. A business valued at \$1 million would pay \$618.

Item No. 2 is in response to the City Council's discussion about holding the Library System's tax rate constant year-in and year-out similar to the practice of the Metropolitan Water District of Salt Lake City and Sandy.

Item No. 3 is the estimated cost of opening the Anderson-Foothill, Sweet and Chapman branch libraries on Sundays.

Item No. 4 is the estimated cost of maintaining the Library System's share of the heating and cooling system mechanical plant for the Main Library, the City & County Building and The Leonardo. The item is a new cost for the Library System in the next fiscal year.

Item No. 5 involves \$500,000 that the Library System's proposed budget for Fiscal Year 2009-2010 from the System's operating fund balance. The operating fund balance currently contains \$1,698,033 in unreserved funds. If one subtracts the \$500,000 from the unreserved funds, the operating fund balance is \$1,198,033. Library System administrators have indicated that the proposed budget for FY 2009-2010 sets aside another \$698,033 to meet the state legal requirement for maintaining fund balances.¹

Ordinarily, the Library System transfers unspent money from its operating budget to capital reserves as a way to save toward either buying land for branch libraries or building branch libraries.

It should be noted that the proposed budget projects spending about \$1 million of current unreserved capital funds for a variety of capital improvements in the next fiscal year.² (Please see Item No. 7 on attached table.)

It should be noted that if one includes roughly \$2.4 million in unreserved funds for capital improvements to the operating fund balance (Utah law requires no capital reserves), the Library System would have a total of about \$3.598 million in unreserved fund balance if the City Council adopts the proposed budget.

Item No. 6 involves the estimated cost of operating a new branch library in either the Glendale or West Capitol Hill areas. The figure is taken from the attached memorandum that was given to the City Council on May 26.

Item No. 7 is the \$1 million amount previously discussed at the end of Item No. 5. The proposed Library System budget projects capital expenses for improvements to the Children's Library at the Main Library; designing and building a new Internet web site; replacing heating and cooling systems at the Sprague, Sweet and Anderson-Foothill branch libraries; installing self-check-out equipment at all branch libraries and installing electronic message screens at all branch libraries.

Item No. 8 would restore projected use of unreserved fund balances in the Library Systems operating and capital fund balances.

Item No. 9 contains a figure that would generate one year of operating costs for branch libraries in Glendale and West Capitol Hill. The amount might be used to purchase land in West Capitol Hill for a branch library. (The Library System already has acquired a site in Glendale.) The amount also might be used for construction costs of either or both branches.

Item No. 10 is the estimated costs of the Library Systems future funding needs including operating costs for the Glendale and West Capitol Hill branch libraries, ongoing capital and technology needs, the estimated cost of the Library System's share of maintaining the capital plant at that serves the Main Library, the City & County Building and The Leonardo, and Sunday hours at Anderson-Foothill, Sweet and Chapman branch libraries.

Item No. 11 is the estimated cost of generating enough money over five years to buy land in West Capitol Hill for a branch library and building branch libraries there and in Glendale.

It should be noted that none of the items above includes sums for addressing increases to employee salaries and wages and benefits over the next five years, something Library System administrators say needs to be addressed.

OTHER ISSUES

During the City Council discussion on May 26, some Council Members raised questions about potential increases in Library System employees' salaries. According to Library System administrator's, the projected \$141,357 increase in salaries and wages in the proposed budget would pay for five new employees who would:

- Conduct technology classes and training to the public.
- Provide literacy outreach to children five years old and younger.
- Develop a new Internet Web page and manage its content.

According to Library administrators, the new employees would account for about \$60,000 in new salaries and wages, the remaining \$81,357 is projected to be used for employee merit increases.

The Library System employs about 275 people full- and part-time – the equivalent of 179 full-time employees. Of the 275 people, about 200 are eligible for merit increases. Of the 200, roughly one-third (66 people) generally receive one-half of a standard merit increase. The remaining two-thirds (134 people) in the past have received a roughly 2 percent to 5 percent merit increase, according to Library System administrators. Under the proposed budget, the two-thirds eligible for a merit increase would receive on average somewhere between a 1 percent and 3 percent increase. The one-third who receive roughly half the standard increase would receive a one-time check that would not be part of their base salaries in future years.

It should be noted that health care costs under the Public Employees Health Program Local Government Risk pool are projected to rise by 9.5 percent in the next fiscal year. They increased 8.22 percent in Fiscal Year 2008-2009.³ The Library System contributes an equal amount to each salaried member of the System's staff to support the health insurance program.⁴ The System pays for 100 percent of a basic package. If an employee wants more coverage, he or she pays the difference in the cost of the premium. Employees pay the full amount of premiums for any family members, according to System administrators.

¹ *Proposed Budget Salt Lake City Library System 2009-2010*, Salt Lake City Council Staff Report, Russell Weeks, May 6, 2009, Pages 2 and 3.

² *Ibid.*, Page 3.

³ *Proposed Budget Salt Lake City Library System 2009-2010*, Salt Lake City Council Staff Report, Russell Weeks, May 6, 2009, Page 4.

⁴ *Operating and Capital Budget Fiscal Year 2009-2010*, Salt Lake City Public Library System, Page 20.

Salt Lake Public Library Systems Potential Property Tax Options				
Number	Options (\$ amount)	Items Funded	Projected Yearly Increase to Homeowner (\$280k home)	Projected Yearly Increase to Commercial (\$1 million commercial)
1	No Tax Increase	Proposed Budget for FY 2009-2010 (This line is the base cost to homeowners and businesses.)	\$95.32	\$618.00
2	Maintain Current Tax Rate (assuming a \$2 billion growth in assessed value, this would effectively result in a \$1.2 million tax increase)	Ongoing Items	\$10.64	\$69.00
3	\$100,000	Sunday hours at Anderson-Foothill, Sweet and Chapman libraries.	\$0.93	\$6.00
4	\$103,900	Boiler Room Operating Costs.	\$0.93	\$6.00
5	\$500,000	Restore \$500,000 to \$1.7 million operating fund balance. Fund increased maintenance and boiler room operating costs. Fund increase in bringing purchase of materials to 15 percent industry standard. Fund increase in personnel costs including five new employees.	\$4.32	\$28.00
6	\$825,000	Generates one year of estimated annual operating cost for one branch library either in Glendale or West Capitol Hill. May be used for or construction of either or both libraries.	\$7.09	\$46.00
7	\$1 million	\$1 million restored to \$3.4 million unreserved capital fund balance. Capital improvements made to Main and three branch libraries. Self-checkout equipment and LCD screens installed at all branch libraries. New website designed and built.	\$8.64	\$56
8	\$1.5 million	All items in Number 5 and Number 7.	\$12.80	\$83.00
9	\$1.65 million	Generates one year of estimated annual operating cost for both branch libraries in Glendale and West Capitol Hill. May be used for land purchase or construction of either or both libraries.	\$14.19	\$92.00
10	\$2.3 million	Cost of estimated annual funding needs including operating costs of Glendale and West Capitol Hill branch libraries, boiler room maintenance, Sunday hours at three branches, and ongoing capital needs.	\$19.74	\$128.00
11	\$3.44 million	Generates about \$17.2 million over five years to pay for construction of branch libraries in Glendale and West Capitol Hill plus West Capitol Hill land acquisition.	\$29.46	\$191.00

City Council Finance Committee
January 30, 2009, updated 5/26/09

Questions to the City Council Finance Committee

- What are the potential funding sources for the construction of new branch libraries and other capital needs?
- Is a tax rate increase for new annual operating needs a possibility?
- How should the Library proceed?

Statement of Need

For many years, new branch libraries in the communities of Glendale and W. Capitol Hill have been under discussion. A bond in 2003 was unsuccessful, failing to pass by only 149 votes.

Libraries in these neighborhoods could prove a powerful catalyst for building community, economic development and educational support. In the article "Ten Trends Shaping the Future of Our Communities" January 2009, trend #5 is that of Libraries Emerging As New Town Squares, "they already provide a resource center for their communities, but many of them are now...civic centers that foster a sense of community and offer a unique gathering place...virtual and literal town squares for their neighborhoods and downtowns."

New one time funding needs (estimates)

Construction Glendale Library*	\$8.2 million
Construction and land W. Capitol Hill Library	\$9 million
Library Square integration	\$?
Tech Upgrade (rfid, auto check-in, network core repl)	<u>\$3 million</u>
	\$21.2 million

**New Branch Construction Costs based on general estimates, as follows*

<i>Construction (\$235 x 20,000 sf)</i>	<i>\$4,700,000</i>
<i>Collection (\$20 x 100,000 items)</i>	<i>\$2,000,000</i>
<i>Furnishings (\$35 x 20,000 sf)</i>	<i>\$ 700,000</i>
<i>Consulting (8%)</i>	<i>\$ 376,000</i>
<i>Technology</i>	<i>\$ 250,000</i>
<i>Art, Landscaping, Misc.</i>	<i><u>\$ 210,000</u></i>
	<i>\$8,236,000</i>

New annual funding needs (estimates)

Operating costs for Glendale Library**	\$825,000
Operating costs for W. Capitol Hill Library	\$825,000
Ongoing Capital/Technology needs	\$400,000
Boiler maintenance cost	\$150,000
Sunday hours at Foothill, Sweet and Chapman	\$100,000
Method for managing inflation (5% per year)	<u>\$?</u>
	\$2,300,000+

***New Branch Operating Costs based on general estimates, as follows*

<i>Personnel (11 FTE)</i>	<i>\$480,000</i>
<i>Materials</i>	<i>\$200,000</i>
<i>Maintenance</i>	<i>\$125,000</i>
<i>Services</i>	<i>\$ 25,000</i>

Library Funding Background

Library Revenue

The Library's 2008-09 anticipated revenues are \$13,575,448. This figure was used to develop the Library's 2008-09 Operating and Capital budgets.

Utah law 9-7-401 establishes a "city library fund" for municipal libraries but limits the amount a city's library fund can raise to .001 of the "taxable value of taxable property" within a city.

The Library's tax rate is currently set at .000618

Property Tax Revenues (.000618)	\$11,125,968	82%
Misc. Taxes and Fees	\$ 1,319,480	10%
Other Revenues	\$ 1,130,000	8%

Property Tax Revenues: In 2008, with a tax rate set at .000618, an average household paid \$77.85 in taxes for the Library on a home valued at \$229,030 (median owner-occupied housing value at 55% taxable value).

Additional Tax Collections: Delinquent taxes, motor vehicle fees, and miscellaneous collections received from the Salt Lake County Treasurer.

Other revenues: Fines (3.1%), interest (2.5%), donations and grants (1.2%), leased space (0.5%), events/conference fees (0.2%), copier/printer and sundry (0.5%).

Library Operating and Capital Budgets

Each year the tax rate funding level is set by the City Council. Generally, it is set to produce the same level of funding as the previous year.

The Library's 2008-09 Operating and Capital Budgets fund the following areas:

Personnel	\$9,017,643	66%
Materials	\$1,878,805	14%
Buildings and Grounds	\$1,278,000	10%
Services	\$1,151,000	8%
Capital Improvements	\$ 250,000	2%

The Library receives heavy use from the community. Last year, the Library had:

- More than 3.5 million visits
- 3.4 million items circulated
- 3.8 million hours of computer/internet access
- 2,600 programs.

Operating and Capital Fund Balances

If during the course of a year, the tax rate generates more funds than anticipated, the Library generally transfers any excess operating funds to the capital fund balance to support capital projects.

In a year when the tax rate generates less funds than anticipated, the Library must make year end adjustments to bring the budget in line with actual revenues. Depending upon the amount of the deficit, funds from the operating or capital fund balance may be needed to cover the deficit.

In recent years, excess funds have been generated that have been set aside in Operating and Capital Fund Accounts. "Reserved" Funds, which often come from grants and gifts may only be used for designated projects identified by the donor or grantee.

"Unreserved" Funds provide a buffer against emergencies and unforeseen shortfalls or can contribute to the funding of larger projects. For several years, there has been discussion about using a portion of these funds to build a Glendale Branch Library.

As of June 30, 2008, balances were:

<i>Operating Fund Balance (Reserved)</i>	<i>\$212,150</i>
<i>Capital Fund Balance (Reserved)</i>	<i>\$597,605</i>
 Operating Fund Balance (Unreserved)	 \$1,698,033
Capital Fund Balance (Unreserved)	\$3,421,401

We believe it is prudent to carry a balance in the Operating Fund Balance (Unreserved) of 10% of total annual revenues (\$1,300,000).

Increasing the Tax Rate

The last Library tax rate increase was in 2004-05.

The highest certified tax rate for the City Library was in 1993-94 at .000934. Listed below are the tax rates for the past nine years:

2000	.000781
2001	.000773
2002	.000755
2003	.000777
2004	.000887 (tax rate increase for Main Library operating)
2005	.000869
2006	.000762
2007	.000657

2008 .000618

Because home values have been increasing, the tax rate has been decreased but continues to generate revenues at the same level as the previous year. In order to increase the tax rate, proposed budget increases must be advertised to the public as a tax increase and public hearings must be held.

Increased tax rates based on 2008 Property Tax values would produce the following additional revenues:

Tax Rate	Revenue Produced	Change	Change in taxes for Avg. Household
— .000618	\$11,125,968		\$77.85
.000700	\$12,602,229	+\$1,476,261	\$88.18
.000800	\$14,402,548	+\$3,276,580	\$100.77
.000900	\$16,202,866	+\$5,076,898	\$113.37