

Meeting Date: 12/17/2013

Report Type: Staff/Discussion

Report ID: 2013-00906

Title: Library Parcel Tax Update and Election Procedures

Location: Citywide

Issue: In 2004, more than 70% of Sacramento voters renewed a library parcel tax to facilitate the Sacramento Public Library's ability to deliver quality library services to citizens. In order to stabilize library funding and avoid deep service level cuts, it is necessary to consider updating and extending the parcel tax.

Recommendation: Provide direction to the City Manager related to the consideration of updating and extending the Sacramento Public Library parcel tax.

Contact: Rivkah K. Sass, Library Director, (916) 264-2830, Sacramento Public Library; Leyne Milstein, Director of Finance, (916) 808-8491, Department of Finance; Mark Prestwich, Special Projects Manager, (916) 808-5380, Office of the City Manager

Presenter: Rivkah K. Sass, Library Director, (916) 264-2830, Sacramento Public Library

Department: External Funded Programs

Division:

Dept ID:

Attachments:

1-Description/Analysis

2-Background

City Attorney Review

Approved as to Form

Michael W. Voss

12/11/2013 2:54:43 PM

Approvals/Acknowledgements

Department Director or Designee: Leyne Milstein - 12/11/2013 10:26:43 AM

Description/Analysis

Issue Detail: The Sacramento Public Library (SPL) system is facing a severe funding challenge that will result in significant service level reductions within two years if not addressed soon. In 2004, when the library tax was renewed by more than 70% of Sacramento voters, the tax partially supported the operations of nine libraries. Since that time, the City has constructed three new libraries, resulting in an additional \$2.9 million in operational expenses in fiscal year (FY) 2013/14 and similar amounts annually.

Currently, the parcel tax provides \$4.8 million toward the \$13.4 million FY 2013/14 operating budget, or approximately 36% of the needed resources. Even with this revenue and the \$7.6 million contribution from the City's General Fund, SPL will require a \$464,500 subsidy from its reserve this year in order to maintain existing service levels. This subsidy is projected to grow to \$992,877 in FY 2014/15 as operational expenses, including employee pension costs, health insurance premiums, and other costs, are growing faster than available revenue. This is the case even after steps have been taken to reduce costs, such as reducing library hours and staff. Given one-time reserves are being used at an unsustainable rate for ongoing operational costs, and the parcel tax sunset on June 30, 2017, a long-term strategy is necessary to ensure library services throughout the city continue uninterrupted and at levels desired by the community into the future. This report outlines possible options designed to stabilize the library system.

Policy Considerations: A parcel tax requires two-thirds voter approval. The next available election is June 2014.

Economic Impacts: Not applicable.

Environmental Considerations: Not applicable.

Sustainability: Not applicable.

Commission/Committee Action: Not applicable.

Rationale for Recommendation: In order to stabilize funding and protect programs and services for the SPL, it is necessary to consider renewal and/or adjustment of the City's library parcel tax.

Financial Considerations: Three libraries were added to the SPL system in 2009 and 2010, resulting in increased operational expenses without a corresponding adjustment in the City's parcel tax. Because of these added libraries and operating expenses that are rising faster than available revenues, the value of the City's library parcel tax has been diluted resulting in an operation that is relying on a one-time fund balance that is rapidly being consumed to support current operations. In order to stabilize funding for the library and address the forthcoming expiration of the existing tax, it is necessary to consider parcel tax options that will provide long-term funding solutions for the desired level of service. Because of current stresses on the City's General Fund, it is not practical

to increase the City's existing \$7.6 million contribution without reducing other City services.

Local Small Business Enterprise (LBE): Not applicable

Background

On November 2, 2004, 72.38% of City of Sacramento voters voted to replace the City's library special assessment with an equivalent parcel tax (Measure X). The parcel tax went into effect on July 1, 2007, and will expire on June 30, 2017. The measure includes an annual cost of living adjustment (COLA) tied to adjustments in the consumer price index (CPI) and includes a required Maintenance of Effort (MOE) contribution from the General Fund of \$7.6 million. The parcel tax was designed to supplement the City's General Fund contribution to SPL and enhance library services in City branches including expanded services to children, improved technology, additional hours of operation, and new library services. The current parcel tax, which consists of a variety of tax rates depending on property type, is projected to generate \$4.8 million this fiscal year. The current residential parcel tax rates are summarized below:

Table 1. Current Residential Parcel Tax Rates

Residential Parcel Types	Amount
Single-Family (SFR)	\$29.92
Multi-Family ¹	
a. 1-4 units (per unit)	\$22.44
b. 5-15 units (per unit)	\$14.96
c. 16+ units (per unit)	\$7.48
Condominiums	\$22.44
Mobile Homes	\$14.96

¹ Add a. plus b. plus c. for total Multi-Family tax per parcel

THE CHALLENGE

The SPL's funding challenge is attributable to several factors. First, since Sacramento voters renewed Measure X, SPL has added three new libraries (a 33% increase) to the nine libraries in existence when the measure was approved. The operating expenses associated with the new Valley Hi-North Laguna, North Natomas, and Robbie Waters Packet-Greenhaven libraries have significantly reduced the capacity of the parcel tax to support and maintain library services citywide. SPL lacks sufficient resources to adequately provide for refreshing computers, maintaining collections, programming, and maintaining operating hours at all Sacramento City libraries.

Additionally, due to the deep recession, the City's General Fund contribution was reduced temporarily. As a result of these factors and in order to maintain service levels at the expanded number of libraries, it has been necessary for SPL to utilize reserves to fund ongoing operations. In fact, the current FY 2013/14 SPL budget requires a \$464,500 subsidy to balance and maintain service levels. Due to operating expenses rising faster than available funding, the subsidy is projected to grow to \$992,877 in FY 2014/15 and \$1.3 million in FY 2015/16. General Fund library reserves are expected to be exhausted by the conclusion of FY 2015/16 if no adjustments are made.

It's also important to note that Measure U temporary sales tax proceeds currently provide \$507,000 annually toward the City's \$7.6 million MOE General Fund library contribution. Because Measure U funding is set to expire on March 31, 2019, it will be necessary for the City's General Fund to provide an additional \$507,000 annually thereafter to ensure the MOE requirements of the library tax are met; consequently, further stress will be added to the City's General Fund reducing its ability to provide additional contributions without reducing services in other areas.

The following chart identifies the unsustainable nature of the SPL operation moving forward even with continuation of the current parcel tax.

Table 2. SPL Forecast

Revenues	FY13/14	FY14/15	FY15/16	FY16/17	FY17/18
General Fund Contribution	7,128,500	7,128,500	7,128,500	7,128,500	7,128,500
Interest, fines/fees, other	534,000	534,000	534,000	534,000	534,000
Measure U MOE Restoration	507,000	507,000	507,000	507,000	507,000
Parcel Tax Revenues ¹	4,928,846	5,024,623	5,122,315	5,221,962	5,323,601
Annual Revenues	13,098,346	13,194,123	13,291,815	13,391,462	13,493,101
Expenditures					
Projected General Fund Expenditures ²	8,634,000	9,152,000	9,472,000	9,804,000	10,147,000
Projected Parcel Tax Expenditures ³	4,795,000	5,035,000	5,186,000	5,342,000	5,502,000
Annual Expenditures	13,429,000	14,187,000	14,658,000	15,146,000	15,649,000
Adjusted for Special Tax Annual Results	(133,846)				
Annual Operating Results	(464,500)	(992,877)	(1,366,185)	(1,754,538)	(2,155,899)
Beginning General Fund Fund Balance	2,494,262	2,029,762	1,036,885	(329,299)	(2,083,838)
Ending General Fund Fund Balance⁴	2,029,762	1,036,885	(329,299)	(2,083,838)	(4,239,736)

¹Assumes voter approval of continuation of existing parcel tax. Revenue assumes 2% growth annually.

²Assumes 6% growth in FY2013/14 and 3.5% growth annually thereafter.

³Assumes 5% growth in FY2013/14 and 3.0% growth annually thereafter.

⁴Current parcel tax is restricted to specific categories of expenditures and cannot be used to close this operational gap.

LIBRARY USAGE INCREASING

The SPL's fiscal challenges arise at a time patrons are utilizing services at an increasing pace, as evidenced by increases in both general attendance and specific programs. Citizens are using the City's libraries to learn new skills, search for jobs, prepare young people for school and careers, read for pleasure, and research small business opportunities. In addition, the City's libraries serve as a community gathering place.

Since 2008, City of Sacramento libraries have experienced significant increases in usage including an 86% increase in program attendance, a 30% increase in the number of residents with library cards, and an 11% increase in the number of visits to City libraries. At the same time service to the public increased, staff in City libraries was reduced by 12.6%.

SPL OPERATIONAL EFFICIENCY

When comparing SPL with peer California library systems, a 2011 report by the Institute for Museum and Library Services (Institute) determined the Library's staffing ratios to be very efficient.

Table 3. Per Capita Staffing Ratios

Library Name	Libraries	Population of Service Area	Staff	Staff/1K Population	Librarians/1K Population
Contra Costa County Library	27	951,844	175.2	0.18	0.06
Sacramento Public Library*	28	1,355,916	259.5	0.19	0.06
Orange County Public Library	30	1,521,999	327.0	0.21	0.08
San Diego County Library	35	1,058,778	267.7	0.25	0.07
Los Angeles Public Library	74	3,810,129	937.0	0.25	0.09
San Diego Public Library	37	1,311,882	359.2	0.27	0.07
Long Beach Public Library	13	463,894	133.0	0.29	0.10
San Jose Public Library	21	958,789	300.6	0.31	0.09
County of Los Angeles	90	3,340,309	1143.0	0.34	0.07
San Francisco Public Library	33	812,820	617.0	0.76	0.22

*Sacramento Public Library includes 16 libraries located outside City limits

The Institute's 2011 report also concluded the Library's per capita operating expenditures were among the lowest when compared with these same agencies.

Table 4. Per Capita Operating Expenditures

Library Name	Per Capita Operating Expenditures
Contra Costa County Library	\$24.33
Orange County Public Library	\$25.25
Sacramento Public Library	\$26.38
Long Beach Public Library	\$26.68
San Diego County Library	\$27.99
Los Angeles Public Library	\$29.68
San Jose Public Library	\$32.63
County of Los Angeles	\$34.71
San Diego Public Library	\$54.91
San Francisco Public Library	\$100.17

OPTIONS FOR CONTINUED SPL SUPPORT

Staff has identified three funding alternatives to address the projected funding gap. Each strategy relies on the continued efficient and lean staffing model employed by the library, as well as support from a parcel tax.

Options	June 2014	June 2016	Effect on SPL Services
1		Renew existing parcel tax	Requires reduction of services over time, including closure of libraries.
2	Add \$12 supplemental parcel tax for SFR (with proportional adjustments for other uses)		Stabilizes library funding and immediately corrects deficit.
3	Replace existing SFR \$30 parcel tax with \$49 parcel tax (with proportional adjustments for other uses)	Renew existing parcel tax	Stabilizes library funding and immediately corrects deficit; provide opportunity to increase service levels.

Option 1: \$30 Renewal – This option requires renewal of the existing parcel tax in June 2016 or before. Without new revenue exceeding the current parcel tax to cover the cost of the City’s three new libraries, it will likely be necessary to close multiple libraries or significantly reduce service levels, operating hours, and staffing at City libraries.

Option 2: \$12 Supplemental Parcel Tax/Renewal – A supplemental measure will require voter approval on June 3, 2014, along with a renewal of the existing parcel tax in June 2016. This option will provide the library with the necessary resources to stabilize and sustain operations at all 12 libraries through FY 2017/18. However, absent additional resources, or service level reductions, the expenditures will outpace projected revenue growth over the long term.

Option 3: \$49 Parcel Tax – A tax of this amount, combined with the \$7.6 million General Fund contribution, will provide the library with the opportunity to immediately correct the funding imbalance and stabilize library funding. Additionally, the resulting growth in projected fund balance could provide an opportunity to expand library operations to six days a week at some City libraries.

Exhibits A thru D, attached below, demonstrate the effect of Options 2 and 3 on SPL projected net fund balance through FY 2017/18. It is important to note that delaying a vote from June 2014 to November 2014 postpones the receipt of parcel revenues by a full year given the timing of property tax assessments and billing. This results in a reduction in fund balance of approximately \$2 million for the \$12 supplemental approach (Option 2) and approximately \$3 million for the \$49 approach (Option 3).

Option 2 corrects fund balance challenges through FY 2017/18; however, there may be a need to adjust service levels or the City’s General Fund contribution should the fund balance continue to decline beyond FY 2017/18. Option 3 provides an immediate remedy

to the operating gap, resulting in a sustainable long-term funding solution that presents a possible opportunity to enhance service levels given the rising fund balance over time.

ELECTION PROCEDURES

Should the City Council desire to place a measure on the June 2014 ballot, a measure must be approved by ordinance by January 21, 2014. The election timeline below outlines additional election deadlines.

Date	Description
January 14, 2014	Pass for Publication on City Council agenda including review of the 75-word ballot measure and ordinance language.
January 21, 2014	Public Hearing/Adoption of Ordinance subject to voter approval
January 28, 2014	Council adopts resolutions submitting measure (question/text) to the ballot.
February 28, 2014	Due date for Arguments (not to exceed 300 words). All arguments shall be accompanied by a Statement of Argument Authors form.
March 10, 2014	Due date for Rebuttals (not to exceed 250 words). All rebuttals shall be accompanied by a State of Argument Authors form.
June 3, 2014	Election Day. Polls open 7:00 a.m. to 8:00 p.m.

Exhibit A - Supplemental \$12 Parcel Tax (June 3, 2014 Election)

<u>Revenues</u>	<u>FY13/14</u>	<u>FY14/15</u>	<u>FY15/16</u>	<u>FY16/17</u>	<u>FY17/18</u>
General Fund Contribution	7,128,500	7,128,500	7,128,500	7,128,500	7,128,500
Interest, fines/fees, other	534,000	534,000	534,000	534,000	534,000
Measure U MOE Restoration	507,000	507,000	507,000	507,000	507,000
Parcel Tax Revenues ¹	4,928,846	5,024,623	5,122,315	5,221,962	5,323,601
Additional \$12		1,905,150	1,935,000	1,973,000	2,013,000
Annual Revenues	13,098,346	15,099,273	15,226,815	15,364,462	15,506,101
<u>Expenditures</u>					
Projected General Fund Expenditures ²	8,634,000	9,152,000	9,472,000	9,804,000	10,147,000
Projected Parcel Tax Expenditures ³	4,795,000	5,035,000	5,186,000	5,342,000	5,502,000
Annual Expenditures	13,429,000	14,187,000	14,658,000	15,146,000	15,649,000
Adjusted for Special Tax Annual Results	(133,846)				
Annual Operating Results	(464,500)	912,273	568,815	218,462	(142,899)
Beginning General Fund Fund Balance	2,494,262	2,029,762	2,942,035	3,510,851	3,729,312
Ending General Fund Fund Balance⁴	2,029,762	2,942,035	3,510,851	3,729,312	3,586,414

¹Assumes voter approval of continuation of existing parcel tax. Revenue assumes 2% growth annually.

²Assumes 6% growth in FY2013/14 and 3.5% growth annually thereafter.

³Assumes 5% growth in FY2013/14 and 3.0% growth annually thereafter.

⁴Current parcel tax is restricted, assumes additional \$12 can be used on all GF operations.

Exhibit B - Supplemental \$12 Parcel Tax (November 2014 Election)

<u>Revenues</u>	<u>FY13/14</u>	<u>FY14/15</u>	<u>FY15/16</u>	<u>FY16/17</u>	<u>FY17/18</u>
General Fund Contribution	7,128,500	7,128,500	7,128,500	7,128,500	7,128,500
Interest, fines/fees, other	534,000	534,000	534,000	534,000	534,000
Measure U MOE Restoration	507,000	507,000	507,000	507,000	507,000
Parcel Tax Revenues ¹	4,928,846	5,024,623	5,122,315	5,221,962	5,323,601
Additional \$12			1,935,000	1,973,000	2,013,000
Annual Revenues	13,098,346	13,194,123	15,226,815	15,364,462	15,506,101
<u>Expenditures</u>					
Projected General Fund Expenditures ²	8,634,000	9,152,000	9,472,000	9,804,000	10,147,000
Projected Parcel Tax Expenditures ³	4,795,000	5,035,000	5,186,000	5,342,000	5,502,000
Annual Expenditures	13,429,000	14,187,000	14,658,000	15,146,000	15,649,000
Adjusted for Special Tax Annual Results	(133,846)				
Annual Operating Results	(464,500)	(992,877)	568,815	218,462	(142,899)
Beginning General Fund Fund Balance	2,494,262	2,029,762	1,036,885	1,605,701	1,824,162
Ending General Fund Fund Balance⁴	2,029,762	1,036,885	1,605,701	1,824,162	1,681,264

¹Assumes voter approval of continuation of existing parcel tax. Revenue assumes 2% growth annually.

²Assumes 6% growth in FY2013/14 and 3.5% growth annually thereafter.

³Assumes 5% growth in FY2013/14 and 3.0% growth annually thereafter.

⁴Current parcel tax is restricted, assumes additional \$12 can be used on all GF operations.

Exhibit C - \$49 Parcel Tax (June 3, 2014 Election)

Revenues	FY13/14	FY14/15	FY15/16	FY16/17	FY17/18
General Fund Contribution	7,128,500	7,128,500	7,128,500	7,128,500	7,128,500
Interest, fines/fees, other	534,000	534,000	534,000	534,000	534,000
Measure U MOE Restoration	507,000	507,000	507,000	507,000	507,000
Parcel Tax Revenues ¹	4,928,846	5,024,623	5,122,315	5,221,962	5,323,601
Additional \$19		3,028,700	3,083,000	3,144,000	3,208,000
Annual Revenues	13,098,346	16,222,823	16,374,815	16,535,462	16,701,101
Expenditures					
Projected General Fund Expenditures ²	8,634,000	9,152,000	9,472,000	9,804,000	10,147,000
Projected Parcel Tax Expenditures ³	4,795,000	5,035,000	5,186,000	5,342,000	5,502,000
Service Level Enhancements ⁴		750,000	776,250	803,419	831,538
Annual Expenditures	13,429,000	14,937,000	15,434,250	15,949,419	16,480,538
Adjusted for Special Tax Annual Results	(133,846)				
Annual Operating Results	(464,500)	1,285,823	940,565	586,043	220,563
Beginning General Fund Fund Balance	2,494,262	2,029,762	3,315,585	4,256,151	4,842,194
Ending General Fund Fund Balance⁵	2,029,762	3,315,585	4,256,151	4,842,194	5,062,756

¹Assumes voter approval of continuation of existing parcel tax. Revenue assumes 2% growth annually.

²Assumes 6% growth in FY2013/14 and 3.5% growth annually thereafter.

³Assumes 5% growth in FY2013/14 and 3.0% growth annually thereafter.

⁴Restores Sunday hours at three high volume libraries.

⁵Current parcel tax is restricted, assumes additional \$19 can be used on all GF operations.

Exhibit D - \$49 Parcel Tax (November 2014 Election)

Revenues	FY13/14	FY14/15	FY15/16	FY16/17	FY17/18
General Fund Contribution	7,128,500	7,128,500	7,128,500	7,128,500	7,128,500
Interest, fines/fees, other	534,000	534,000	534,000	534,000	534,000
Measure U MOE Restoration	507,000	507,000	507,000	507,000	507,000
Parcel Tax Revenues ¹	4,928,846	5,024,623	5,122,315	5,221,962	5,323,601
Additional \$19			3,083,000	3,144,000	3,208,000
Annual Revenues	13,098,346	13,194,123	16,374,815	16,535,462	16,701,101
Expenditures					
Projected General Fund Expenditures ²	8,634,000	9,152,000	9,472,000	9,804,000	10,147,000
Projected Parcel Tax Expenditures ³	4,795,000	5,035,000	5,186,000	5,342,000	5,502,000
Service Level Enhancements ⁴			750,000	776,250	803,419
Annual Expenditures	13,429,000	14,187,000	15,408,000	15,922,250	16,452,419
Adjusted for Special Tax Annual Results	(133,846)				
Annual Operating Results	(464,500)	(992,877)	966,815	613,212	248,682
Beginning General Fund Fund Balance	2,494,262	2,029,762	1,036,885	2,003,701	2,616,912
Ending General Fund Fund Balance⁵	2,029,762	1,036,885	2,003,701	2,616,912	2,865,595

¹Assumes voter approval of continuation of existing parcel tax. Revenue assumes 2% growth annually.

²Assumes 6% growth in FY2013/14 and 3.5% growth annually thereafter.

³Assumes 5% growth in FY2013/14 and 3.0% growth annually thereafter.

⁴Restores Sunday hours at three high volume libraries.

⁵Current parcel tax is restricted, assumes additional \$19 can be used on all GF operations.