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November 30, 2010

To: Supervisor Gloria Molina, Chair
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COUNTY OF LOS ANGELES LIBRARY COMMISSION'S REPORT ON THE PUBLIC LIBRARY'S FINANCING STRUCTURE (BUDGET DELIBERATIONS, AGENDA OF JUNE 7, 2010, 2010-11 BUDGET ITEMS, ITEM NO. 4, (10-1284))

On June 7, 2010, your Board requested the Library Commission to work with the County Librarian, Chief Executive Officer, and other stakeholders to review the current funding structure for the County Public Library system and report back during final book closing in September 2010 on ways to change the financing structure to address chronic shortfalls in Library funding. On the September 28, 2010 Board of Supervisors meeting, this item was continued to November 30, 2010.

The Library Commission formed a special subcommittee to work directly with the County Librarian to evaluate the Public Library's short and long-term funding needs. The subcommittee which consisted of seven commissioners convened several meetings with the County Librarian and staff. The Library Commission evaluated the Department's long-term strategic financial analysis as well as an in-depth customer survey to explore alternate financing opportunities. As reflected in the attached report, the Library Commission recommends that restructuring the special tax and restoring the general fund contribution will provide the most viable financing solution to enable the Public Library to meet growing service demands.

If you have any questions or require additional information, please contact me at 562-940-8400.

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Attachment

COUNTY OF LOS ANGELES LIBRARY COMMISSION

REPORT ON THE PUBLIC LIBRARY'S FINANCING STRUCTURE
NOVEMBER 30, 2010

On June 7, 2010, the Board of Supervisors requested the Library Commission to work with the County Librarian, Chief Executive Officer, and other stakeholders to review the current funding structure for the County Public Library system and report back on ways to change the financing structure to address chronic shortfalls in Library funding.

The Library Commission consists of 20 commissioners, whose members serve without pay. Ten commissioners are appointed by the Board of Supervisors, two from each Supervisorial District; and ten commissioners are elected City Council Members appointed by cities (two from each Supervisorial district) served by the library district and appointed through the City Selection Committee process.

The Library Commission formed a special subcommittee to work directly with the County Librarian to evaluate the Public Library's short and long-term funding needs. The subcommittee which consisted of seven commissioners convened several meetings with the County Librarian and staff. The Library Commission evaluated the Department's long-term strategic financial analysis as well as an in-depth customer survey to explore alternate financing opportunities.

The Library Commission has completed its analysis and has prepared the following report.

Recommendation

Quality library service is essential for the future well-being of the residents of the County of Los Angeles. The Commission believes that the Board must take aggressive action to ensure that adequate resources are available for the County of Los Angeles Public Library. Independent analysis of the revenue streams and service demands clearly indicates that the Public Library will need to increase funding or redefine service. Despite declining property tax revenues caused by the real estate bubble, the Public Library has tackled this challenge by implementing innovative cost saving measures while minimizing the impact on the communities it serves. Over the past five years, Public Library management focused its efforts on strategic initiatives that improved library service delivery and increased operational efficiencies in both the short and long-term. For example, the Department renegotiated contracts with major book, software and equipment vendors for the purchase of essential goods and services, consolidated programs and services, and implemented self-service models that reduced part-time staffing requirements and improved customer service. The Department was recently recognized for redesigning processes within its Technical Services Division, generating operational efficiencies and substantially reducing costs. While innovative thinking in the area of service delivery and continuous improvement are promoted throughout the organization, the Public Library is not exempt from the fallout of the economic crisis.

Over the past two years and prior to the economic crisis, the Public Library began the process of evaluating the fiscal and organizational impact of declining revenues and increasing costs. To understand and project the future financing needs for library operations, the Public Library obtained an independent financial consultant to analyze its long-term fiscal capacity. The consultant's report analyzed the funding requirements over the next ten years and resulting structural deficits likely to occur if the Public Library's revenues do not increase.

The strategic financial plan examined a variety of possible options for revenue enhancement to address a potential $22 million annual structural deficit. Approved in 1997, the current special tax does not fully fund the enhanced operating levels for the 11 cities and unincorporated areas participating in the special tax. As currently structured, limitations in the ordinance restrict the amount of revenue the Public Library can collect. By modifying the special tax it is estimated that the district could generate an additional $12 to $23 million annually over the next ten years.

The consultant's preliminary analysis concluded that revision of the special tax measure is the most logical approach to increase revenue. The Commission concurs with the consultant's conclusions.

In order to understand the feasibility of restructuring the special tax and the probability of voter support, the Commission recommended the Public Library obtain an experienced polling consultant to survey residents throughout the County Library service area. In October 2010, the Commission reviewed the consultant's recommendations which included survey findings that demonstrated to what extent voters would support a revised special tax. The survey results indicated likely support by 2/3 of the voters for a revised special tax. The Library Commission, therefore recommends the Public Library and the Chief Executive Office (CEO) pursue the feasibility of placing the measure on the ballot in 2011.

Background

The County of Los Angeles Public Library is the largest public library system in the nation. Since its creation in 1913, the Public Library has offered a vast array of services for life-long learning. Since then, the public's demand for services has evolved. As a 21st century library, the Public Library must address increased demand for all major library service categories, including: Internet access and usage, electronic formats, children's and teen programming, and the availability of books and materials in modern well-maintained facilities. According to the 2010 California Library Statistics, library services have increased between 4% and 11% from 2008 to 2009. Statistics over a two year reporting period are a strong predictor of increasing demand for library services in the foreseeable future.

Library Service	% Increase
○ Visits	6%
○ Circulation	7%
○ Computer Usage	4%
○ Reference	11%

The Public Library faces significant challenges in meeting its strategic plan goals to establish stable, baseline resources to fund staff, collections, and support operations given the growing population and increasing demand for access to library services. In 2009, The Resources Company was hired to prepare a Strategic Financial Plan that would analyze the Public Library's revenue and operations costs for the next 10 years. This work included identifying revenue enhancement opportunities and forecasting the gap between ongoing fiscal needs and available financing sources. The consultant projected that over the next 10 years, the Public Library will experience a $22 million annual structural deficit if immediate measures are not taken.

In the past 3 years, declines in the Public Library's operating revenues caused by the recession had a significant impact on the budget. Budget balancing measures have included, but were not limited to, reductions in service hours, consolidation or suspension of programs, curtailment of spending for books and materials, and a 30% reduction in part-time staff hours. Despite these measures, the gap between operating revenues and operating costs will continue to increase even as the economy slowly recovers. Even with increased efficiencies, the Public Library will need to increase revenues to simply maintain adequate service levels.

Demand for Library Service in the 21st Century

The demand for library services will continue to increase in the communities and cities we serve. Twenty-first century library service will go well beyond the hours of service and the purchase of books and materials. The budget also must absorb the growing size of the County's "virtual library" as these services become an essential part of the Public Library's service delivery model. Community needs for library services are projected to continue to grow in the short and long-term. Our communities will rely on libraries for increased technological needs, books and materials, and programming for children and teens.

The strategic financial study also concluded that the Department's maintenance budget is under funded and that over the next decade approximately 60 existing facilities based on the age of the current inventory will be required. This is a critical funding issue because the size and condition of library facilities is a priority for local communities and an increasing population. These communities view their library as the community's "living room" - a place to work and relax and connect with neighbors and friends. In order to accomplish that goal the Public Library must have sufficient funding to create and maintain these facilities at acceptable levels.

County libraries will be financially stretched to meet such high demand for services with limited resources and may likely be the last safety net in which to address the social and educational needs of the residents of the County.

Public Library Funding Sources

The strategic financial plan demonstrates that even prior to the economic downturn, the Public Library would not have sufficient revenue to meet the demand for service over the next ten years. Forecasts over the next decade indicate that the Public Library cannot

continue to provide current levels of service for the 87 libraries and 4 bookmobiles it operates. Even a moderate recovery in property tax revenues will not resolve this issue.

The Public Library is a special fund department which operates under the direction of the County of Los Angeles Board of Supervisors. Historically, the Public Library has been financed primarily by a dedicated share of the 1% property tax collected in the communities it serves, which presently includes 51 cities and the unincorporated areas of the County except for those unincorporated areas in the Altadena and Palos Verdes library districts. Additional sources of revenue include: the special tax, utility user tax (Measure U) and the county general fund contribution.

One of the most significant fiscal shifts in property tax revenue affecting the Public Library occurred in FY 1992/93 and FY1993/94. The State legislature passed two tax shifts known as the "Education Revenue Augmentation Fund" acts. ERAF I (FY1992/93) and ERAF II (FY1993/94) shifted a significant share of local property tax revenues from counties, cities, redevelopment agencies, and special districts, such as the Public Library, to allow the State to meet its financial obligation to fund K-12 public schools and community colleges. As a result of the ERAF shifts that took effect in 1993 and 1994, the Public Library lost almost half of its total revenues historically used to fund local public library services.

The predecessor to the special tax was the Community Facilities District No. 8. To replace a portion of these lost property tax revenues, the County of Los Angeles Board of Supervisors, in August 1994, established Community Facilities District No. 8 of the County of Los Angeles (the "District") to provide public library services and facilities, and authorized the collection of benefit charges to finance such services and facilities in accordance with the provisions of the Mello-Roos Community Facilities Act of 1982. The District consisted of all of the unincorporated county areas served by the Public Library and seventeen incorporated cities served by the Public Library that had given their consent (through their city councils) to be included in the District prior to its formation or that were subsequently annexed into the District.

In November 1996, California voters approved Proposition 218 which prohibited the County from continuing the CFD benefit assessment after June 30, 1997. On June 3, 1997, voters within the former Community Facility District No. 8, exclusive of the six cities who chose not to participate in the assessment of CFD charges from the inception of the District, approved Proposition L with a 70% affirmative vote, which established a special tax for library services. This special tax replaced the CFD assessment and took effect on July 1, 1997.

Property Taxes

As a special fund department, the Public Library is primarily dependent on property tax collections to fund library services for the 51 cities and the unincorporated area libraries it serves. In the past 10 years, the Public Library benefited from steady increases in property taxes enabling it to absorb increased costs for basic operations. A strong real estate market helped produce an average 7% per year increase in property taxes. However, during the same 10-year period, inflation increased a total of 32%. The variance between property tax growth and inflation meant decreased buying power and the inability to afford the same

quantity of goods and services (e.g. books and materials, programs, maintenance services, etc.) as in previous years. Therefore, resource allocation during the budget process (and throughout the year) is becoming evermore critical. Predictions and historical trends suggest that recovery for the property tax market in the next two to three years will be at a slower rate of increase than in the last decade.

Public Library property tax growth has not exceeded inflationary increases since 2008-09 (Chart); in 2010-11 revenues may be as much as four percent lower than in the prior year.

FY	07-08	08-09	09-10	10-11
Property Tax Growth	8.5%	2.7%	-3.2%	-4.4%
CA Consumer Price Index	2.3%	3.4%	3.4%	3.0%
Difference	6.3%	-0.7%	-6.6%	-7.4%

General Fund

A portion of the Public Library's operating revenues comes from the County's General Fund Contribution (GFC). In 2002-03, the Department received an increase in its GFC because of declining revenues caused by the State's Education Revenue Augmentation Fund (ERAF) tax shift. The General Fund contribution is capped with no cost-of-living increases. Since the downward turn in the economy, curtailments in the GFC have taken place. For the Public Library, the GFC cut equated to a 7% (average) annual decrease in revenues from 2008-09 to 2010-11 (or a total of $4.3 million). The Commission believes that restoration of the general fund contribution and a maintenance of effort requirement are essential in order to achieve voter support for the revised special tax.

Utility User Tax

In 2005-06, the Public Library received an allocation from the Utility Users Tax (formerly Proposition 62). The UUT, a usage tax on communication, gas and electric charges, provides funding for enhanced library services to the unincorporated area residents of the County of Los Angeles. Despite receiving this augmented funding, the Department remains concerned about its future capacity to fund basic library services.

Special Tax

The special tax was established at $22.00 per parcel per year on all parcels within the special tax district, regardless of parcel size, type of property, or land use. The purpose of the special tax was to replace the $9 million annual revenue that otherwise would have been lost when the Community Facilities District No. 8 was discontinued on June 30, 1997 as a result of the passage of Proposition 218.

The revenue generated from the special tax levy was dedicated exclusively to support enhanced library services at 44 libraries in the eleven cities and unincorporated county areas within the special tax district. Since the implementation of the special tax for library services on July 1, 1997, the special tax district has consisted of the unincorporated county areas served by the Public Library and the eleven cities of Cudahy, Culver City, Duarte, El

Monte, La Canada Flintridge, Lakewood, Lomita, Lynwood, Maywood, Santa Clarita, and West Hollywood. The revenue generated from the special tax initially allowed the Public Library to enhance public service hours in the 44 affected libraries from 1,517 hours per week to 2,027, a 34% higher level of weekly service hours in the 44 libraries than would have been possible without the special tax revenue. Special tax revenue also augmented the allocation for books and materials for these libraries.

The Public Library's special tax currently represents approximately 10% of the Public Library's operating revenues or about $11.3 million. The special tax is a parcel tax that currently levies $27.84 on 407,000 parcels located in the unincorporated areas of the county and in the 11 cities that voted to participate in the special tax. The special tax is subject to an annual adjustment of 2% or the increase in the California Consumer Price Index, whichever is less. The special tax is adjusted for inflation in the same manner as the general ad valorem property tax and cannot exceed 2% per year.

Revamping the special tax and successful passage of a ballot measure would provide the Public Library with the necessary resources to continue to meet the educational/recreational needs of the community by maintaining service hours; maintaining reading, homework help, and gang prevention services for children and teens; providing access to, and expanding the Public Library's collection of books and materials; and providing modern technology and computers in community libraries.

Increases in the Special Tax

During the period from FY 1997/98 to FY 2009/10:

- CCPI increased 36% (average 3% per year).
- Special tax rate increased from $22.00 to $27.29. (24% / avg. 2% per year).
- The Public Library's operating expenses increased 129% (avg. 10% per year).
- The approved 2010-2011 special tax rate is $27.84.

SPECIAL TAX RATES

Fiscal Year	Applicable CCPI*	Allowable Adjustment	Allowable Rate	Approved Tax Rate
1997-98	Base rate	N/A	$22.00	$22.00
1998-99	2.081%	2%	$22.44	$22.44
1999-00	1.853%	1.853%	$22.86	$22.86
2000-01	3.214%	2%	$23.32	$22.86**
2001-02	4.172%	2%	$23.79	$23.79
2002-03	3.215%	2%	$24.27	$23.79**
2003-04	2.459%	2%	$24.76	$24.76
2004-05	1.867%	1.867%	$25.22	$25.22
2005-06	3.665%	2%	$25.72	$25.72
2006-07	4.596%	2%	$26.23	$25.72**
2007-08	2.269%	2%	$26.75	$26.75
2008-09	3.380%	2%	$27.29	$27.29
2009-10	3.447%	2%	$27.84	$27.29**
2010-11	-0.237%	2%	$27.84	$27.84

* California Consumer Price Index (CCPI) as established by the California State Board of Equalization.

** The Board of Supervisors exercised its authority to levy the special tax rate at the same rate as the previous fiscal year.

Challenges of a Special Fund Department

From a financial perspective, recognition of the Public Library as a special fund department is important. Unlike other County Departments, the Public Library must stand on its own. Operating costs have increased an estimated 5% over the past four years. The Public Library is responsible for absorbing these cost increases (technology; services and supplies; maintenance; custodial; books and materials; library equipment; etc.) to maintain current and projected service needs. Increases in salaries and employee benefit costs will also contribute to the Public Library's projected structural deficit. While net county cost departments receive augmented funding to cover some cost-of-living increases in healthcare and other employee benefits, such unavoidable and mandated increases are 100% absorbed by the Public Library. Healthcare charges for temporary employees, for example, increased 561% in four years and were fully absorbed by the Department. Curtailment measures in recent years helped to balance the budget. However, with few alternatives for cost reductions remaining, the Public Library will have to redesign its service models.

Strategic Options

To help address the structural funding deficit, the strategic financial assessment identified short-term cost containment measures. In addition, the Public Library identified and implemented other cost savings measures, including:

- Deploying self-serve equipment for improved efficiencies, better customer service and realizable cost savings;
- consolidating or eliminating programs and services; and
- seeking opportunities to reduce contract and other operational costs.

The consultant's preliminary assessment also included short and long-term revenue enhancement recommendations. Many of the alternatives were linked to special programs with spending restrictions and were one-time in nature and therefore would not support ongoing operations. One perennial option is fundraising. While important, fundraising would provide limited opportunity to generate system-wide revenues to address the projected $22 million annual shortfall. Further, the Commission recognizes that fundraising is an unreliable source for funding basic operations and that corporations and foundations will not fund on-going operations costs nor commit funds for more than two or three years. Fundraising, however, does remain an important source of funding for service enhancements or as seed money for new services.

After analysis of all feasible options, the financial strategic plan concludes that the only viable option in the current environment is the restructure of the special tax. The Commission concurs with this finding. In order to be successful, any revision of the special tax must include the entire service area, increase the rate, introduce a sunset provision, and include a senior exemption. The preliminary polling data predicts that the Public Library may receive the required 2/3 vote for a district-wide special tax. While it would be optimal to include a tax rate based on parcel type, the Commission believes it would face legal challenges and opposition from the business community. The polling data shows that the

Public Library is well regarded and that our communities' top priorities for library services include maintaining: children's programs, homework help, gang prevention services, library hours, and facilities.

The only alternative to changing the special tax revenue structure is redesign of the Public Library's service model. This model could potentially involve instituting a different approach to facilities planning, service hours and virtual programs and services. The Library Commission strongly opposes that model because it would have a significant impact on service delivery

Conclusion

In conclusion, the Library Commission recommends the Chief Executive Office and the Public Library actively pursue placing a special tax measure on the ballot in light of the probability of support by voters, and confirms the Public Library as an organization that delivers essential services to the vast population of the County of Los Angeles.