

# STAFF REPORT

DATE: May 31, 2016  
 TO: Library Joint Powers Board  
 FROM: Marcus Pimentel, City of Santa Cruz Finance Director  
 RE: June 2, 2016 Supplement- Agenda Item 10.B (Draft Budget FY 16/17)

## SUMMARY

To help guide the Board's FY 16/17 Budget deliberation, following are key data points:

- (1) Revised FY16/17 Operating Budget with sales tax revision down by \$111,137 (pg1, 5-6);
- (2) Review projections through FY 20/21 of net Library operations (pg2-3);
- (3) Consider projection of available cash reserves through FY 15/16 (pg3, 7);
- (4) Consider budget adoption alternatives (pg3-4) & **4 month Proposed Budget (pg15-16)**;
- (5) Review the current Library Board reserve and surplus policy (pg4, 8-13); and
- (6) Receive the April 2016 Dashboard report (pg4, 14)

## BACKGROUND

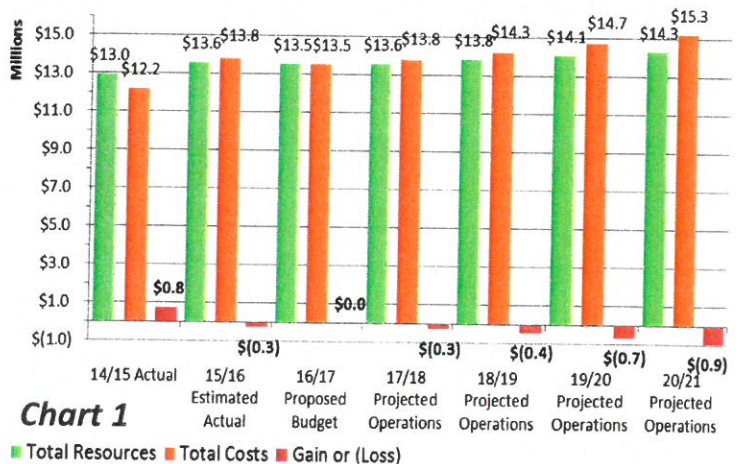
The Library JPA agreement requires that the proposed budget be delivered by May 31<sup>st</sup> of each year. The agreement also sets forth that should the governing board not reach unanimous agreement to adopt the upcoming budget, the current year's budget shall be adopted as the new Fiscal Year's budget.

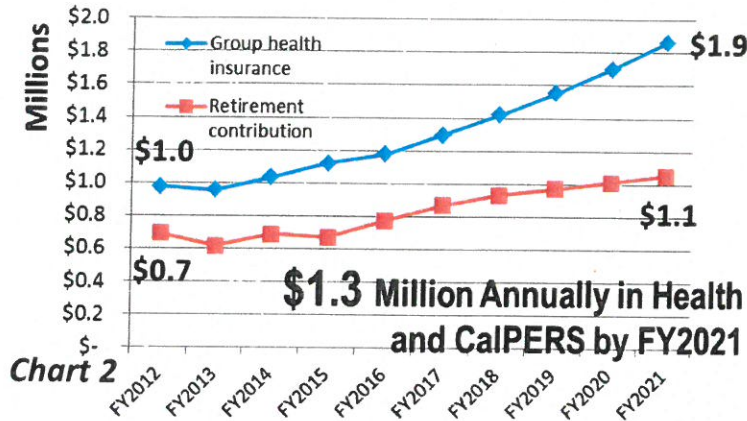
## DISCUSSION

**[1] Revise down sales tax estimates.** The FY 16/17 Proposed Budget included an errant calculation stemming from the 2<sup>nd</sup> amendment of the Library Financing Authority that overstated projected Sales Tax proceeds for FY 16/17 by \$111,137. The corrected projection of \$7,799,700 will be reflected in the final budget. This change impacted the proposed budget by reducing the materials funding level, the amount to commit towards the 2-month operating reserve, and the projected surplus for FY 16/17 from \$56,119 to \$18,400. See the attached FY 16/17 Operating Budget Overview (Revised May 31, 2016).

### **[2] Projection through FY 2021.**

Similar to what other organizations are facing, the Library is facing years of steep employment costs increases from health care and CalPERS that, if current projections hold, would offset what is possibly optimistic sales tax revenue growth. Charts 1 & 2 summarize the projection leading up to a \$940k operating deficit by FY 2020/21. Combined with underfunded facility maintenance and service demands, there is considerable reason to be cautious with increasing on-going operating costs.





Health care has been rising near double digit growth and shows continued signs of continuing this pace. The current projections are for an optimistic 9.5% annual increase in health care. CalPERS rates are also on a steady growth trend to allow the system to slowly recover losses suffered during the Great Recession. The strategy includes anticipated annual increases in

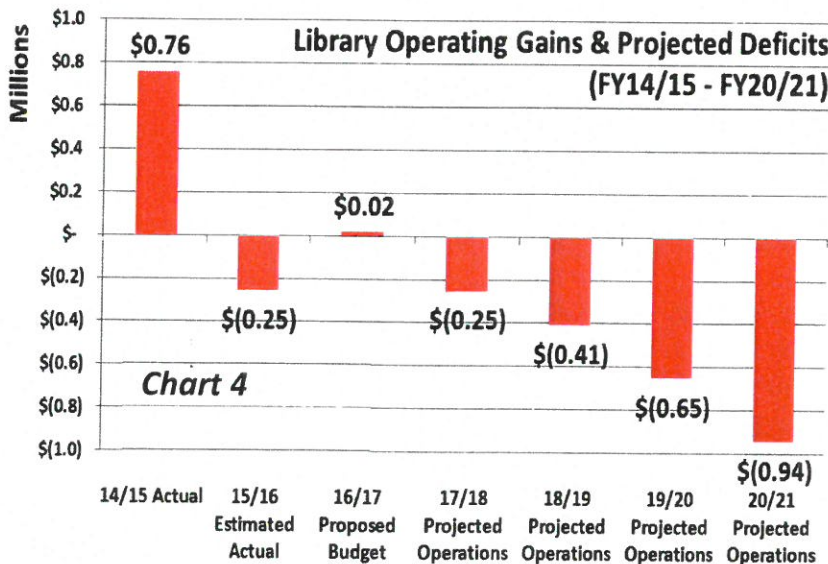
employer rates through the mid-2020's. Chart 2 shows that by FY 20/21, the Library will pay out nearly \$1.3 million more annually than 9 years prior (FY 11/12).

And while Sales Tax has been a steady source for the region, many economists are warning of a looming slowdown that could hit by FY 2018 or FY 2019. By way of comparison, national consumer debt has reached peaks last seen in 2007 and 2008, just prior to the Great Recession. And, as Chart 3 shows, the current economic expansion now ranks #4 all time in our Nation's documented history and is catching up to the robust expansion of the mid 1980's. While these and other indicators alone may not confirm the presences of a looming slowdown, given the vulnerability of consumer spending and the overall shrinking sales tax base on the systems top revenue, it is prudent to be mindful of a possible slowdown.

Longest periods of U.S. Economic Expansion <small>(National Bureau of Economic Research - Data since 1854)</small>	
1	1991 - 2001 (10.0 years)
2	1961 - 1969 (8.8 years)
3	1982 - 1990 (7.7 years)
4	July 2009 - May 2016 (6.9 years)
5	1938 - 1945 (6.6 years)
6	2001 - 2007 (6.1 years)
7	1975 - 1980 (4.8 years)
avg.	Average Economic Expansion 1945 - 2009 (4.8 years)

Chart 3

For the current model, a Sales Tax growth rate of 2.7% was used for FY 16/17, with declining growth rates down to 2.0% by FY 20/21. With the adoption of the 2nd amendment to the Library Financing Authority, Sales Tax remains the Board's only substantial growth resource. Maintenance of Efforts contributions are now capitated (Watsonville and County Library Fund) or grown at a fixed rate (Santa Cruz by \$70,000 annually until FY 2021). The end result, as shown in Chart 4, is a significant, downward trend of deficits through FY 2021.



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**[3] Projection of FY 2016 available cash balances.** At the Board's last meeting, it was requested to project out the remainder of the Fiscal Year that ends June 30, 2016 and would expect to be finalized by December 2016. That projection (see attached "Projected FY 2016 Net Operations"), when combined with the Board's current Reserve and Surplus policy (discussed later in this report), would yield a projected \$244k restricted for "one-time" uses. Per the Board's policy, none of this amount would be available to support on-going expenditures. See the footnotes within the attached report for the included assumptions, including up to \$460,000 in additional ballot measure expenditures.

**[4] Budget adoptions alternatives.** Given that the staff and Board operating increases exceed the Proposed FY 16/17 Budget's capacity, and the near term start date of the new Library Director, there are several budget adoption alternatives the Board may want to consider. As indicated previously, the Board governing document requires unanimous approval by all the Board to adopt an annual budget. When this is not possible, the current year's budget would be adopted as next year's budget. Therefore, presented below are some possible alternatives that can be considered.

- 1) Agree and finalize a FY 16/17 Budget that incorporates additional funding for operations, capital and/or one-time needs.
- 2) Remove any new operating requests from the FY 16/17 budget and adopt an interim 12-month annual budget with the stipulation that staff works with either the Board or Library Advisory committee to bring a recommendation for budgetary amendments no later than October 1, 2016.
  - a. This would be staff's recommend approach so as to avoid any unnecessary consequences in the future. One possible consequence could arise in a subsequent bond rating call in which a rating agency may infer problems from this action that do not exist.
- 3) Adopt a 3-month interim budget based on staff's Proposed FY 16/17 budget, prorated for 3-months. This could be an acceptable interim step. If this approach were taken, there are several line items where the budget authority should be increased to meet operating or policy needs. The following list details the additional \$1,282,461 that would be recommended on top of the prorated 3-month budget:
  - a. CalPERS (\$650,000)- To allow for pre-payment discount, include appropriations for an additional \$650,000
  - b. To adhere to purchasing policies and/or address payments that are due in full at the beginning of the year, it is recommended that the full value of these significant contracts be appropriated beyond the value for the first 3 months. These would include but ultimately may not be limited to:
    - i. Legal Services (\$60,000)
    - ii. Liability insurance (\$15,761)
    - iii. Audit Services (\$6,225)
    - iv. Various software maintenance agreements (\$69,002)
    - v. Dues & Memberships (\$26,183).

- vi. Library Contract Processing for Supplies (\$105,000). Various contracts to support library functional and book requirements.
  - c. Books (\$296,540)- To allow for customary, large scope purchases at the beginning of the year.
  - d. Postage (\$3,750)- To allow for postage requirements contract or larger, earlier usage
  - e. Supplemental \$50,000. To allow for any small but critical unforeseen needs that may arise.
- 4) Duplicate and adopt the current FY 15/16 budget with the stipulation that staff works with either the Board or Library Advisory committee to bring a recommendation for budgetary amendments no later than October 1, 2016.

**[5] Library Board Reserve & Surplus policy.** On June 3, 2013, the Library Board adopted its current reserve and surplus policy to replace the previous 5% and 10% operating and future reserve requirements. In addition, the policy included a surplus policy to guide when and how a year's final surplus amount could be used (with an emphasis on allocating 1/3 of available surpluses towards one-time uses and the remaining 2/3 for future determination to fund materials and facility needs). It should be noted that the Library must experience 3 years of consecutive surplus before any surplus amount can be used to fund current, ongoing operations. The adopted policies are attached for reference.

**[6] April 2016 Library Dashboard report.** Included as a final attachment is the April 2016 Dashboard monthly financial report. The month ended balanced with a small net gain of \$2,610. However, revenues are short of their projected target by 2.3% with Sales Tax short by 1.4% and Member Contributions by 1.0%. Member contributions attributed to the County Library fund can fluctuate due to timing of payments and/or reconciliations.

After adjusting for payroll, operating expenditures are below year to date budget by 3.5% (or \$485,000). However, as noted in the current year projection, there is approximately \$460,000 in expenditures related to the June 7<sup>th</sup> ballot measure. To date, only a portion of this amount has been added to the FY 15/16 budget. Therefore, should the need arise; a budget adjustment will be brought back to the board for approval for any amount that exceeds current budget authority.

**ATTACHMENTS:**

- FY 16/17 Operating Budget Overview (Revised May 31, 2016)
- Projected FY 2016 Net Operations
- Library Reserve Levels- Recommendation (June 3, 2013 Agenda); includes new reserve and surplus policies
- Monthly Dashboard Report: Library's April 2016 financials

**FY 16/17 Operating Budget Overview**  
Revised May 31, 2016

	FY 15/16 Adopted Budget	FY 16/17 Proposed Budget
<b>Revenue</b>		
Sales Tax	\$ 7,516,000	\$ 7,799,700
Maintenance of Effort	5,504,000	5,515,273
Grants and Donations	74,468	78,568
Fines and Fees	104,000	140,500
Other	8,500	11,870
Vehicle Transfer from Replacement Fund	200,000	-
<b>Revenue Total</b>	<b>\$ 13,406,968</b>	<b>\$ 13,545,911</b>
<b>Personnel</b>		
Regular Full and Part Time	\$ 5,367,835	\$ 5,617,173
Temporary	809,801	826,000
Misc. Personnel Costs	12,280	6,920
Benefits	2,543,440	2,796,628
<b>Personnel Subtotal</b>	<b>\$ 8,733,356</b>	<b>\$ 9,246,721</b>
<b>Non-Personnel Operating Expenditures</b>		
<b>Information Technology</b>		
Hardware Maintenance	\$ 16,500	\$ 72,500
Professional Services Other	44,000	27,000
Software Maintenance Services	263,704	378,654
Telecommunications	155,271	47,295
Computer Equipment	100,000	125,000
<i>Subtotal</i>	<b>\$ 579,475</b>	<b>\$ 650,449</b>
<b>Library Materials</b>		
Materials-8% of Revenues	\$ 1,268,190	\$ 1,083,673
Grants and Donations	26,278	26,278
Refunded Fines and Fees	2,000	2,000
Library Functional Supplies	161,850	161,850
<i>Subtotal</i>	<b>\$ 1,458,318</b>	<b>\$ 1,273,801</b>
<b>Staff Development</b>		
Travel	\$ 14,180	\$ 18,380
Training	51,195	54,495
LSTA Tuition	-	-
<i>Subtotal</i>	<b>\$ 65,375</b>	<b>\$ 72,875</b>
<b>Utilities</b>		
Water/Sewer/Refuse	\$ 63,330	\$ 69,095
Hazardous Materials Disposal	1,000	1,000
Electricity	184,600	184,600
Natural Gas	28,000	28,000
<i>Subtotal</i>	<b>\$ 276,930</b>	<b>\$ 282,695</b>
<b>Building O &amp; M</b>		
Building O & M	\$ 197,322	\$ 199,862
Landscaping	33,000	33,000
Janitorial Services	217,100	219,017
Vehicle O & M	32,524	32,524
Vehicle Equipment	200,000	-
Building Equip. And Rental	309,385	310,656
<i>Subtotal</i>	<b>\$ 989,331</b>	<b>\$ 795,059</b>

**FY 16/17 Operating Budget Overview**  
Revised May 31, 2016

	FY 15/16 Adopted Budget	FY 16/17 Proposed Budget
<b>Supplies and Equipment</b>		
Office Supplies	\$ 20,500	\$ 21,700
Copier Supplies	7,550	5,250
Janitorial Supplies	20,000	22,500
Misc. Supplies	73,960	69,440
Safety Clothing and Equipment	4,710	4,710
Office Furniture and Equipment	25,400	26,400
Other Equipment	4,500	5,250
Building Repairs-Library	102,800	-
<i>Subtotal</i>	<u>\$ 259,420</u>	<u>\$ 155,250</u>
<b>System Services</b>		
Professional Services Fiscal	\$ 8,300	\$ 88,300
Unique Management Collection Agency	14,000	14,000
Insurance	64,225	77,819
Postage	3,500	5,500
Printing and Advertising	27,530	34,330
Dues and Membership	34,910	34,910
Merchant Bank Fees	-	1,600
Professional & Technical Services	70,000	13,000
<i>Subtotal</i>	<u>\$ 222,465</u>	<u>\$ 269,459</u>
<b>Other Services and Transfers</b>		
Financial Services Outside (City of SC)	\$ 669,211	\$ 710,000
Transfer to Vehicle Replacement Fund	55,666	56,166
Transfer to 2-month reserve account	85,368	15,036
<i>Subtotal</i>	<u>\$ 810,245</u>	<u>\$ 781,202</u>
<b>Non-Labor Operating Expenditure Subtotal</b>	<b>\$ 4,661,559</b>	<b>\$ 4,280,790</b>
<b>Total Operating Expenditures with 8% Materials Bud</b>	<b><u>\$ 13,394,915</u></b>	<b><u>\$ 13,527,511</u></b>
<b>Total Operational Surplus or &lt;Deficit&gt;</b>	<b><u>\$ 12,053</u></b>	<b><u>\$ 18,400</u></b>

<b>Budgetary Alternatives:</b>		Projected FY 15/16 Excess Cash over / <under> reserve policy
Projected FY 15/16 Excess Cash over reserves		\$ 594,039
<b>One-time:</b>		
1 Election Costs (estimated)	\$ 350,000	\$ 244,039
2 Recabling to accommodate greater internet speeds at the branches	150,000	
3 AT & T Month to Month	106,896	
4 Outstanding Polaris Invoices	45,600	
One-time expenditures before Election Costs	<u>\$ 302,496</u>	\$ (58,457)
<b>On-going operating proposals:</b>		
5 Increase Materials Budget from 8% to 10% of revenue	\$ 270,918	\$ (329,375)
6 Increase hours (33 hours system-wide)	\$ 217,582	\$ (546,957)
<p>If all the options were adopted, the Board would be in default of it's reserve and surplus policy; with a total \$546,957 below the minimum 2-month target funding level.</p>		

Month	FY 2016	FY 2016	FY2016	FY2016
	Estimated Excess Cash over Board Reserve (1)	Net Operating Results	Revenue	Expense
Jul '15		623,502	1,918,947	1,295,446
Aug '15		(774,357)	197,505	971,862
Sep '15		308,928	1,224,860	915,932
Oct '15		(32,452)	998,891	1,031,343
Nov '15		307,649	1,173,322	865,673
Dec '15		223,377	1,228,290	1,004,912
Jan '16		(318,192)	1,003,587	1,321,779 (2)
Feb '16		283,641	1,187,894	904,253 (2)
Mar '16	1,234,039	114,623	1,108,389	993,766 (2)
Apr '16	1,194,039	(40,000)	940,000	980,000 (2), (3)
May '16	1,254,039	60,000	1,120,000	1,060,000 (2), (3)
Jun '16	\$244,039	(1,010,000)	1,480,000	2,490,000 (2), (3), (4), (5), (6), (7)
			<u>13,581,684</u>	<u>13,834,965</u>

(1) Amount represents the best, current estimate of net cash resources available for one-time budgetary use by the Board. Per Board Policy (see attached), 1/3 of prior year excess surplus can be used in priority order for the following: (1) one-time prepayment of CalPERS annual obligation; (2) reduce other outstanding debt; (3) plan for future operational needs; (4) after 3 consecutive years of surplus; allows for ongoing operational increase.

The remaining 2/3 of surplus is targeted for future policy for Materials and Facility Capital project needs. See the surplus calculation below.

	FY 2013 Surplus	FY 2014 Surplus	FY 2015 Surplus	Max Available (lesser of excess cash or 1/3 surplus)
Available for one-time or future planned use:			758,786	\$244,039
Available for on-going operations:	1,203,705	(337,104)	758,786	n/a

- (2) Includes placeholder of \$55k for administrative services contract (actual to be determined)
- (3) April, May and June amounts are projected based on past trends and any known transactions; rounded to nearest 10,000
- (4) Includes placeholder of \$350k for Special Election costs
- (5) Includes placeholder of \$110k in additional LFFA related contractual expenses
- (6) Includes estimated FY 2017 Excess Budget funded from excess cash balances (\$256k in one-time cabling and AT&T related communication systems costs)
- (7) Includes \$75k as conservative, additional expenditure for year-end accruals



Staff Report  
Library Joint Powers Board

AGENDA OF: 6/03/13

DATE: 5/23/13

DEPARTMENT: City of Santa Cruz Finance Department  
BY: Marcus Pimentel, City of Santa Cruz Finance Director

SUBJECT: Library Reserve Levels- Recommendation

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**RECOMMENDATION:** That following the Finance Committee's recommendation, the Board amend the Board's Budgetary Policy to (a) replace the 5% operating reserve and future 10% reserve with a System Wide Stabilization Arrangement (i.e., Reserve) at a 2-month funded level; and (b) adopt a Library operating fund Surplus policy.

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**BACKGROUND:** On April 6, 2009, the Library Board approved two primary reserve related requirements; that it maintain an operating reserve equal to 5% and that 8% of its revenue stream be dedicated for Materials purchases. Almost two years later, on April 4, 2011, the Board subsequently adopted a goal of reaching a 10% reserve by Fiscal Year 2016/17 with a goal of increasing available "Fund Balance" to 5% of revenues by Fiscal Year 2015/16 for unexpected service model funding.

On April 22, 2013, the Finance Committee reviewed various reserve recommendations prior to incorporating alternatives into the Board's May 6, 2013 Budget 13/14 review. Subsequently, during the May 18, 2013 Board Retreat, the Board held additional discussion regarding reserves and surplus policies. On May 20, 2013, the Finance Committee reviewed and made its final recommendation to adopt a 2-month reserve effective immediately and supported the surplus policy. The Committee will bring back, for additional discussion in the coming year, other reserve recommendations surrounding a 2-week operating reserve and a capital reserve.

As of the close of April 2013, the Library's cash balance was 22.3% of its budgeted revenue, or equivalent to 2.7 months.

On June 6, 2011, the Library Board was required to adopt new GASB Accounting requirements for fund balance and reserves. GASB replaced prior Fund Balance categories (or reserves) with specially defined new categories of Nonspendable, Restricted, Committed, Assigned and Unassigned (listed respectively from the most restrictive to the least restrictive). The first two categories can only be established by third parties. The third category of a "Committed" reserve can be created by the Library Board. The Library Director (staff) can create any "Assigned" reserve. The final category, "Unassigned" is just that, all remaining fund balance without any higher level restrictions. Note that it would still require the Library JPA Board's approval to appropriate budget dollars using any "unassigned" Fund Balance. Another action of the GASB requirements was to limit the ability to show within the face of the Library's financial statements reserves to only those reserves that meet the strict requirements defined within GASB 54's "Stabilization Arrangements" section. Therefore, we are using this technical reference with regard to our reserve recommendation.

Within the action to adopt the new Fund Balance policy, the Board also authorized the elimination of the Capital Projects Reserve Fund and Contingency Reserve Fund but retained the "5% cash flow reserve", a "Technology" reserve accounted for as a Special Fund (#956) and



a "Felton" reserve accounted for as a Special Fund (#960). The Library also holds a "Vehicle Replacement" reserve within a Special Fund (#961).

In addition to the reserves included in the GASB policy, the Library also maintains restricted trust accounts whose funding is segregated from any other operating, general reserve or Special Fund accounts. They include the following restricted trusts; McCaskill (2 accounts), Finkeldey, Whalen, Leet-Corday, Morley and Hale.

DISCUSSION: Over the course of the past few months, the Finance Committee has discussed reserve options and, on May 20, 2013 finalized their recommendation to establish a 2-month reserve and adopt a surplus policy. The 2-month reserve will replace the current 5% operating reserve and the future 10% reserve that was to be funded by FY2016/17.

The uses of the 2-month reserve could include unanticipated but significant drops in revenue or new operating or facility immediate costs to preserve safety or operations. For example, the closure of a significant sales tax retailer would allow the Board to dip into this reserve to keep operations funded while providing time for evaluation of new budget strategy. Another potential use could be for the sudden and immediate need to protect the community or library patrons from a facility failure (such as damage to the floors, wall or ceiling).

As a point of comparison, presented below are examples of other Library reserve policies. These libraries were identified during a statewide survey of systems similar in structure.

Palos Verdes	Rancho Cucamonga	Santa Clara County	GFOA- National Association
1. 6-month Op. expenses 2. 5% Minimum for emergency 3. Next Year's "asset replacement" 4. Election years-pay election expenses of Board 5. Additional 5% for emergencies	1. 50% reserve 2. formally included a "Redevelopment Agency" capital reserve	No policy	2-month minimum consideration

In addition, the City of Santa Cruz conducted research of reserve policies of 9 comparable cities as summarized in the table below:

Santa Cruz	Davis	Monterey	Napa	Palm Springs	San Luis Obispo	Santa Barbara	Santa Maria	Ventura
10% of budget	15% of revenue	15% of revenue	15% of exp	10% of budget	20% of op costs	25% of op bud	25% of op bud	90 days plus \$3M catastrophic

RECOMMENDATION: Staff's recommendation is that the Board adopts a 2-month reserve policy and a surplus policy. The impact of these two actions is summarized below.

Reserve/Funding Category	Staff Recommendation	Current Funding Level	New Funding Level
System Wide 2-month	Increase from 5% to 2-months (16.7%)	\$ 604,450	\$ 2,014,833
Surplus Policy	Distribution of annual surplus; limited to 1/3 of the lowest surplus in the last 3 FY's	n/a	est. \$260,000

The reserves that will be considered in the future, based on results of future operations, include, but may not be limited to:

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Reserve/Funding Category	Staff Recommendation	Current Funding Level	Proposed Increase
Materials	Increase from 8% to 12%	\$ 909,826	\$ 460,000
Facility Capital Projects	Reestablish based on unfunded projects	n/a	Tbd
Operating	Reestablish with a 2-week level	n/a	\$ 440,000

### RESERVE & POLICY DEFINITIONS

Following are the legally required guidelines to be adopted by the Library Board to adhere to GASB requirements for establishment of official reserves.

#### **[1] Library Joint Powers System Wide Stabilization Arrangements (amendment to Fund Balance Policy)**

It is in the best interest of the citizens of Santa Cruz County, who rely upon the Library System, that a portion of the Library's Fund Balance be set aside in a Library System Wide Stabilization Arrangement in order to provide a reserve against certain specified conditions listed herein that are sudden and unexpected drop in revenues and/or unforeseen emergencies including unanticipated expenditures of a nonrecurring nature or unanticipated adverse financial or economic circumstances that would lead to operating shortfalls.

Therefore, the Library Board shall, by Resolution, authorize the establishment of a continuing and non-lapsing Stabilization Arrangement as an amendment to the Board's Fund Balance Policy.

Note that included in the specific use circumstances below is the ability to temporarily, for pure timing situations, fall below this arrangements funding level. This provides cash-flow flexibility when the timing of a revenue source or prepayment of a large expenditure would cause, for example, the reserve to be temporarily reduced.

**System Wide Stabilization Arrangement amount.** The funding level shall be equal to but can exceed the equivalent of 2-months of the current fiscal year's Adopted Total General Fund Operating Revenue Budget.

**Contributions and immediate funding of the System Wide Stabilization Arrangement.** The Library Board shall authorize the Library Director to maintain a minimum balance defined above through transfers of available ending Fund Balance after the Budget is adopted for the upcoming year, but before the end of the current fiscal year.

Therefore, given that the Library's current cash balance as of the month ended April 30, 2013 is already in excess of 2-months of the General Fund's Operating Revenue Budget for FY12/13, the Library Board shall authorize the Library Director to fully fund this arrangement.

**Conditions under which the System Wide Stabilization Arrangement may be spent.**

Appropriations shall require a Resolution from the Library Board approved by a majority of the Board. However, if there is an urgent safety need, the Library Director can authorize expenditures of this fund provided it is brought back to the board at its next Board meeting.

Under either case, the Library Director, shall within 6 months, present to the Board a plan and timeline for replenishing the Arrangement to its minimum funding level. Requests for

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appropriations shall occur only after exhausting current year's budgetary flexibility and spending of the current year's appropriated contingency, if any.

Circumstances where the Stabilization Arrangement can be spent are:

1. Within a 12-month period, funding can be used for cash-flow purposes when timing requires a one-time reduction in cash that will be 100% restored within 12-months.
2. Unanticipated Library revenues, in total, are expected to decline more than 1 percent of total projected, and actual revenues for one of the following major revenue sources are projected in the current year to fall below the actual amount from the prior year:
  - a.) Sales Taxes
  - b.) Maintenance of effort contributions
3. If any one of the unforeseen and non-recurring events listed below occur that create significant financial difficulty for the Library and are in excess of the current year's appropriated contingency:
  - a.) Sudden and unexpected significant facility failures that threaten the immediate safety of Library patrons, staff or the community;
  - b.) Declaration of a State of Emergency by the Governor;
  - c.) Unanticipated expenditures as a result of legislative changes from State/Federal governments in the current fiscal year;
  - d.) Acts of Terrorism declared by the Governor or the President of the United States;
  - e.) Acts of Nature which are infrequent in occurrence.

**[2] Library Surplus policy (new).**

It is in the best interest of the citizens of Santa Cruz County who rely upon the Library System that the Board makes prudent use of one-time resources to provide stability and sustainability to the Library's operations.

Therefore, the Library Board shall by Resolution authorize that beginning with the results of Fiscal Year 2013-14, any future amounts attributed to one-third (1/3) of the Library's last year's audited General Fund surplus (defined as "Net Change in Fund Balance" as contained within the annual Basic Financial Statements "State of Revenues, Expenditures and Changes in Fund Balance-Governmental Fund") shall be used for the purposes as outlined below in priority order:

1. To take advantage of prepayment, one-time operating discounts such as CalPERS Employer Retirement Obligations.
2. To pay down outstanding debt
3. To build up "available Fund Balance" for future, one-time operational purposes
4. To, if after three (3) consecutive years of surplus, increase the operating budget by one-third of the lowest surplus within any single year of the past the three (3) surplus years.

This policy could supplement future policies to allocate one-third (1/3) of any prior year's surplus to fund Materials and another one-third (1/3) to be transferred to the Facility Capital Project reserve.

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**RESOLUTION # 2013-04**

**RESOLUTION OF THE  
SANTA CRUZ LIBRARY JOINT POWERS AUTHORITY BOARD  
AMENDING THE FUND BALANCE POLICY TO INCLUDE ESTABLISHING A  
LIBRARY SYSTEM WIDE STABILIZATION ARRANGEMENT**

WHEREAS, it is in the best interest of the citizens of Santa Cruz County, who rely upon the Library System;

WHEREAS, that a portion of the Library's Fund Balance be set aside in a Library System Wide Stabilization Arrangement;

WHEREAS, in order to provide a reserve against certain specified conditions listed herein that are sudden and unexpected drop in revenues and/or unforeseen emergencies including unanticipated expenditures of a nonrecurring nature or unanticipated adverse financial or economic circumstances that would lead to operating shortfalls.

NOW THEREFORE, be it resolved by the Library Joint Powers Authority Board that it authorize the establishment of a continuing and non-lapsing Stabilization Arrangement as an amendment to the Board Fund Balance Policy.

PASSED AND ADOPTED this 3<sup>rd</sup> day of June 2013 by the following votes:

AYES: Board Member(s):

NOES: Board Member(s):

ABSENT: Board Member(s):

DISQUALIFIED: Board Member(s):

APPROVED

ATTEST

\_\_\_\_\_  
Chair

\_\_\_\_\_  
Board Clerk

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RESOLUTION # 2013-05

RESOLUTION OF THE  
SANTA CRUZ LIBRARY JOINT POWERS AUTHORITY BOARD  
ESTABLISH A LIBRARY SURPLUS POLICY

WHEREAS, it is in the best interest of the citizens of Santa Cruz County who rely upon the Library System that the Board makes prudent use of one-time resources to provide stability and sustainability to the Library's operations;

WHEREAS, beginning with the results of Fiscal Year 2013-14, any future amounts attributed to one-third (1/3) of the Library's last year's audited General Fund surplus shall be used for the purposes as outlined herein.

NOW THEREFORE, be it resolved by the Library Joint Powers Authority Board that it authorize the establishment of Library Surplus Policy.

PASSED AND ADOPTED this 3<sup>rd</sup> day of June 2013 by the following votes:

AYES: Board Member(s):

NOES: Board Member(s):

ABSENT: Board Member(s):

DISQUALIFIED: Board Member(s):

APPROVED

ATTEST

\_\_\_\_\_  
Chair

\_\_\_\_\_  
Board Clerk

TO: Finance Committee- Library Joint Powers Authority Board  
 FROM: Marcus Pimentel, City of Santa Cruz Finance Director (5/27/16)  
 RE: Monthly Dashboard Report: Library's April 2016 financials

**SANTA CRUZ  
PUBLIC LIBRARIES**

**April 2016  
Preliminary,  
Unaudited**

Contained herein is the preliminary, UNAUDITED April 2016 Dashboard summary report. For the current month, operating results were \$114,623 with year-to-date net operating results of \$739,329. In general, preliminary revenues are behind the budget target by 2.3% and expenditures are under budget by 8.5%.

	Last Months Results				Fiscal Year to Date	Percent of Budget Comparison		
	February	March	April	April		Annual Budget FY 2015/16	YTD Actuals	Months completed
<b>Net operations (major accounts)</b>								
<b>Revenue:</b>								
(2) Sales Tax	\$ 703,561	\$ 616,439	\$ 449,980	\$ 6,160,793	\$ 7,516,000	82.0%	83.3%	(1.4%)
MOE- Member Contributions	450,976	453,773	453,773	4,532,951	5,504,000	82.4%	83.3%	(1.0%)
Other Revenue	33,357	38,177	36,124	287,818	432,161	66.6%	83.3%	(16.7%)
Subtotal Operating Revenue	1,187,894	1,108,389	939,877	10,981,562	13,556,161	81.0%	83.3%	(2.3%)
Budgetary Financing Sources	-	-	-	-	-	-	-	-
<b>(3) TOTAL REVENUE</b>	<b>\$ 1,187,894</b>	<b>\$ 1,108,389</b>	<b>\$ 939,877</b>	<b>\$ 10,981,562</b>	<b>\$ 13,556,161</b>			
<b>Expenditures:</b>								
(4) Payroll	\$ 622,263	\$ 578,959	\$ 643,627	\$ 6,631,396	8,677,912	76.4%	81.4%	5.0%
Books (w/Grants)	70,460	89,591	83,903	1,095,916	1,294,468	84.7%	83.3%	(1.3%)
Janitorial Services	(157)	54,677	-	91,969	117,100	78.5%	83.3%	4.8%
Building & Facility	24,318	47,386	29,749	202,728	356,122	56.9%	83.3%	26.4%
Rent (Equip, Building, Land)	23,877	28,077	25,977	259,769	309,385	84.0%	83.3%	(0.6%)
Utilities	27,410	27,301	24,962	331,408	431,201	76.9%	83.3%	6.5%
Other expenditures	136,081	167,775	129,049	1,629,046	2,501,015	65.1%	83.3%	18.2%
<b>TOTAL EXPENDITURES</b>	<b>\$ 904,253</b>	<b>\$ 993,766</b>	<b>\$ 937,267</b>	<b>\$ 10,242,232</b>	<b>\$ 13,687,203</b>	<b>74.8%</b>	<b>83.3%</b>	<b>8.5%</b>
<b>Net Gain / (Loss)</b>	<b>\$ 283,641</b>	<b>\$ 114,623</b>	<b>\$ 2,610</b>	<b>\$ 739,329</b>	<b>\$ (131,042)</b>			

	Trust Current Assets				Trust Current Assets (cont.)			
	February	March	April	Balance	Trust	Leet-Corday	Morely	Hale
(7) Total pooled cash	3,215,241	3,493,399	3,723,477	238,132	94,951	12,737	45,551	18,646
2-month reserve target	2,259,360	2,259,360	2,259,360	222,306	9,316	94,450		
Excess cash over reserve or <reserve shortfall>	955,881	1,234,039	1,464,117					
Total Current Assets	4,386,464	4,579,889	4,643,486					
Accounts Payable	68,796	88,948	314,861					

**Notes:**

- After the budget was approved on June 8, 2015, the board has approved budgetary amendments in the amount of \$149,193 in additional anticipated revenue and \$380,289 in additional budgetary expenditures (largely attributed to LFFA activities).
- For sales tax, September, December, March & June include the State's estimated revenue plus any balances for actuals vs. estimates for the prior 3-months (true-up). The subsequent months (October, January, April & July) tend to be lower as they contain the lower state estimates.
- Beginning with the March report, Library Fines will no longer be presented within this snapshot report. Operationally, to allow for convenience of paying fines by credit cards, the ability to easily track fines at a detailed level was reduced.
- For the current fiscal year, the following month's have more than 2 pay periods which will create higher monthly payroll costs: July, January & June. The month's completed % is adjusted to reflect year-end accrual of the last payperiod.
- There was a cash-flow delay in payments to the Janitorial services contractor that were resolved in March 2016. February contained a small refund from the vendor as part of a reduction in overall Library costs by the vendor going forward and bills were not received timely for April payments.
- In April, the four largest expenditures within 'Other expenditures' included: [Financial services - outside at \$55k]; [Library functional supplies at \$13k]; [Miscellaneous supplies and services at \$11k]; and [Other professional & technical services at \$20k]. Note that the Financial Services charge represents a \$55,000 per month placeholder charge retroactive to January. The \$55,000 will be recored each month as an expenditure and a contingent accounts payable until the final agreement is in place (as of December 2015, the City of Santa Cruz has continued to provide full administration charges but payments were ended pending a new, retro-active billing agreement).
- Cash was above the Library JPA's required reserve by \$1,464,117.

## FY 16/17 Operating Budget Overview

Revised May 31, 2016

FY 16/17 Proposed  
Budget (First 4  
months)

	FY 15/16 Adopted Budget	FY 16/17 Proposed Budget		
<b>Revenue</b>				
Sales Tax	\$ 7,516,000	\$ 7,799,700	\$	2,599,900
Maintenance of Effort	5,504,000	5,515,273		1,838,424
Grants and Donations	74,468	78,568		26,189
Fines and Fees	104,000	140,500		46,833
Other	8,500	11,870		3,957
Vehilce Transfer from Replacement Fund	200,000	-		-
<b>Revenue Total</b>	<b>\$ 13,406,968</b>	<b>\$ 13,545,911</b>	<b>\$</b>	<b>4,515,304</b>
<b>Personnel</b>				
Regular Full and Part Time	\$ 5,367,835	\$ 5,617,173	\$	1,872,391
Temporary	809,801	826,000		275,333
Misc. Personnel Costs	12,280	6,920		2,307
Benefits	2,543,440	2,796,628		1,511,512
<b>Personnel Subtotal</b>	<b>\$ 8,733,356</b>	<b>\$ 9,246,721</b>	<b>\$</b>	<b>3,661,543</b>
<b>Non-Personnel Operating Expenditures</b>				
<b>Information Technology</b>				
Hardware Maintenance	\$ 16,500	\$ 72,500	\$	24,167
Professional Services Other	44,000	27,000		9,000
Software Maintenance Services	263,704	378,654		187,553
Telecommunications	155,271	47,295		15,765
Computer Equipment	100,000	125,000		41,667
<i>Subtotal</i>	<b>\$ 579,475</b>	<b>\$ 650,449</b>	<b>\$</b>	<b>278,152</b>
<b>Library Materials</b>				
Materials-8% of Revenues	\$ 1,268,190	\$ 1,083,673	\$	624,816
Grants and Donations	26,278	26,278		8,759
Refunded Fines and Fees	2,000	2,000		667
Library Functional Supplies	161,850	161,850		147,283
<i>Subtotal</i>	<b>\$ 1,458,318</b>	<b>\$ 1,273,801</b>	<b>\$</b>	<b>781,525</b>
<b>Staff Development</b>				
Travel	\$ 14,180	\$ 18,380	\$	6,127
Training	51,195	54,495		18,165
LSTA Tuition	-	-		-
<i>Subtotal</i>	<b>\$ 65,375</b>	<b>\$ 72,875</b>	<b>\$</b>	<b>24,292</b>
<b>Utilities</b>				
Water/Sewer/Refuse	\$ 63,330	\$ 69,095	\$	23,032
Hazardous Materials Disposal	1,000	1,000		333
Electricity	184,600	184,600		61,533
Natural Gas	28,000	28,000		9,333
<i>Subtotal</i>	<b>\$ 276,930</b>	<b>\$ 282,695</b>	<b>\$</b>	<b>94,232</b>
<b>Building O &amp; M</b>				
Building O & M	\$ 197,322	\$ 199,862	\$	66,621
Landscaping	33,000	33,000		11,000
Janitorial Services	217,100	219,017		73,006
Vehicle O & M	32,524	32,524		10,841
Vehicle Equipment	200,000	-		-
Building Equip. And Rental	309,385	310,656		103,552
<i>Subtotal</i>	<b>\$ 989,331</b>	<b>\$ 795,059</b>	<b>\$</b>	<b>265,020</b>



## FY 16/17 Operating Budget Overview

Revised May 31, 2016

FY 16/17 Proposed  
Budget (First 4  
months)

	FY 15/16 Adopted Budget	FY 16/17 Proposed Budget	
<b>Supplies and Equipment</b>			
Office Supplies	\$ 20,500	\$ 21,700	\$ 7,233
Copier Supplies	7,550	5,250	1,750
Janitorial Supplies	20,000	22,500	7,500
Misc. Supplies	73,960	69,440	23,147
Safety Clothing and Equipment	4,710	4,710	1,570
Office Furniture and Equipment	25,400	26,400	8,800
Other Equipment	4,500	5,250	1,750
Building Repairs-Library	102,800	-	-
<i>Subtotal</i>	<u>\$ 259,420</u>	<u>\$ 155,250</u>	<u>\$ 51,750</u>
<b>System Services</b>			
Professional Services Fiscal	\$ 8,300	\$ 88,300	\$ 88,300
Unique Management Collection Agency	14,000	14,000	4,667
Insurance	64,225	77,819	39,950
Postage	3,500	5,500	5,167
Printing and Advertising	27,530	34,330	11,443
Dues and Membership	34,910	34,910	34,910
Merchant Bank Fees	-	1,600	533
Professional & Technical Services	70,000	13,000	54,333
<i>Subtotal</i>	<u>\$ 222,465</u>	<u>\$ 269,459</u>	<u>\$ 239,303</u>
<b>Other Services and Transfers</b>			
Financial Services Outside (City of SC)	\$ 669,211	\$ 710,000	\$ 236,667
Transfer to Vehicle Replacement Fund	55,666	56,166	18,722
Transfer to 2-month reserve account	85,368	15,036	5,012
<i>Subtotal</i>	<u>\$ 810,245</u>	<u>\$ 781,202</u>	<u>\$ 260,401</u>
<b>Non-Labor Operating Expenditure Subtotal</b>	<b>\$ 4,661,559</b>	<b>\$ 4,280,790</b>	<b>\$ 1,994,673</b>
<b>Total with 8% Materials Budget</b>	<b><u>\$ 13,394,915</u></b>	<b><u>\$ 13,527,511</u></b>	<b><u>\$ 5,656,216</u></b>
<b>Total Operational Surplus or &lt;Deficit&gt;</b>	<b><u>\$ 12,053</u></b>	<b><u>\$ 18,400</u></b>	<b><u>\$ (1,140,913)</u></b>

4 Month Proposal

		Projected FY 15/16 Excess Cash over / <under> reserve policy
<b>Budgetary Alternatives:</b>		
Projected FY 15/16 Excess Cash over reserves		\$ 594,039
<b>One-time:</b>		
1 Election Costs (estimated)	\$ 350,000	\$ 244,039
2 Recabling to accommodate greater internet speeds at the branch	150,000	
3 AT & T Month to Month	106,896	
4 Outstanding Polaris Invoices	45,600	
One-time expenditures before Election Costs	<u>\$ 302,496</u>	<u>\$ (58,457)</u>
<b>On-going operating proposals:</b>		
5 Increase Materials Budget from 8% to 10% of revenue	\$ 270,918	\$ (329,375)
6 Increase hours (33 hours system-wide)	\$ 217,582	\$ (546,957)
If all the options were adopted, the Board would be in default of its reserve and surplus policy; with a total \$546,957 below the minimum 2-month target funding level.		