



# Santa Cruz Public Libraries (Library JPA) FY 2020 Revenue & Budget Study Session



## Library Boards

### Upcoming Board Meetings

Thu, March 7

- LFA and LIPA Board meeting  
Aptos (6:00 PM - 8:00 PM)

Currently Active Library Governing Boards



Library Joint Powers Authority

The Library Joint Powers Authority Board oversees the operations of the Santa Cruz City County Library systems, setting policies and exercising responsibilities delegated to it in the Joint Powers Agreement.

*Marcus Pimentel, City of Santa Cruz Finance Director*

*March 7, 2019 - Aptos Library*



# Agenda

Key financial trends  
Big 3 budget topics  
Recommendations

---

- Review Budget & Financial Reports
- Financial trends
- Prescription to Fiscal Health

**Big 3...**



SANTA CRUZ  
PUBLIC LIBRARIES



3/7/2019 7:01 PM



# Why now...

## Prepare for Proposed Budget

---

### How...

- Today's Study Session
- Monthly Dash Board reports
- Release of the FY 2020 Budget

# Government Trends

---

Local government is not in  
a boom cycle

State to double "again"  
government pension payments

Decreasing revenue bases (Sales & MOE)

Projected economic slowdown

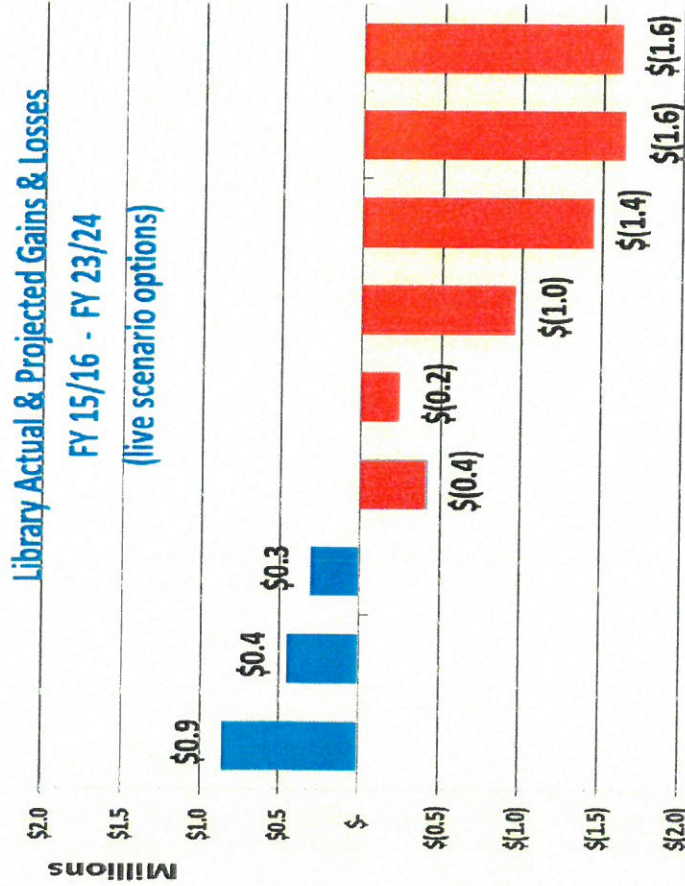




# Why...

## consider *reductions* in an economic boom?

- Local government is not in a boom cycle
- State to double “again” government pension payments
  - Cities must backfill for state pension investment shortfalls
- Library’s decreasing tax bases (sales tax and MOE from members)
- Projected economic slowdown
- Low reserves considering...
  - No “disaster contingency” reserves
  - Deficit projections



SANTA CRUZ  
PUBLIC LIBRARIES

## Declining & Eroding Revenues

Demographics & new economic models are permanently eroding our revenue

### Sales Tax Base

- Tangible items now a download (games, music, 3D printers, software)
- Pressure on limited consumer dollars
- Aging baby-boomers shifting spending to non-taxable health care & services
- Laws still playing catchup for consumer spending changes
- Partial good news- modest increases from new online sales regulations

### MOE Revenue

- Member contributions were capped in the current LFA agreement
- Previously, increases in property tax would have flowed into Library operations



SANTA CRUZ  
PUBLIC LIBRARIES

3/7/2019 7:01 PM

(Trends 3 of 7; next: Reports)



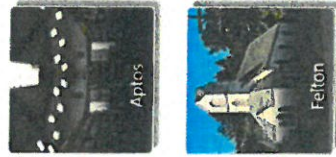
# Why...

Projected shortfall of staff to support expanded operations  
(larger branches with pressure for expanded hours)



- Measure S Home
- Branches
- Updates
- Documents
- Images
- Videos
- Background Info

### Branches



### Featured

Capitola Building Site February 2019

Spotlight

SANTA CRUZ  
PUBLIC LIBRARIES



3/7/2019 7:01 PM

(Trends 4 of 7; next: Reports)



## Why...

# Projecting economic slowdown in next 12 months

## Why we feel a slowdown is coming

- Regional housing crises
- Economy **MUST** see continued increases in consumer spending (70% of GDP <sup>\*Oct 2018</sup>)
- Consumers will have less as interest rates rise & their debt increases (car, credit card, school debt, housing, etc.)
- Federal and State gov. threats (impact fee, Sanctuary City, etc.)

A long recovery is reasonable... but ...  
the Great Recession... we've long passed the

At 9.6 years, we've long passed the  
typical ~5 year recovery period

## Longest periods of

### U.S. Economic Expansion

(National Bureau of Economic Research - Data since 1854)



SANTA CRUZ  
PUBLIC LIBRARIES

(Trends 5 of 7; next: Reports)

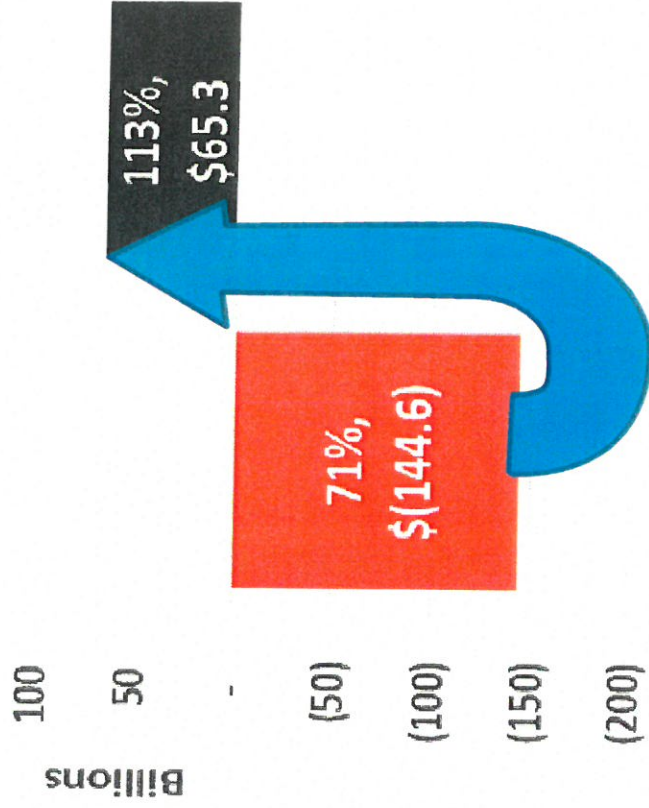


# Why....

## Pension investment shortfalls

- CalPERS choice resulted in lower investment earnings
- When earnings are short, cities pickup the difference
  - CalPERS is only 71% funded; or <\$144.6> Billion short
  - Since 2012, our pension costs will increase 200% by mid-2020's
  - IF... they earned just the mid point of the market, we would have NO increases
  - AND... they would be fully funded with \$65.3 Billion in extra cash
- NOTE: This is a hypothetical comparison using the average rates of return of seven major market indexes (S&P, Dow, Morningstar, etc.)

CalPERS FY 2018 Funded Status -  
Actual vs Potential Net Value with  
Funded %



Actual FY18 Hypothetical FY18

(Trends 6 of 7; next: Reports)



SANTA CRUZ  
PUBLIC LIBRARIES

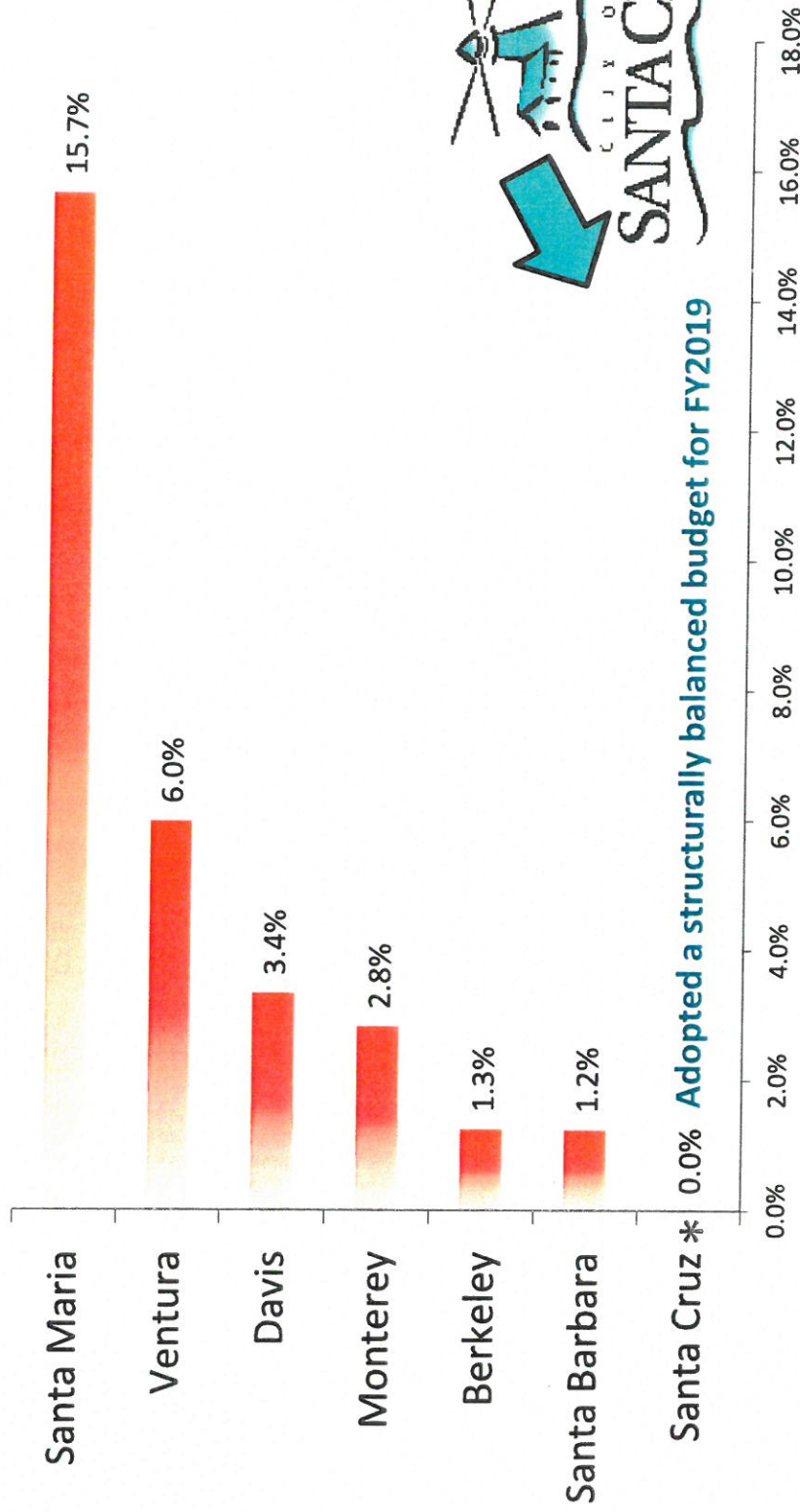
3/7/2019 7:01 PM



Local governments throughout the State are facing the same fiscal challenges.

Example: City of Santa Cruz comparison

FY2019 Adopted



Adopted a structurally balanced budget for FY2019

\* Ongoing resources equals ongoing costs. Some agencies "deficits" were calculated to remove the use of one-time resources to fund on-going costs. Data as of February 2019.



SANTA CRUZ PUBLIC LIBRARIES



3/7/2019 7:01 PM

(Trends 7 of 7; next: Reports)





# Big 3 budget topics

- Review Budget & Financial Reports
- Financial trends (Live Model)
- Recommendations

# Big 3

## #1 - Budget & Financial Reports

- Library's adopted annual budget
- Library's audited financial report
- Monthly Dash Board reports
- Budget and Mid-Year Presentations





# Budget Document

## 1) Introduction & Overview



Santa Cruz Public Libraries Budget

## ■ Goals & Benchmarks

## ■ Budget Summary & Detail Schedules

## ■ Personnel Listing



SANTA CRUZ  
PUBLIC LIBRARIES



3/7/2019

(Reports 2 of 6 next: LIVE trend model)

June 7, 2018

## ■ Library Director's Message

Santa Cruz Public Libraries  
Joint Powers Board  
117 Union Street  
Santa Cruz, CA 95060

Dear Board Member:

Thank you for giving the Santa Cruz Public Libraries the opportunity to deliver the fiscal year 2018-2019 budget request. Measure 5 funds and strategic investments in operations will provide the opportunity for SCPL to transform its building and services to meet the changing needs of the residents of Santa Cruz County and inspire the next generation to grow and prosper in this community.

## ■ Budget Assumptions

### Budget Assumptions

The Santa Cruz Public Libraries is not alone with facing an unstable financial future where the highest probable outcomes are: current cost increases outpacing revenue growth; revenue growth is threatened from a probable economic slowdown; and service expectation will increase as new and remodeled branches are brought online.

Provide below are the most recent, updated long-term financial forecast for the system that includes the proposed \$14.4 million FY 2018-2019 Budget with a potential, projected surplus up to \$600 K (assumes 94% of the budget is actually used). This forecast is influenced by the probability of a moderate economic slowdown, the continued shrinking of the sales tax base, the known and projected increases in State Pension fund payment to make up for the State's investment shortfalls, moderate increases in health care, and minimal operating change:

Key Growth Assumptions	Prior Actual	Current Projected	FY 2019	FY 2020	FY 2021
Sales Tax	3.1%	4.0%	2.75%	2.5%	2.0%
Budgetary Personnel Vacancy	8.6%	0%	3.0%	3.0%	3.0%
Pension-normal & shortfall	17.7%	16.5%	19.1%	16.5%	23.0%
Health Care	5.3%	<2.7%>	4.0%	2.0%	2.0%
Total Budget savings	9.4%	6.0%	6.0%	6.0%	6.0%

# Other Financial Reports

## (a) Audited Financial Report

- Financial system validated by an independent, third part Certified Public Accounting firm.
- Complied following national accounting standards
- “Clean” audit for FY 2018
- Although the report is 195 pages, it often is not in an easily digestible format for community members.
- Key area’s are:
  - Primary Fund Assets (pg12) and net results (pg 14)
  - Notes to the statements (pg17-29)
  - Pension liability is not disclosed. JPA’s employees are all City of Santa Cruz and a separate, JPA actuarial allocation has not yet been calculated

Santa Cruz  
Public Libraries  
Joint Powers  
Authority  
Santa Cruz, California

Annual Financial Report  
For the year ended June 30, 2018



3/7/2019

(Reports 3 of 6 next: LIVE trend model)



# Other Financial Reports

## (b) Dashboard Reports (monthly)

TO: Library Joint Powers Authority Board  
 FROM: Marcus Pimentel, City of Santa Cruz Finance Director 02/28/19  
 RE: Library Financial Dashboard Report for the Quarter ended January 2019



Jan 19 Report  
 Preliminary,  
 Unaudited

Contained herein is the preliminary, UNAUDITED Library Financial Dashboard summary report for the month ended January 2019. At month's end, the NET operating results were \$175,247 with year-to-date net operating results of <\$137,553>. In general, preliminary revenues are ahead of the budget target by 1.1% and expenditures are over budget by 0.3%.

Net Operations (major accounts)	Last Quarter Results			Fiscal Year to Date	Percent of Budget Comparison
	November	December	January		
<b>Revenue:</b>					
Sales Tax	\$ 578,703	\$ 767,735	\$ 743,616	\$ 5,149,940	63.5%
MOE - Member Contributions	471,273	471,273	468,325	3,295,962	58.3%
Other Revenue	15,018	9,400	34,708	140,959	20.7%
<b>TOTAL REVENUES</b>	<b>\$ 1,064,993</b>	<b>\$ 1,248,407</b>	<b>\$ 1,246,650</b>	<b>\$ 8,586,902</b>	<b>59.4%</b>
<b>Expenditures:</b>					
Payroll	\$ 1,104,498	\$ 765,906	\$ 696,320	\$ 6,166,183	60.9%
Books (w/Grants)	58,700	39,385	135,667	1,524,502	61.6%
Janitorial Services	48,769	4,144	25,505	148,467	55.8%
Building and Facility	26,086	20,239	26,374	132,338	50.9%
Rent (Equip, Building, Land)	20,663	20,680	20,663	143,318	58.8%
Utilities	37,249	40,527	33,781	230,585	44.4%
Other expenditures	89,822	118,574	133,093	961,925	51.9%
<b>TOTAL EXPENDITURES</b>	<b>\$ 1,385,787</b>	<b>\$ 1,009,455</b>	<b>\$ 1,071,404</b>	<b>\$ 8,724,455</b>	<b>47.7%</b>
<b>Net Gain / (Loss)</b>	<b>\$ (320,793)</b>	<b>\$ 238,952</b>	<b>\$ 175,247</b>	<b>\$ (137,553)</b>	<b>58.6%</b>
<b>Key Balance Sheet Items</b>	<b>November</b>	<b>December</b>	<b>January</b>	<b>Trust</b>	<b>Balance</b>
Equipment Reserve	450,368	450,235	452,416	Trust	Balance
20% Reserve	2,889,878	2,889,878	2,889,878	McCaskill- Hist	97,156
Fund Balance-Beginning Available	1,222,703	902,044	1,138,812	Leet-Corday	13,442
Net Change in Fund Balance	(320,793)	238,952	175,247	McCaskill- Vis	46,609
Fund Balance-Ending Available	901,910	1,140,996	1,314,059	Finkelsay	(98)
				Whalen	
				Gruber	

**Notes:**  
 For sales tax, September, December, March, and 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, and July) tend to be lower as they contain the lower state estimates. For January 2019, all agencies across the State received one-time, higher than normal Sales Tax receipts due to the delays in tax filings over the prior quarter. Delays were the result of complications from the creation of new tax reporting systems by the newly created California Department of Tax and Fee Administration.  
 For the current fiscal year, the following months have more than two pay periods, which will create higher monthly payroll costs: November and May. The month's completed % is adjusted to reflect year-end accrual of the last pay period. For the month ended in July, a \$689,911 CALPERS paydown of the Library's portion of the unfunded pension liability was recorded.  
 Janitorial services' billings have been delayed in the past. Actual costs should be near \$22k per month.  
 For the month ended in January, the four largest expenditures within 'Other expenditures' included: [Financial services - outside at \$48k], [Software maintenance services at \$38k], [Library functional supplies at \$11k], and [Miscellaneous supplies and services at \$9k].  
 The Library's reserves were changed on September 1, 2016 to: (1) reduce from 2 months to 15% the primary reserve and (2) formally establish a capital reserve with a target balance of \$400,000 (formally the informal reserve for fleet/equipment replacement). On November 2, 2017, the Library's reserves were increased from 15% to 20%.  
 Ending Avail



# Other Financial Reports

## (b) Dashboard Reports (monthly)

Revenue & Major Expenses (last 3 months)

The screenshot shows a financial dashboard with various data points. Two callouts are present: one pointing to a table of revenue and expense data, and another pointing to a summary table. The callouts highlight specific values and trends in the data.

Net Operations (major accounts)		Results	Fiscal Year to Date
		January	
Revenue:			
Sales Tax		743,616	\$ 5,149,940
MOE - Member Contributions		468,325	3,295,962
Other Revenue		34,708	140,999
<b>TOTAL REVENUES</b>		<b>1,246,650</b>	<b>\$ 8,586,902</b>
Expenditures:			
Payroll		696,320	\$ 6,168,183
Books (w/Grants)		135,667	939,639
Janitorial Services		25,505	148,467
Building and Facility		26,374	132,338
Rent (Equip, Building, Land)		20,663	143,318
Utilities		33,781	230,585

YTD Budget to Actual Comparison

Annual Adj. Budget FY 2018/19	Percent of Budget Comparison		Positive / Negative
	YTD Actuals	Months completed	
\$ 10,133,492	60.9%	57.3%	(3.6%)
1,524,502	54.4%	58.3%	(3.3%)
259,803	55.8%	58.3%	2.6%
243,943	50.9%	58.3%	7.4%
444,540	58.8%	58.3%	(0.4%)
2,016,166	51.9%	58.3%	6.5%
<b>\$ 14,888,722</b>	<b>47.7%</b>	<b>58.3%</b>	<b>10.6%</b>
	<b>58.6%</b>	<b>58.3%</b>	<b>(0.3%)</b>

Payroll spending is 3.6% over budget allocated per pay period



SANTA CRUZ PUBLIC LIBRARIES

3/7/2019

(Reports 5 of 6 next: LIVE trend model)



# Other Financial Reports

## (b) Dashboard Reports (monthly)

Library Reserves & Remaining Balances (last 3 months)

Key Balance Sheet Items	January
Equipment Reserve	452,418
20% Reserve	2,889,878
Fund Balance-Beginning Available	1,138,812
Net Change in Fund Balance	175,247
Fund Balance-Ending Available	1,314,059

April 18 Report Summary

Account	Balance	Change	Balance
Equipment Reserve	452,418		452,418
20% Reserve	2,889,878		2,889,878
Fund Balance-Beginning Available	1,138,812		1,138,812
Net Change in Fund Balance	175,247		175,247
Fund Balance-Ending Available	1,314,059		1,314,059

Trust Account Current Balances

Trust Current Assets			Balance
Trust	Trust		
McCaskill- Hist	Leet-Corday		97,156
McCaskill- Vis	Morely		13,442
Finkeldey	Hale		46,609
Whalen	Gruber		(99)

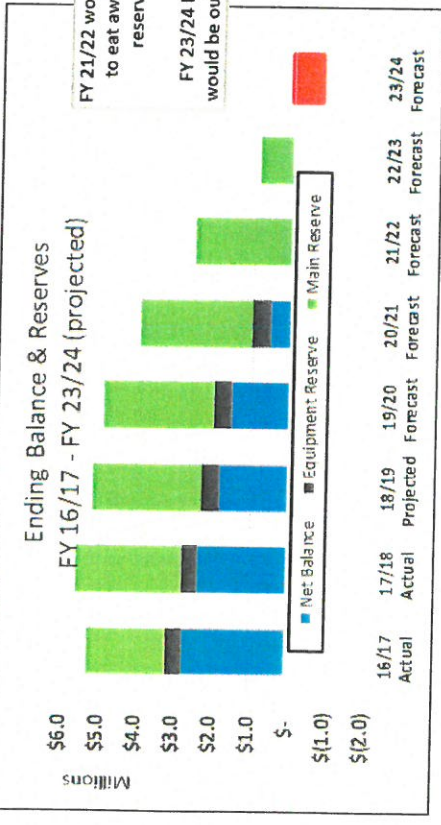
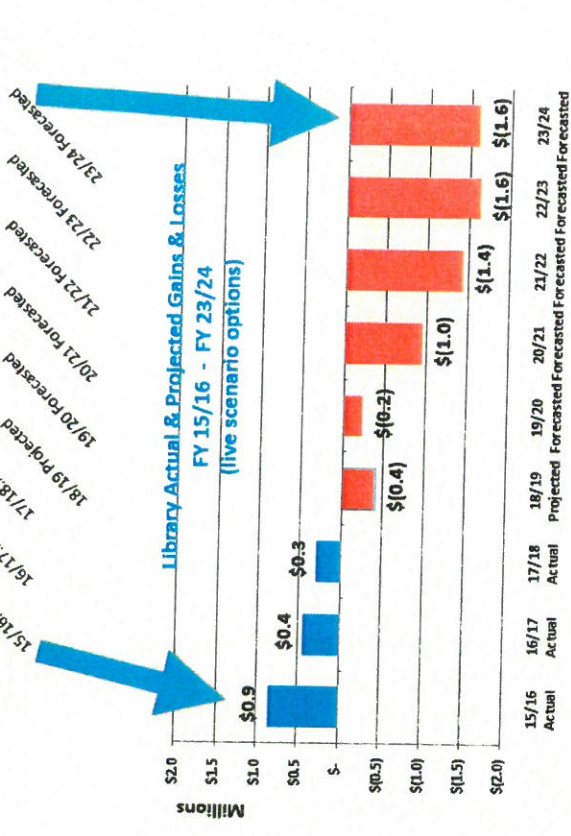
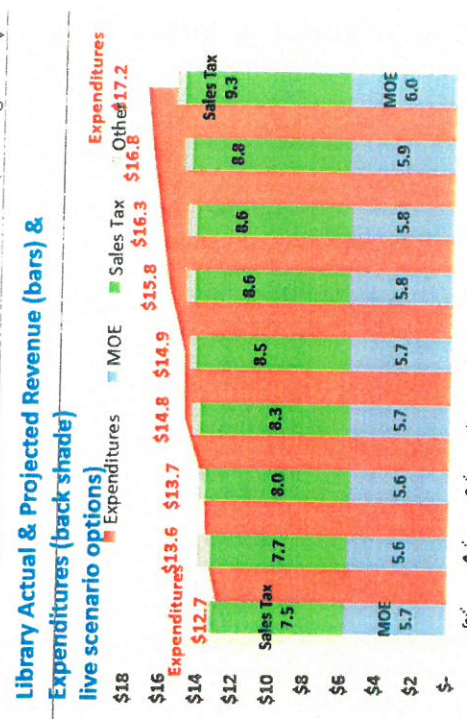


## Big 3 Financial trends

### Key Assumptions for future projections

	17/18	18/19	19/20	20/21	21/22	22/23	23/24
avg 3Yr rate	4.3%	3.8%	2.0%	1.5%	0.0%	2.0%	5.0%
Sales Tax growth during expansion (3yr avg. is 4.3%)	4.5%	3.8%	2.0%	1.5%	0.0%	2.0%	5.0%
MOE (after FY 20/21, current MOE continues with reduced CoW)	-0.2%	1.3%	1.2%	1.2%	0.0%	1.0%	0.8%
Wage growth (Positions, MOU, steps, other)	5.5%	8.0%	2.4%	3.0%	3.0%	3.0%	3.0%
Total Comp Vacancy	6.6%	5.9%	6.0%	6.0%	6.0%	6.0%	6.0%
Subset: Health Care Cost [2]	3.8%	-0.4%	4.0%	4.0%	4.0%	4.0%	4.0%
Books (annual rate of change)	6.5%	5.0%	-10.0%	-10.0%	-10.0%	-10.0%	-10.0%
Books percent of revenue (minimum 8%)	9.9%	8.7%	7.7%	6.8%	6.1%	5.4%	4.7%
One-time Books							
One-time Capital							
Additional Facility Maint & Investments			50,000	50,000	50,000	50,000	50,000
Temporary staffing costs	827,806	820,988	840,000	865,000	918,000	945,000	974,000
Expanded Services			224,000	467,000	477,000	493,000	509,000
Estimated Admin support with 6.0% growth factor FY19/20		465,058	467,000	514,000	540,000	567,000	595,000

(1) Projected economic slowdown starting in FY 2019/20.  
 (2) CalPERS started in FY 2017/18 steep annual increases in Pension costs projected to continue through mid-2020s.  
 (3) Health Care costs are projected to not grow for Calendar Year 2018. Growth trend reduced from 5% to 2% annually.  
 (4) Placeholder. Add additional \$50k annually for facility costs.  
 (5) Placeholder. Possibly annual temp labor costs. Any more above this baseline would add to future budgets.  
 (6) Placeholder. Costs for 5.0 FTE added to budget beginning Jan 2020.  
 (7) Placeholder.  
 (8) Growth factor driven by conservative City of SC Personnel Cost/Benefit increases. Contract expired June 2018 with FY17/18 rate repeated for FY18/19.



FY 21/22 would begin to eat away the reserves  
 FY 23/24 Library would be out of cash

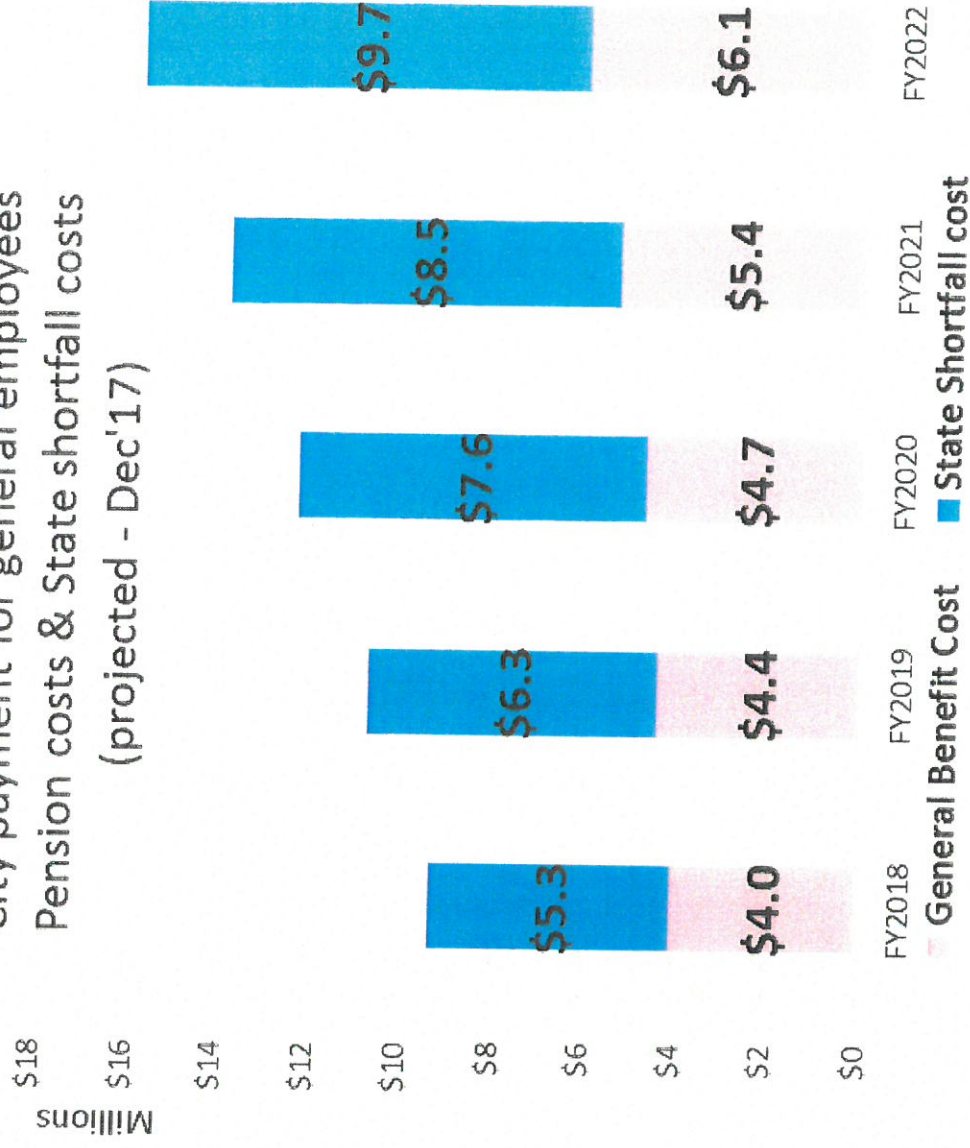


(Trends 1 of 2 next: Recommendations)



# The State's investment shortfall will double Pension payments

City payment for general employees  
Pension costs & State shortfall costs  
(projected - Dec'17)



- City of Santa Cruz MISC plan
- \*\*includes all Library employees



SANTA CRUZ  
PUBLIC LIBRARIES



# Recommendations to the Library Board

---

- Form a committee to update the LFA agreement; consider implementing prior to June 30, 2021
- Direction towards a strategy to quantify the Library JPA's share of the CalPERS unfunded liability
- Prepare for identifying other funding sources to support operations

## Questions?



SANTA CRUZ  
PUBLIC LIBRARIES



3/7/2019 7:01 PM