



LIBRARY JOINT POWERS AUTHORITY BOARD
FINANCE SUBCOMMITTEE

April 22, 2013
Downtown Branch Meeting Room
224 Church Street, Santa Cruz

6:30 PM PUBLIC MEETING

1. ROLL CALL
2. APPROVE AGENDA OF APRIL 22, 2013
3. APPROVE MINUTES OF MARCH 21, 2013
4. ORAL COMMUNICATIONS
5. STAFF REPORTS
 - a. Monthly Financial Reports - March 2013 (PG.6)
 - b. FY13/14 Budget Update (PG.7-12)
 - c. Reserve Policy (PG.13-24)
6. OTHER BUSINESS
 - a. Financial planning retreat update (oral)
 - b. Finance subcommittee charter (oral)
7. WRITTEN COMMUNICATIONS
 - a. Library funding formula
8. FINANCE COMMITTEE MEETING CALENDAR

The Finance Committee will consider its current meeting schedule and may revise it as necessary. Meetings for March through August will be approved with schedule handed out at the meeting.

9. NEXT MEETING

The next regularly scheduled meeting is Monday, May 20, 2013 at 6:30 p.m. at the Downtown Branch Library

ADJOURN

The Library Joint Powers Authority Board Finance Subcommittee will adjourn from the regularly scheduled meeting of April 22, 2013 to the next regularly scheduled public meeting on May 20, 2013 at 6:30 pm in the Community Meeting Room of the Downtown Branch Library.

The Santa Cruz City-County Library System does not discriminate against persons with disabilities. Out of consideration for people with chemical sensitivities, the Library requests that you attend fragrance free. The Downtown Branch Library is a fully accessible facility. If you wish to attend this public meeting, and you will require special assistance such as sign language or other special devices in order to attend and participate, please call (831) 427-7706 seventy-two (72) hours prior to the event to make arrangements for assistance. Upon request, agendas for public meetings can be provided in a format to accommodate special needs.

000002

SANTA CRUZ PUBLIC LIBRARIES
A CITY-COUNTY SYSTEM

LIBRARY JOINT POWERS BOARD
FINANCE SUBCOMMITTEE

MINUTES

March 21, 2013

Downtown Branch Meeting Room
224 Church Street, Santa Cruz

6:30 PM PUBLIC MEETING

I. ROLL CALL

Present: Citizen Member English, Councilmember Terrazas, Councilmember Termini

Staff: Director Landers, Finance Director Pimentel

II. APPROVAL OF MEETING AGENDA OF MARCH 21, 2013

Councilmember Termini moved, seconded by Citizen Member English

that the Finance Subcommittee approve the agenda of March 21, 2013

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III. APPROVAL OF MINUTES OF FEBRUARY 21, 2013

Citizen Member English moved, seconded by Councilmember Termini

that the Finance Subcommittee approve the minutes of February 21, 2013

UNAN

IV. ORAL COMMUNICATIONS

None

V. STAFF REPORTS

- a. Monthly Financial Reports – February 2013
The Finance Subcommittee reviewed the February reports. Revenues are on target. Sales tax is 5.5 % above projections. Property tax is ½ % under budget. Expenses are 7% under budget. The library is presently in a strong fiscal position.

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Finance Director Pimentel discussed the February Snapshot report and responded to a number of questions.

- b. FY 13/14 Budget Update
Director Landers reported that there are no updates.
- c. Operating Reserves
Finance Director Pimentel presented several approaches to establishing a cash-flow reserve fund that would require a super-majority vote to reduce. It was agreed that more information will be gathered and the Finance Subcommittee will adopt a specific recommendation at its April meeting to be presented at the Board's upcoming financial planning retreat.
- d. Financial planning retreat update
Director Landers reported that the retreat planning committee will be meeting on Tuesday, 3/26 to discuss dates and a preliminary agenda.

A member of the public asked several questions.

VI. OTHER BUSINESS

- a. Approve procedures for election of officers

At the Finance Subcommittee's request Director Landers presented the following procedure for electing the Chair and Vice-Chair of the Finance Subcommittee: that at the March Finance Subcommittee meeting an election will be held for Chair and Vice-Chair. This will follow the regular February LJPB meeting at which the LJPB Chair and Vice-Chair are selected.

Councilmember Termini moved, seconded by Citizen Member English

that the Finance Subcommittee adopt the procedure for annual election of Finance Subcommittee officers.

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- b. Elect Chair and Vice-Chair

Councilmember Termini moved, seconded by Councilmember Terrazas

that the Finance Subcommittee nominate Citizen Member English as Chair.

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Councilmember Terrazas moved, seconded by Citizen Member English

that the Finance Subcommittee nominate Councilmember Termini as Vice-Chair.

UNAN

VII. WRITTEN COMMUNICATIONS

- a. Four year revenue/expenditure history
This report was presented by Director Landers upon request of the Finance Subcommittee. Citizen Member English commented that in the future requests for reports etc. should be more specific so as to be respectful of Staff time.
- b. RPTFF Residual Distribution
On Jan. 2, 2013, the Audit-Controller allocated and distributed revenues deposited into the RPTTF of each City and County Redevelopment Successor Agency based on property tax revenues.
- c. Library Audit
Finance Director Pimentel commented that the Library Audit is clean and strong – a very good audit and that there is no cause for concern.

VIII. FINANCE COMMITTEE MEETING CALENDAR

No changes

IX. ADJOURN

The regular meeting adjourned at 7:26 p.m.

The Library Joint Powers Authority Board Finance Subcommittee will adjourn from the regularly scheduled meeting of Thursday, March 21, 2013 to the next regularly scheduled public meeting on Monday, April 22, 2013 at 6:30 pm in the Community Meeting Room of the Downtown Branch Library.

Respectfully submitted,

Helga Smith
Clerk of the Board

000005

TO: Finance Committee- Library Joint Powers Authority Board
 FROM: Marc Pimentel, Finance Director
 DATE: April 18, 2013
 RE: Monthly Dashboard Report: Library's March 2013 financials

March 2013



FINANCE DEPARTMENT

Contained herein is the March 2013 Dashboard summary report. In general, revenues remain slightly ahead of budget by 2.5% and expenditures are under-budget by 6.7%. This has resulted in a year-to-date net operating gain of \$1,056,089. If current revenue and payroll budgetary savings trends continue, but unspent operating costs are incurred or carried over into next year, annualized net gains for the current year could exceed \$680,000. Note staff will provide to the Finance Committee a reconciliation of changes to budget and actuals since July 2012 (see footnote #4).

This "dashboard" summary includes only major revenue and expenditure lines items that are key to monitoring operating trends and allow us to provide a 1pg summary report. Items not reported individually but included in the "Other expenditures" line item below include contractually obligated accounts such as debt service, software licensing fees, and admin support (management, personnel, accounting, budgeting, payroll, etc.).

Net operations (Major accounts)	Actual Results			Year to Date	Annual Budget FY 2012/13	Percent of Budget Comparison		
	January	February	March			YTD Actuals	Months completed	Positive / (negative)
Revenue:								
Sales Tax	\$ 438,501	\$ 569,563	\$ 598,178	\$ 4,921,971	\$ 5,991,473	82.1%	75.0%	7.1%
MOE- Member Contributions	425,076	425,076	422,365	3,822,970	5,149,416	74.2%	75.0%	(0.8%)
Library Fines	23,662	17,623	15,080	152,111	200,000	76.1%	75.0%	1.1%
Donations- Friends	-	-	35	7,296	70,000	10.4%	75.0%	(64.6%)
Other Revenue	11,359	4,682	14,663	71,551	168,024	42.6%	75.0%	(32.4%)
(4) TOTAL REVENUE	\$ 898,598	\$ 1,016,944	\$ 1,050,320	\$ 8,975,899	\$ 11,578,913	77.5%	75.0%	2.5%
Expenditures:								
(1) Payroll	547,150	563,836	866,619	5,455,504	7,574,988	72.0%	75.0%	3.0%
Books (w/Grants)	63,039	36,450	56,893	679,791	939,826	72.3%	75.0%	2.7%
Janitorial Services	9,788	9,222	7,449	83,820	117,097	71.6%	75.0%	3.4%
(2) Building & Facility	16,983	18,840	6,490	109,270	222,627	49.1%	75.0%	25.9%
Rent (Equip, Building, Land)	25,934	25,670	25,616	234,354	312,409	75.0%	75.0%	(0.0%)
Utilities	33,163	22,094	25,149	262,859	331,639	79.3%	75.0%	(4.3%)
(3) Other expenditures	122,265	122,373	157,226	1,094,212	2,094,755	52.2%	75.0%	22.8%
(4) TOTAL EXPENDITURES	\$ 818,323	\$ 798,484	\$ 1,145,442	\$ 7,919,810	\$ 11,593,341	68.3%	75.0%	6.7%
Net Gain / (Loss)	\$ 80,275	\$ 218,460	\$ (95,121)	\$ 1,056,089	\$ (14,428)			

Key Balance Sheet items	Actual Results			Year to Date	Annual Budget	Key Operating Indicators	Status
	January	February	March				
Cash	\$ 2,311,392	\$ 3,369,688	\$ 2,270,739	\$ 7,919,810	\$ (14,428)	"Current" assets vs Short Term liabilities (Over 2 is good)	43.9
Total Current Assets	3,194,823	3,388,863	2,289,914	10,873,599		"Current" assets vs Long Term liabilities (Over 1 is good)	8.7
Short Term Debt	67,025	35,390	52,190	262,011		Cash vs Budgeted Revenue (10% was goal by FY16/17)	19.6%
Long Term Debt (City of SC)	262,011	262,011	262,011	262,011			

Notes:

- (1) March payroll costs are accurate but artificially higher due to timing differences (includes an extra pay period)
- (2) Added the category "building repairs" to this line item (includes building "O & M" and now "Repairs").
- (3) Other expenditures are on pace to end the year under budget by approximately \$451,595 respectively from the Adopted Budget for prior year project carry-overs, from Board direction, and from minor corrections.
- (4) Budgeted revenue & expenditures increased by \$71,279 and \$451,595 respectively from the Adopted Budget for prior year project carry-overs, from Board direction, and from minor corrections.

STAFF REPORT

DATE: April 19, 2013
TO: Library Joint Powers Board
FROM: Teresa Landers, Director of Libraries
RE: FY13/14 Budget Recommendations

RECOMMENDATION: Provide direction to Library Director to prepare the final FY13/14 budget including the recommendations presented in this report.

SUMMARY

The recommended expenditures for the FY13/14 budget represent a balance between structural and one time expenditures that meet the priorities set by the LJPB.

BACKGROUND

The Library's Strategic Plan has a goal related to Financial Sustainability.

The library's infrastructure supports people's access to quality services and programs.

1. SCPL maintains a healthy and stable financial position.
2. There is adequate, stable, and diverse funding to finance ongoing operations, key strategic initiatives, and capital projects.
3. Services of a defined level and quality are consistently delivered, based on revenue projections and a supportive organizational and operating structure.
4. The Library operates efficiently and focuses on continual improvement.

At its March 2013 meeting the LJPB approved the following priorities for the FY13/14 budget:

- Continue to support adjustments in support of effective implementation of the service model adopted in 2011.
- Implementation of the recommendations provided by the Facilities Master and Information Technology (IT) Strategic Plans.

The Finance Subcommittee is also recommending the adoption of a reserve policy with the following key elements:

- Two months of expenditures will comprise a cash flow reserve.
- The vehicle and technology reserves will be funded annually at a level determined necessary to provide for vehicle and technology replacement.

000007

- Two weeks of expenditures will comprise an emergency cash reserve.
- Funds in excess of the above and not allocated to immediate operational needs will be allocated: 33% to Capital Maintenance, 33% to Library Materials (until the threshold of 12% of revenues is achieved) and 33% is at the LJPB's discretion.

DISCUSSION

Keeping in mind the Financial Sustainability Strategic Direction, the Board approved priorities, and the proposed reserve policy, the following expenditures are recommended:

Strategic Plan

1. Basic operating budget, including personnel of approximately \$11.2 million which is a less than 1% increase over FY2012/13 and a 16% increase in the base materials budget.
2. Pay off loan to City of Santa Cruz: \$262,000 due 1/1/14. This saves \$60,500 per year in principal and interest payments.
3. Pre-pay PERS for FY13/14- \$ 592,800. The 3% discount saves \$17,800.

Service Model Adjustments

1. Add the following positions:
 - Two 20 hour per week Library Assistant IIs. These are, one each, for the Aptos and Scotts Valley branches. The volume of business being conducted at these two locations has resulted in long lines for service and staff unable to complete assigned tasks. These branches did not add hours last year. Therefore, the only hours that were added for their staff was 5 hours per week in order to give staff time to handle "off desk" responsibilities such as reading email, completing timesheets, etc.
 - One full time Information Specialist to be assigned to Youth Services at the Downtown Branch. The service model has changed how reference services are provided and relies on a centralized team of staff that is then allocated to the Downtown, Aptos, Scotts Valley and Live Oak branches. An analysis of the service provided indicates that our young people and their families are not receiving the quality of service they should be. Service to Children is a specialty area of librarianship that requires specific training and experience. Understanding the reading needs of young people is very different from providing readers' advisory to adults. A Librarian II with youth services experience has been allocated from the central pool to focus on Youth Services but she is one person covering the young people's room, the tutoring area, displays in the children's area, and the meeting room. The addition of one full time Information Specialist for

Youth Services will allow us to provide better reference service to young people and their families for all open hours while all the public areas of the second floor are monitored..

The addition of an Information Specialist for Youth Services improves reference service throughout the system. The Reference staff has seen its workload increase as the demand for virtual reference via email, text, and chat has grown while in-person requests for service remain constant. Reference staff once pulled from the pool to serve at the Youth Services desk would be able devote more time to support of the branches, classes for the public, one-to-one reference appointments, and development of local resources such as our local history collection.

An unanticipated impact of the service model was the move of the Librarians into a bargaining unit where they receive 80 hours per year of management leave. This translates to .25 FTE. This was not calculated into the staffing model and has contributed to the Reference unit being consistently understaffed.

2. As per the service model, 8% of revenues has been allocated for the purchase of library materials in all formats. This is calculated as 8% of revenues from sales tax, MOE, fines/fees and interest from trusts designated for materials. This results in an increase of \$133,000 in the materials budget. In addition, \$100,000 is being requested to augment the materials budget at the request of the LJPB. The focus of these funds will be on popular materials in various formats. One idea we plan to implement is a Lucky Day Collection. This will be items that are not reservable or renewable. They will be distributed among the branches and patrons will be able to come in to their local branch and if it's their Lucky Day, that bestseller will be there.
3. The service model included several appropriations that have been adjusted in this recommended FY13/14 budget:
 - Remodeling for single point of service- \$20,000: This was removed. There is still \$35,000 that was not spent in FY12/13 that is being carried over to FY13/14. Should there be a decision to invest in minor remodeling, this \$35,000 as well as two trust funds (one for La Selva Beach and one for Downtown) can be used.
 - Capital maintenance- \$50,000. Since the facilities master plan recommendations are for \$200,000; this \$50,000 is not as critical this coming year. The recommendation is to reduce this to \$25,000 and to put the other \$25,000 towards contingencies.
 - Cash reserve- 100,000. Since the target of 10% has been reached and replaced by the two month cash flow reserve recommendation, there is no need to specifically budget for the cash reserve.

Facilities Master Plan

- a. Facilities Maintenance: See the table below for a breakdown of costs as defined in the Facilities Master Plan

2014 Recommendations	2014 Most Pressing	2014 Most Pressing not including the 4 Attain Branches	Previous column plus sanitary waste at Downtown Branch
\$471,400	\$270,300	\$165,700	\$208,500

The recommendation is to allocate \$200,000 for these projects. The sanitary waste issue at the Downtown Library is a danger to the health and safety of both people and materials. Leaks have already occurred and luckily damage has been minimal so far.

- b. Allocate \$50,000 to financial and political analysis, including polling, for a possible financial measure related to implementing the Facilities Master Plan.

Technology Plan

Library recommends allocating \$300,000 for the purchase of a new Integrated Library System (ILS). Other expenditures in support of this plan are included in the regular Library operating budget.

A recommendation anticipated from the Technology Plan is to upgrade the position of Virtual Services Coordinator to a Librarian. The Library's virtual presence has been growing in both content and importance. This has become our 11th branch and as such needs to be "staffed" commensurately. The knowledge, skills, and abilities required to coordinate the Library's growing array of virtual services, now matches more closely to the Librarian job description than the Library Specialist. This could have been presented equally well in the service model section as an adjustment needed to make the service model work better.

The estimated cost is about \$3,000 per year. The mechanics of doing this are a bit unusual. The easiest way to accomplish this is for the LJPB to authorize a new Librarian position. Once filled, the Library will eliminate the Library Specialist-Virtual Services Coordinator Position. As the Librarian position will be filled in-house, the elimination of the Virtual Services Coordinator position will not result in anyone being laid off.

Reserve Policy

Staff recommends that the Board amend its reserve policy to maintain 10% as the minimum reserve level with 2-months as the funding target. With this action, staff recommends that \$1.9 million be allocated to fully fund the reserve to the 2-month level (based on \$11.4 million FY12-13 amended budget).

In the budget, as presented, approximately \$250,000 is expected to be available by the end of FY13-14. Under normal circumstances, it would be staff's recommendation that this amount be used to partially fund the new two-week emergency reserve fund and towards increasing the "materials" budget to a 12% funding level. However, because the results of negotiations will not be known until after adoption of this budget, it is advised that the \$250,000 not be specifically allocated. Structural impacts are not anticipated but it is likely there will be one-time costs.

This allocation does allow for expenditures in those areas identified as priorities and leaves some room for implementation of recommendations from the Technology Plan as well as from negotiations currently underway with all the bargaining units.

It is important to note that two large expenditures that will not need to be made in future years: The new ILS for \$300,000 and repayment of the City of Santa Cruz loan for \$262,000. It is anticipated that these funds would be available in future years to contribute to both the emergency reserve and capital maintenance funds.

The following table summarizes the recommended allocation of funds available after basic operating expenses are met:

RESOURCES		
FY12/13 projected ending fund balance		\$ 2,300,000
Estimated FY13/14 net operating gain		\$ 751,000
Estimated CalPERS pre-pay savings		\$ 17,800
Cash flow savings from City Loan payoff (principal & interest)		\$ 60,500
Reduce capital maint in reg budget		\$ 25,000
reduce pt of service		\$ 20,000
TOTAL		\$ 3,174,300
USE OF RESOURCES		
<i>One Time</i>		
Cash flow		\$ 1,900,000
City Loan payoff		\$ 262,000
Capital maintenance		\$ 208,000
Materials extra		\$ 100,000
New ILS		\$ 300,000
Campaign related expenses		\$ 50,000
Subtotal		\$ 2,820,000
<i>Structural</i>		
.5 LAII		\$ 24,800
.5 LAII		\$ 24,800
Info Specialist		\$ 54,800
Subtotal		\$ 104,400
TOTAL USE OF RESOURCES		\$ 2,924,400
FUNDS AVAILABLE		\$ 249,900

000012

Staff Report
Library- Library Finance Subcommittee

DATE: 4/17/13

AGENDA OF: 4/22/13

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

SUBJECT: Library Reserve Levels- Recommendation

RECOMMENDATION: That the Finance Committee consider a recommendation to the Library JPA Board to amend the Board's Budgetary Policy to increase over time the materials minimum appropriations from 8% to 12% and amend the Board's Fund Balance Policy on reserves to (a) establish and fund a System Wide Stabilization Arrangement at a 2-month funded level; (b) establish a Facility Capital Projects Stabilization Arrangement based on approved but unfunded projects; (c) establish an Operating Emergency Stabilization Arrangement at a goal of reaching a 2-week funded level; and (d) adopt a Library operating fund Surplus policy.

BACKGROUND: On April 6, 2009, the Library Board approved two primary reserve related requirements; that it maintains an operating reserve equal to 5% and that 8% of its revenue stream be dedicated for Book 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. As of the close of March 2013, the Library's cash balance was 19.7% of its budgeted revenue.

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.

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

000013

Special Fund accounts. They include the following restricted trusts; McCaskill (2 accounts), Finkeldey, Whalen, Leet-Corday, Morley and Hale.

DISCUSSION: During the February 2013 and March 2013 Finance Committee meetings, the committee continued prior reserve discussions that included possibly establishing reserves for capital, for facilities, for ongoing operations as well as an overall reserve with an increase from 10% (5.2 weeks) to 2-months. In addition, the Committee requested that staff conducts research to provide examples of other Library reserve policies and that staff provide reserve recommendations that would be considered as part of the Board's May 18, 2013 Board Retreat.

Regarding other agency reserve levels, Staff found several comparable library & districts with the following reserves:

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 summarize 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: Therefore, staff's recommendation is that the Finance Committee reviews and recommends amendments of the current Fund Balance policy and adopts a Surplus reserve policy to reach future reserve funding levels, as defined below and summarized in the following chart:

Reserve/Funding Category	Staff Recommendation	Current Funding Level	Proposed Increase
Materials	Increase from 8% to 12%	\$ 909,826	\$ 460,000
System Wide	Increase from 10% to 2-months (16.7%)	\$ 1,143,835	\$ 763,000
Facility Capital Projects	Reestablish based on unfunded projects	n/a	Tbd
Operating	Reestablish with a 2-week level	n/a	\$ 440,000
Surplus Policy	Distribution of annual surplus; limited to 1/3 of the lowest surplus in the last 3 FY's	n/a	Tbd

Before considering capital project funding, if the three reserves were adopted and fully funded today, it would amount to \$2.8 Million and would exceed the Board's March 31, 2013 cash

000014

balance of \$ 2.27 Million. Therefore, the recommendation now is to only fund the 2-month System Wide reserve to \$1.9 Million, which would leave approximately \$360,000 as available Fund Balance.

[1] Library Joint Powers Materials Funding (amendment to Budget Policy)

It is in the primary interest of the citizens of Santa Cruz County who rely upon the Library System that a portion of the total annual revenue be used to set the minimum appropriation level for the Materials budget.

Therefore, the Library Board authorizes that the following action be implemented to incrementally increase from a minimum 8% target to a minimum 12% appropriation target for Materials as follows:

1. That the subsequent Fiscal Year's annual appropriations for Materials be increased by the equivalent of one-third (1/3) of the last year's audited General Fund "Net Change in Fund Balance" as contained within the annual Basic Financial Statements "State of Revenues, Expenditures and Changes in Fund Balance-Governmental Fund."

This action may appear contrary to normal best practices that would avoid situations where one-time resources (i.e., surplus) are used to fund ongoing operating costs. However, the allocation of only 1/3 of the any annual surplus in combination with the establishment of the System Wide reserve (item #2 below) and the ability of the board to amend or reduce this budget target offset the financial risks imposed.

[2] 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 Expenditure 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 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 March 31, 2013 is already in excess of 2-months of the General Fund's Operating Expenditure 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. No appropriation will occur without prior presentation to the Board of a plan and timeline for replenishing the Arrangement to its minimum funding level. Requests for 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 the same Fiscal Year, funding can be used for cash-flow purposes when timing requires a one-time reduction in cash that will be 100% restored no later the end of the same Fiscal Year.
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.

[3] Establishment of a Facility Capital Projects Stabilization Arrangement (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 "available" Fund Balance be set aside in a Facility Capital Project Stabilization Arrangement in order to provide reserves against certain specified conditions listed herein that are infrequent.

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

The funding target for this policy will, in lieu of a pre-established flat funding amount or percentage, be determined by previously approved but unfunded capital projects that can be expected to be completed within the next Fiscal Year and by available financial resources. In no circumstance will this policy amendment preclude the board from entering into debt arrangements to provide additional funding for future capital projects. Furthermore, it is intended to fund previously approved but unfunded capital projects and not new projects that may arise prospectively within the development of the annual budget.

000016

Facility Capital Project Stabilization Arrangement amount. The funding level shall not exceed the amount of unfunded Facility Capital Projects projected for the current and subsequent Fiscal Year. There shall be no minimum funding amount.

Contributions to the Facility Capital Project Stabilization Arrangement. The Library Board shall authorize the Library Director to initiate transfers equal to one-third (1/3) of the last year's audited General Fund surplus (defined as the "Net Change in Fund Balance" as contained within the annual Basic Financial Statements "State of Revenues, Expenditures and Changes in Fund Balance-Governmental Fund").

Conditions under which the Facility Capital Project Stabilization Arrangement may be spent. Appropriations shall require a Resolution from The Library Board approved by a majority of the Board. No appropriation will occur without prior presentation to the Board confirming the use for a previously, board approved unfunded and priority facility capital project. Requests for 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 Facility Capital Project Stabilization Arrangement can be spent are:

1. The Capital Project recommended by staff must exceed \$5,000 and be previously listed as an unfunded but recommended Capital Project;
2. That the Capital Project must meet one of the following conditions:
 - a.) The Board determines that funding the Capital Project is in the best interest of maintaining current operational functionality due to an identified deterioration of the facility or a component of the facility.
 - b.) The Board determines that funding the Capital Project meets the operational enhancements as previously identified by the Board and that significantly improve citizen's access to or use of Library facility or resources.

[4] Establishment of an Operating Emergency Stabilization Arrangement (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 "available" Fund Balance be set aside in an Operating Emergency Reserve Stabilization Arrangement in order to provide reserves against certain specified conditions listed herein that are infrequent and severe.

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

As noted, this is intended to supplement operations during times when an unexpected event occurs to provide immediate flexibility to maintain current operations and/or service levels.

Operating Emergency Stabilization Arrangement amount. The funding level shall equal the equivalent of two-weeks of the current fiscal year's Adopted Total General Fund Operating Expenditure Budget. No funding shall be required until the end of the third Fiscal Year following the Fiscal Year in which this amendment is adopted (currently would be FY16/17).

Contributions to the Operating Emergency 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 upcoming year but before the end of the current fiscal year.

Conditions under which the Operating Emergency Stabilization Arrangement may be spent. Appropriations shall require a Resolution from The Library Board approved by a majority of the Board. No appropriation will occur without prior presentation to the Board of a plan and timeline for replenishing the Arrangement to its minimum funding level. Requests for 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 Operating Emergency Stabilization Arrangement can be spent are:

1. A Library revenue is unexpectedly decreased by more than \$100,000 during the Fiscal Year.
2. A sudden and unexpected operating cost is incurred in excess of \$25,000 that would significantly impact the Library's operations or service level.
3. If any one of the unforeseen and non-recurring events listed within the System Wide Stabilization Agreement occur.

[5] 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 any future amounts attributed to the remaining one-third (1/3) portion of the Library's last year's audited General Fund surplus (again 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 only the one-time 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 single year of the past the three (3) surplus years.

This policy goes in hand with the prior Fund Balance policy amendments that would 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 Stabilization Arrangement.

LIBRARY	LOCATION	RESERVE POLICY	TARGET	ACTUAL	LEGAL OR POLICY	COMMENTS
Palos Verdes LD 4 branches \$6.8 million budget	Rolling Hills Estates	<ol style="list-style-type: none"> 1. 6 mos. Operating expenses 2. 5% of annual operating expenses for emergencies 3. then enough to meet following year's planned "asset replacement" 4. election years-pay election expenses of Board 5. additional 5% of operating for emergencies 		#5 not always met	<ol style="list-style-type: none"> 1. Law 2. Policy 3. Policy 4. Policy 5. Policy 	<ol style="list-style-type: none"> 1. 90% funding is property taxes; receive \$ as collected; go 6 months between payments; need for cash flow 3. Planned major maintenance & capital expenditures; roof replacement, recarpeting, technology replacement, small capital improvements
City of Rancho Cucamonga 2 branches \$4 million	Rancho Cucamonga	<ol style="list-style-type: none"> 1. Had been advised 19 years ago - 50% 2. Redevelopment -capital reserve 	50%	<ol style="list-style-type: none"> 1. \$6 million 2. \$1 million 	Policy	<ol style="list-style-type: none"> 1. Tapped reserve for 3 years but do not expect to this year 2. One reserve will now need to cover capital as well with redevelopment gone
Santa Clara County 8 branches \$33.4 million	Los Gatos		nothing formal need \$9 million for cash flow	<ol style="list-style-type: none"> 1. Bldg-\$1.7 million 2. Technology: \$5.6 million 3. Econ. Uncertainty-\$2.2 million 4. Undesignated fund balance-\$7.8 million 5. Trust for Los Altos-\$1.5 million 		<ol style="list-style-type: none"> 1. Remaining from fund designated in 2010 to fund a 10 year capital improvements program 2. For 3 years beginning 7/1/13 4. Not included is \$11 million currently being spent on acquisition and renovation of new Admin building - will save \$350K per year in lease payments
GFOA 0000019		2 months cash reserve (17% of annual expenditures)				

None of the officers, agents, or employees directly employed by the Board shall be deemed, by reason of their employment by the Board to be employed by the County or the cities or, by reason of their employment by the Board, to be subject to any of the requirements of the County or the cities.

Section 2.7 - Assistant Officers. The Board may by resolution appoint such assistants to act in the place of the Secretary or other officers of the Authority (other than any Director) and may by resolution provide for the appointment of additional officers of the Authority who may or may not be Directors, as the Board shall from time to time deem appropriate.

→ **Article III - Contributions**

Section 3.1 - Maintenance of Effort Contributions of the Cities. The cities of Santa Cruz, Watsonville, Capitola and Scotts Valley shall contribute each year, commencing with the 1997-98 fiscal year, for the purposes set forth herein a maintenance of effort amount equal to the amount shown below:

City of Santa Cruz	\$1,394,751
City of Watsonville	541,684
City of Capitola	0
City of Scotts Valley	0

The maintenance of effort amounts shown for the cities of Santa Cruz and Watsonville are equal to each city's 1995-96 net General Fund Budget amount for Library Services for its residents. The City of Santa Cruz budget amount has been adjusted downward by \$77,000 to reflect the amount budgeted for debt service for the automation system which debt shall be retired before 1997-98.

Section 3.2 - Maintenance of Effort Contributions of the County. The County of Santa Cruz on behalf of the Unincorporated Area and the cities of Capitola and Scotts Valley shall contribute each year, commencing with the 1997-98 fiscal year, for the purposes set forth herein, a maintenance of effort amount equal to the amount of allocated taxes received by the County Library Fund through the operation of State Law less the County Library Fund's share of the Property Tax Administration Fee and the General County Overhead allocated to the County Library Fund. Allocated taxes shall include current secured property taxes, current unsecured property taxes, supplemental secured property taxes, supplemental unsecured property taxes, State Homeowners Property Tax Relief and such funds as the County Library Fund may receive as a result of Redevelopment Pass Through Agreements. Allocated taxes does not

include payments which the County may receive from the Scotts Valley and Capitola Redevelopment Agencies in lieu of the construction of branch libraries. The estimated amount of the County's Maintenance of Effort Contribution for 1997-98 is \$2,075,000.

Section 3.3 - Library Operating Revenues. In addition to the maintenance of effort contributions set forth in the preceding section, it is agreed that Library Operating Revenues such as fines, State grants, donations and bequests shall be retained by the cities or the County and shall be made available to the libraries to finance library operations.

Section 3.4 - Contribution of Revenues from New Taxes or Fees. The County shall pay to the Authority the net proceeds of any new tax or fee uniformly levied in the County and the cities of Santa Cruz, Watsonville, Capitola and Scotts Valley for library purposes upon receipt.

Section 3.5 - Method of Payment. The City and County maintenance of effort contributions provided for in Sections 3.1 and 3.2 shall be payable in twelve equal monthly installments which shall be due to the Authority on the fifteenth day of each month. Interest shall be levied on late payments at the rate of 1.5% per month.

Article IV - Annual Budget/Disbursement of Funds

Section 4.1. General. The Authority shall adopt an annual budget which provides for allocating the funds it receives to qualifying public libraries. The budget allocations shall be based on a per capita amount and service area population as defined herein. The authority shall allocate and disburse all of the funds it receives each year.

Section 4.2 - Budget Process. On or before January 15th of each year the County Administrative Office, after consulting with the Authority's Controller, shall provide Authority's Board with a report including an estimate of the funds available to the authority for the upcoming fiscal year and the population of the cities and county for the preceding January as contained in the Official State Estimates of the Population for California Cities and Counties (Report E-1 or its successor) a sample of which is attached as Exhibit 1 of this agreement. As used herein, the fiscal year begins on July 1 and ends on June 30. The Report shall include:

(A) the Estimated Amount Available under Section 3.1 and Section 3.2 of this Agreement (Maintenance of Effort Contributions;)

(B) the Estimated Amount Available from the proceeds of any new taxes or fees received by the Authority pursuant to Section 3.4; and

(C) an estimate of any carryover balances which may be available from preceding fiscal years.

Based on the Report on funds available, the Board shall make a determination for the upcoming fiscal year of the Proposed Amount to be Distributed to qualified public libraries; and the Per Capita Amount to be Distributed for the upcoming fiscal year.

A qualified public library's proposed distribution amount for the upcoming fiscal year shall be equal to the Per Capita Amount to be Distributed multiplied times the service area population of the library as defined in Section 4.3 below. The per capita amount shall be determined by dividing the Amount to be Distributed by the County's Total Population for the previous January as estimated by the State of California in its Official State Estimates (Report E-1). The final distribution amount for the upcoming fiscal year shall be determined in June following the issuance of updated population numbers by the State.

→ Section 4.3 - Service Area Population. For the purpose of determining the distributions provided for in this agreement the population service area of each library shall be determined as follows:

(A) Service area population shall be defined as the population, as determined by the State of California, of the city and the County unincorporated area or combinations of cities and the unincorporated area for libraries serving more than one jurisdiction such as the Santa Cruz City/County Library System, except that for the purposes of the distributions provided for in this agreement the City of Watsonville population shall be increased by five percent (5%) of the County-wide total population and the County Unincorporated Area shall be decreased by five percent (5%) of the County-wide total population. The five percent (5%) adjustment is intended to reflect the fact that Watsonville's service area is larger than the population of Watsonville and includes portions of the unincorporated area of the County. The Table below illustrates the Service Area Population for the Santa Cruz City County Library System and each of its member

jurisdictions and the Watsonville Library based on the State of California's January 1995 E-1 Population Estimate.

Jurisdiction	1995 Pop.	Adj.	1995 Adj. Popu.	% of Total	% of System
Watsonville Library	33,800	12,133	45,933	18.9%	
Library System					
-- City of Santa Cruz	52,700		52,700		26.8%
-- County Library Fund					
..Unincorporated Area	135,600	(12,133)	123,467		62.8%
..Scotts Valley	9,750		9,750		5.0%
..Capitola	10,800		10,800		5.5%
Total Library System	208,850	0	196,717	81.1%	100.0%
Grand Total	242,650	0	242,650	100.0%	NA

(B) The five percent (5%) adjustment to the population of Watsonville and the Unincorporated Area provided in Section 4.3 (A) shall be adjusted when Watsonville annexes portions of the Unincorporated Area of the County. The adjustment will decrease the amount added to Watsonville's population and the amount subtracted from the Unincorporated Area population by the number produced by the following computation: the number of households annexed multiplied times the average persons per household in the County. This adjustment is intended to eliminate a double counting of population, which would distort the population-based distribution provided in this agreement, by an annexation being included in both the Official State Population Estimates and the City of Watsonville's 5% population adjustment factor. For the purpose of the annexation computation, the average number of persons per household shall be 2.7 persons, and the number of households shall be determined by County Planning, or if either the County or the City Watsonville so requests, by a joint count of the City of Watsonville and the County.

Example: The annexation of 50 households would result in the following adjustment:

--	Number of Households Annexed	50
--	Times 2.7 persons per household	2.7

The five percent (5%) adjustment figure shall be computed each year in June using the county's total population for the previous January as estimated by the State of California in its Official State Estimates. The five percent (5%) adjustment shall then be decreased for the City of Watsonville and increased for the County unincorporated area by all annexations completed between the date of this Agreement and the previous December 1. If at any time the annexations reduce the five percent (5%) adjustment to zero, then no further adjustment shall be made for the duration of this Agreement other than the annual adjustments of service area populations.

Section 4.4 - Qualifying Public Library. The authority shall distribute funds to any jurisdiction or combination of jurisdictions operating a qualifying public library as provided below:

(A) The Watsonville Library, operated pursuant to the terms of the agreement contained in Exhibit 2 and the Santa Cruz City County Library operated pursuant to the contract in Exhibit 3 shall be deemed qualified upon certification to the authority by the administering jurisdiction that the library:

(1) is duly organized under the laws of the State of California;

(2) will allow free access to its facilities, materials and services to all residents of Santa Cruz County without regard to jurisdictional boundaries on a nondiscriminatory basis;

(3) will assign all library operating revenues, including but not limited to fines, state grants, donations and bequests, to the library for library purposes;

(4) will use all of the funds received from the Authority exclusively for operating and maintaining its library including the cost of insurance, a charge for administrative support not to exceed an amount equal to 5.5% of the net operating costs of the library system and capital improvements, provided, however, that funds for capital improvements shall not be used to supplant the obligations and plans of the Santa Cruz County, Capitola and Scotts Valley Redevelopment Agencies to construct branch libraries; and