

**RECOMMENDATION OF
PASADENA PUBLIC LIBRARY
FUTURE FUNDING TASK FORCE**

PRESENTED TO

PASADENA CITY COUNCIL

OCTOBER 20, 2006

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RECOMMENDATION OF PASADENA PUBLIC LIBRARY FUTURE FUNDING TASK FORCE

I. EXECUTIVE SUMMARY

MISSION OF THE TASK FORCE

By City Council authorization dated May 16, 2005, the Pasadena Public Library Commission appointed a twelve-member Pasadena Public Library Future Funding Task Force to investigate alternative methods for financing the operations of the Pasadena Public Library. The impetus for establishing this Task Force is the scheduled expiration of the current Library Special Tax at the end of June 2008. That Special Tax now provides approximately 20% of the Library's operating budget. The remainder of the Library's operating budget is provided by the City's General Fund and revenues that flow directly into the Library Services Fund.

In addition to examining alternative financing methods, the Task Force was charged with investigating the level of services provided by the Library and the attitudes of the citizens of the City toward the Library. Upon completion of its work, the Task Force was asked to present a recommended financing plan to the City Council.

SUMMARY EXHIBITS

The unanimous recommendation of the Task Force is presented in summary form in Exhibits 1, 2 and 3. They describe the key points and rationale for the recommendation, specific aspects of the recommendation necessary for implementation, and a comparison between the recommendation and the existing Special Tax ordinance.

WORK OF PRIOR TASK FORCE

In 1992 and again in 1996, prior citizens' task forces have also investigated alternative means of financing the Library. They examined citizen attitudes, formulated sets of criteria by which to evaluate alternative financing mechanisms, and examined a wide range of financing options. The findings and recommendation of those task forces, which led to the current Special Tax arrangement, are contained in reports issued by each task force. Those reports were studied thoroughly by the present Task Force and were used as a point of departure in its investigations.

The primary underlying principle of the current special tax is that the citizens would agree to pay a small new Special Tax dedicated to the Library in return for the City committing to appropriate at least a minimum threshold amount from the General Fund to support the Library operations and the maintenance of the current level of library services. The purpose of the new Library Special Tax was not to wean the funding of the Library away from the General Fund nor was it to free up General Fund revenues for financing other City services.

EXHIBIT 1
PASADENA PUBLIC LIBRARY FUTURE FUNDING TASK FORCE
KEY POINTS OF RECOMMENDATION

1. Essentially, the Task Force's recommendation is that the Library continue to be funded principally by a combination of a Special Tax and a minimum Threshold Amount appropriated from the General Fund.
2. Most the generic aspects of the current Special Tax would remain the same (e.g., a required Threshold Amount General Fund appropriation, parcel taxes, CPI adjustments, exemptions, and City support services).
3. Both the Threshold Amount and the tax rates would each have a one-time step-up at the beginning of FY 2009, the first year after the expiration of the current Special Tax.
4. These one-time increases account for some changes in the nature of the Library services since the Special Tax was implemented in 1994 and some cost increases in excess of the CPI adjustments.
5. Although there would be a one-time step-up in the Threshold Amount at the beginning of FY 2009, the total General Fund appropriation would be approximately the same as that for the previous year, FY 2008.
6. The Task Force views the current Special Tax as an arrangement that has been successful and which should be extend it for a longer term.
7. The term would be for 15 years beyond the June 2008 expiration of the current Special Tax. This would effectively accomplish a seamless transition from the current ten-year Special Tax program.
8. A key element of this recommendation is the continued link between citizens agreeing to pay the tax and their receiving the current level of Library services in return. The citizens who are being asked to approve a continuation of the Special Tax should have a high degree of confidence that the level of services will continue to be provided. The Task Force believes that having that confidence is *essential* for public support. Citizens are not just being asked to fund *some* portion of a budget that will produce *some* level of service.
9. As with the current Special Tax, in future years, if the City does *not* appropriate the required Threshold Amount from the General Fund and therefore does not make likely a continuation of the current level of Library services, the Special Tax can *not* be levied.

EXHIBIT 2
FUTURE LIBRARY FUNDING TASK FORCE
ASPECTS OF RECOMMENDATION NECESSARY FOR
IMPLEMENTATION

- I. Financial Terms
 - A. General Fund Threshold Amount
 - 1. Annual CPI increases from amount in prior year beginning in FY 2009
 - 2. Additional one-time \$850,000 step-up in FY 2009
 - B. Special Tax
 - 1. Annual CPI increases from rate in prior year beginning in FY 2009
 - 2. Additional one-time step-up in FY2009
 - a. \$4.25 per single family detached or condominium unit
 - b. \$3.00 per apartment unit
 - c. \$30.00 per non-residential parcel

- II. Duration
 - A. 15 years (FY 2009 through FY 2023)

- III. Other Modifications to Ordinance Text
 - A. Revise description of annual adjustment procedure for special tax rate and General Fund minimum threshold
 - B. Refine definition of components of Library Service Fund

- IV. Other
 - A. Task Force representatives to participate in redrafting of ordinance text
 - B. Investigate whether some residential rental units are not being counted for the levying of the tax

EXHIBIT 3
FUTURE LIBRARY FUNDING TASK FORCE
SPECIAL TAX RECOMMENDATION
COMPARISON WITH CURRENT SPECIAL TAX

How does the recommended Special Tax compare with or differ from the current Special Tax in significant ways?

Similarities:

1. Annual CPI adjustments to the Special Tax rates and Threshold Amount
2. Relative burden on Special Tax and General Fund are approximately the same
3. Same economic hardship exemptions apply
4. Same requirement for the City to continue to provide support services outside of Library Services Fund
5. The levying of the Special Tax is contingent on the appropriation of the Threshold Amount from the General Fund

Differences:

1. The term of the tax will be 15 years
2. There will be a one-time step-up in both the Special Tax rates and the Threshold Amount in FY 2009
3. Revise the CPI adjustment for the Threshold Amount to be consistent with the adjustment for the Special Tax rate

APPROACH OF CURRENT TASK FORCE

The Task Force did not view its mission as simply a question of how to create financing for a library system in general. Rather, by virtue of its charge to examine library services and citizen attitudes, it viewed its mission as one of determining how to finance a *particular* level of services. Consequently, the Task Force began by determining the level of library services that it believed should be provided and for which financing would be required. With the level of services specified and the requisite amount of financing known, the Task Force undertook a series of deliberations and reached a conclusion as to which funding method would be recommended.

PREMISES

Based on the following premises, the Task Force considered various alternative methods of providing funding for the Library in the future:

1. The current Special Tax which provides nearly 20% of the Library operating budget will automatically expire in approximately one and one-half years.
2. Upon expiration of the current Special Tax, the citizens of Pasadena can not automatically rely on resuming full financing of the current level of library services entirely from the General Fund.
3. Based on citizen surveys and various measures of utilization of City services, it is manifest that the citizens of Pasadena strongly support the current level of library service and hold the Library in higher regard than any other municipal service except police and fire protection.
4. A significant reduction in Library funding (such as losing approximately 20% of the budget as a consequence of the Special Tax expiring without some form of replacement) would likely result in a drastic and unacceptable reduction in library services.

FINANCING CRITERIA AND GUIDELINES

In the initial stages of its deliberations, the Task Force developed a set of basic criteria and guidelines by which to evaluate various financing methods. They are similar to the criteria that were utilized by the two prior task forces. Those criteria and guidelines are as follows:

1. The current level of library services being provided should be preserved.
2. The funds raised should be dedicated to, and used exclusively for, the operation of the Library.
3. The funding level should be stable and predictable as well as being capable of meeting any future rise in the cost of providing the specified level of service.
4. The new financing method should be able to be implemented immediately upon the expiration of the current Special Tax.

5. It is not the objective of a new funding arrangement to wean the Library away from funding by the General Fund or free up General Fund revenues for other City services.
6. A relationship should be maintained between the financing burden and ability to pay as well as benefits received.

DELIBERATIONS

The Task Force carefully examined twelve financing methods. Consideration was given to each method either as a potential exclusive source of financing or as an augmentation to a General Fund component. In a first round of deliberations, a number of patently infeasible or unrealistic financing methods was eliminated. Those included a construction tax increase, utility tax increase, business license increase, hotel "bed tax" increase, increases in direct Library charges and fees, draws on a Library endowment fund, full reliance on the General Fund, establishing a Community Facilities District (CFD), and benefit assessment district. It was determined that those options could not be relied upon to provide a sufficiently large, stable and predictable financing component upon expiration of the current Special Tax.

Essentially two remaining financing methods were subjected to additional detailed review. Those methods were an increase in sales tax or a continuation of the current parcel tax (potentially with some modification). The Task Force considered an increase in sales tax to be unsuitable primarily because the level of funding provided would not be sufficiently stable from year to year. In addition, an increase in the sales tax rate might be seen as putting Pasadena retail businesses at a disadvantage compared to retailers in other cities.

RECOMMENDATION

Having eliminated all other financing methods as being relatively unrealistic or infeasible, the Task Force closely examined the Library's current Special Tax approach to financing. Each detail of the specification of that method was reviewed. The Task Force determined that the Special Tax method, as now structured, continues to best meet the criteria and guidelines that it established to evaluate the various financing options. It was decided that several modifications to the current specifications should be made. With those modifications, the revised Special Tax should in all other respects function as a seamless continuation of funding for the target level of library services upon the expiration of the current Special Tax.

This approach accomplishes two separate but related objectives. First, it provides the best assurance possible that the desired level of library services will be able to be provided over its duration. Second, it precludes reductions in the General Fund level of support if the Special Taxes are to be levied. These two provisions work together such that if the citizens are called upon to pay the Special Tax, they can have a high degree of confidence that the target level of library service will in fact be provided.

In summary, the recommended financing method has the following key characteristics:

1. The City must appropriate a minimum Threshold Amount from the General Fund in each year in order to levy the Special Tax. There will be a one-time step-up of \$850,000 in the Threshold Amount for Fiscal year 2009.
2. If the entire Threshold Amount is not appropriated from the General Fund in any year, no Special Tax can be levied in that year.
3. Provides that if the Threshold Amount is initially appropriated but reduced later in the year, the Special Tax will not be able to be levied in the subsequent year.
4. There will be the following on-time step-ups in the annual tax rates from the Fiscal Year 2008 amounts:
 - \$4.25 for single family detached or attached units
 - \$3.00 for each apartment unit
 - \$30.00 for each non-residential parcel
5. The Threshold Amount and tax rates are adjusted annually according to changes in the Consumer Price Index.
6. The Special Tax will expire after fifteen years (June 30, 2023).

Another description of these aspects recommendation is contained in Exhibit 2. A description of the key similarities and differences between this Task Force's recommendation and the current Special Tax financing method is provided in Exhibit 3.

It should be noted that even with the recommended one-time step-up in the Threshold Amount, the amount of the total General Fund commitment in FY 2009 would be approximately the same as the total General Fund commitment in FY 2008.

ACTIONS REQUIRED

Implementation of this recommendation will require the approval of the Special Tax by two-thirds of the voters in an election. It would be desirable from the standpoint of efficiency and economy if the measure were to be voted upon in the City Council election which will be held in March 2007. This would both save money and make it possible to resolve this financing issue well in advance of the expiration of the current Special Tax. This means the City Council would have to act not later than December 4, 2006 in order to meet the deadline for the measure to be placed on the March 2007 ballot.

II. TASK FORCE MISSION AND MEMBERSHIP

Task Force Mission

The Pasadena City Council authorized the Library Commission to form a citizen's task force to review the impact of the current Library tax measure and develop recommendations on the future funding options of the Library.

The purpose of the Task Force was to carefully study the impact and future of the Library Special Tax in light of City's current fiscal situation. The goals of the study group were to:

1. Examine the service impact of the Special Tax.
2. Gather citizen input on the level of satisfaction with current library services.
3. Review options for future Library funding.
4. Present recommendations to the City Council on future funding for the Library.

In light of this charge, the mission of the Future Funding Task Force shall be to gather information related to the stated goals and deliberate on the various findings in order to make an informed recommendation with the intent of providing the Library with a stable source of funding for the future.

Membership

The Pasadena Public Library Commission contacted a variety of people who are active and interested in various areas of community affairs to serve on the Task Force. An objective was to have members who would bring a range of views and opinions to the Task Force. Particular attention was paid to having members who would represent the views of the educational, business and general user communities.

A twelve member Task Force was appointed. The members are as follows:

Ross S. Selvidge, Chairman	Joseph Zeronian
Neil R. Barry	Kenneth T. Burles
Robert H. Cooke	Jacquelynne Jones-Corby
Greg Jones	Christopher J. Curren
Robert W. Henderson	Chris Kerecman
Yesceni Ramirez	Kathy Wimmer

Support Staff

Jan Sanders, Director of Information Services, Ex-Officio Member

Steve Mermell, Deputy Finance Director, Ex-Officio Member

Carolyn Williams, Assistant City Attorney, Ex-Officio Member

Jeanne Wright, Executive Secretary

III. BACKGROUND AND APPROACH

Current Financing of the Library

The Pasadena Public Library is currently financed by an appropriation from the City General Fund, revenues that flow directly to the Library Service Fund (e.g., earmarked funds from the State) and a dedicated Special Tax on real estate parcels in the City. This is a ten-year extension of an initial five-year special tax that was established in June 1993 through a measure approved by a 79% margin in a special election. The ten-year extension was approved in March 1997 by an 84% approval margin. The City can only levy the Special Tax if it first appropriates a Threshold Amount from the General Fund. If the requisite General Fund appropriation is not made, the Special Tax can not be levied. The Threshold Amount is a minimum not a maximum commitment. The required General Fund Threshold Amount and the tax rates are indexed to the Consumer Price Index (CPI). The Special Tax took effect beginning with fiscal year 1994 (starting July 1, 1993). It will expire on June 30, 2008, the end of Fiscal Year 2008. The current tax rates and the amount of revenue generated are presented on Exhibit 4.

An objective of the Special Tax is to maintain the current high level of library service that makes the City a desirable place to live and work. This is accomplished through a system of branch libraries and the main library with convenient hours of operation and many service programs.

If the Special Tax expires without being replaced by another source of funding (including the option of replacing it with an increased appropriation from the General Fund), it is likely that there would be a significant cut in services resulting from what would be in effect approximately a 20% budget reduction in a single step.

In the course of the deliberations, the Task Force worked with a projection of the total funding required to maintain the current level of services. That projection was provided to the Task Force by the Library and Finance Department. It incorporates different rates of increase for different components of the Library budget. The personnel cost component is assumed to increase at a rate in excess of the other components and the general rate of inflation. The initial projection provided was one that was created for the Library Commission in early 2006. The projection was revised and the costs increased in September 2006. The Task Force recommendation was finalized based on the most recent projections.

City Fiscal Situation

The Fiscal Year 2007 City Budget contains a number of observations on the City's fiscal status that are relevant to the Task Force. The local economy is strong with existing companies expanding and new companies relocating to Pasadena. The economic base continues to diversify and strengthen Pasadena's position as a center of technology, financial services and higher education.

**EXHIBIT 4
CITY OF PASADENA
LIBRARY SPECIAL TAX RATES AND REVENUES**

	Number		FY 2007 Tax Rates		Total Tax Revenues	
	Parcels	Units	Parcel	Unit	Amount	Percent of Total
Single Family Detached and Condo	29,406		\$27.54		\$809,841	44.4%
Apartments		23,759		\$17.90	\$425,286	23.3%
Non-Residential	2,886		\$203.43		\$587,099	32.2%
Total					\$1,822,226	

Source: Berryman & Henigar, September 2006

City revenues remain stable with moderate growth projected on a conservative basis. As a point of comparison, from the initiation of the Special Tax in Fiscal year 1994, the CPI has increased by approximately 39%. Over that same interval, the City General Fund revenues increased by in excess of that amount. Although there have been recent large increases in City employee retirement costs, CalPERS has instituted measures to lessen future variability in those costs. With the continued close monitoring of revenues and expenses, the overall fiscal health of the City will stay strong and municipal services will be maintained.

Findings of Prior Task Force

The two prior Task Forces met in 1993 and 1996 to investigate the Library funding. They determined that there is a very high level of support for the Library in the community and that it is held in regard just below that of police and fire protection and well above other municipal services. On the basis of that information, the prior Task Forces recommended not only a means of funding, but that the amount be sufficient to provide the desired level of service.

A variety of financing alternatives were investigated in great detail by both Task Forces. They ranged from continued reliance on the General Fund to full funding from a new outside source. The combination of General Fund and a Special Tax ultimately approved by the voters was a derivation of the Task Forces' recommendations which the City Council approved after public review and comment. In a number of cases, the findings of the prior Task Forces serve as a useful point of departure for the work on the present Task Force.

Approach to Formulating a Recommendation

The general approach of the Task Force involved establishing temporary ad hoc subcommittees to investigate various key topics and bring their findings to the full Task Force for deliberations. Temporary ad hoc subcommittees were formed to investigate topics: a) the current status of the Library funding and services, b) funding programs in other jurisdictions, c) potential new sources of funding in Pasadena, d) community support and outreach, e) formulation of a recommendation, and f) drafting of the Task Force report.

In order not to foreclose the possibility of a smooth transition from the current Special Tax to a new arrangement, the Task Force decided to deliver its final recommendation to the City Council in October 2006. For any recommendation that required approval by the voters, this would provide sufficient time for review and action by the City Council in time for the recommendation or an alternative to be placed on the March 2007 municipal election ballot.

IV. PUBLIC SUPPORT FOR LIBRARY SERVICES AND OUTREACH

Indications of Public Support

There is ample evidence that Pasadena residents support quality library services. Among those indicators are the following:

1. High level of utilization of library services ranging from adult literacy to children's Book programs.
2. In numerous city-wide surveys the Library has consistently ranked third behind police and fire protection services as the municipal services that Pasadena citizens value most
3. Wide margins of voter approval for the current Library funding program and its predecessor

Public Outreach

Public outreach during the Task Force's deliberations consisted of the following:

1. Public notice of all Task Force meetings in compliance with the Brown Act
2. Notices posted in Libraries announcing Task Force meetings
3. Notification to all City neighborhood groups describing Task Force mission, announcing meeting times and soliciting public input through the City's Neighborhood Connections Office
4. August 30, 2006 Pasadena *Star News* article titled "Residents to Decide on Tax for Libraries" describing the Task Force activities
5. Offers by Task Force to each City Council office to make presentations of the Task Force activities at district meetings
6. Announcement in July-August *In Focus* newsletter describing Task Force activities and soliciting public input

V. IDENTIFICATION OF ALTERNATIVES

Generic Categories of Alternatives

One approach would be to completely separate the Library from the City in terms of both governance and funding. This would require setting-up a separate library district with an independent governing body and a separate source of funding, presumably a share of property taxes or possibly a special tax. Another way of accomplishing the same degree of separation would be joining the Los Angeles County Library system. These approaches were considered to be an undesirable course because of the likely limitations on funding sources and the need to duplicate certain non-library-specific support services such as accounting and personnel services.

Another generic approach would be to maintain the Library as an integral department of the City but take its financing entirely out of the City General Fund. The large burden that such an approach would constitute on whatever funding mechanism would be challenging.

A final generic approach would be to maintain a General Fund component in the funding. This could range from complete reliance on the General Fund to a shared burden with some other source. The current Special Tax arrangement in which the General Fund appropriation is augmented by the Tax falls in this generic category.

Funding of Library Services in Other Jurisdictions

The Task Force examined election data in California from 1995 through March 2006 for proposed tax measures intended primarily for funding the operations of libraries. Of the 71 elections investigated, only 60 were primarily directed toward the funding of library operations. The others included building construction or maintenance or some other purpose. The following table presents the results of those elections.

	Pass	Fail	Total
Parcel Tax	17	26	43
Less L.A. County		(10)	(10)
Parcel Tax less 04 LA	17	16	33
Sales Tax	7	10	17
Total	24	26	60

In 2004, ten cities in Los Angeles County proposed parcel taxes when the county announced that it intended to eliminate the funding of future library operations in those jurisdictions. These were small cities serviced by the Los Angeles County Library system. Those proposals all failed.

Communities nearby extended their parcel taxes. Altadena extended its tax for ten more years and increased the residential parcel rate in November 2004. South Pasadena extended its parcel tax in