

March 2005. There was no detectable pattern to the success or failure of the tax measures. The success rate was essentially the same whether the proposal was for a parcel tax or sales tax increase.

Evaluation Criteria and Guidelines

In order to systematically select from among a range of funding alternatives, it is necessary to have criteria by which to evaluate and rate them. The Task Force considered a number of criteria and agreed on the following:

1. **Stability and Predictability:** The extent to which the level of funding produced would be both consistent (i.e. not volatile) and likely to be known from year to year.
2. **Revenue Growth Potential:** The extent to which funds raised would be likely to grow automatically with inflation-induced increases in the cost of providing the defined level of services.
3. **Independence from the Annual Political Process:** The extent to which the **total amount** of Library funds raised (as opposed to the **allocation** within the total Library budget) would be insulated from change during the City's annual overall budget process.
4. **Relationship to Service:** The extent to which the burden of any new financing program would be borne by those who directly benefit from library services and in proportion to their benefit.
5. **Potential for Additional Revenues:** The extent to which the utilization of a particular source would be likely to generate the amount of revenues required.
6. **Perception of Additional Burden:** The extent to which the burden of any new source would be perceived as being in addition to an existing burden already being borne.
7. **Relief for Low Income Residents:** The extent to which the alternative could be implemented to permit relief for low income households.
8. **How Created:** The legal and political means by which the measure would have to be created.
9. **Data Availability:** The extent to which the necessary data is available to both create the financing plan and implement it in actual practice.
10. **Ease of Implementation:** The extent to which the recommended plan can be implemented in time to provide funding for the Library starting in July 2008 when the current Special Tax expires.

These criteria are similar to those employed by the prior Task Forces. An additional guideline agreed upon is that the funds raised from whatever source should be capable of being dedicated exclusively to the Library and not vulnerable to diversion to any other City service.

Summary Comparison of Alternatives

Exhibit 5 presents a tabulation of the various funding options investigated. It also rates each option with respect to the eleven evaluation criteria. This preliminary rating and evaluation formed the basis for the Task Force deliberations on each.

**EXHIBIT 5
PASADENA PUBLIC LIBRARY
FUNDING ALTERNATIVES**

	1	2	3	4	5	6
	SALES TAX	CONSTRUCTION TAX	UTILITY TAX	BUSINESS LICENSE TAX	TRANSIENT OCCUPANCY (HOTEL) TAX	LIBRARY USER FEES
Stability & Predictability	Moderate	Low	Moderate to High	Moderate	Moderate	High
Revenue Growth Potential	Moderate to High	Moderate	Moderate	Low	Moderate	Low
Independence from Politics	Moderate	Moderate	Low	Moderate	Low	High
Relationship to Service	None	None	Low	None	None	High
Potential Additional Revenues	Moderate	Little	Little	Little	Little	Little
Relief for Low Incomes	None	Not applicable	Yes	None	None	None
Data Availability	Good	Good	Good	Good	Good	Good
Ease of Implementation	High	High	High	High	High	High
Comments	Potentially seen as putting Pasadena retailers at regional competitive disadvantage	Pasadena is already one of the few cities in California to have such a tax	Pasadena faces significant future utility infrastructure replacement	May be seen to disadvantage Pasadena businesses	A small base on which to build. Now dedicated to Pasadena Center renovation	Minor source now. Little new revenue without expanding services covered by fee

**EXHIBIT 5
PASADENA PUBLIC LIBRARY
FUNDING ALTERNATIVES**

	7 ENDOWMENT	8 GENERAL FUND	9 COMMUNITY FACILITIES DISTRICT (CFD)	10 BENEFIT ASSESSMENT	11 RESIDENTIAL PARCEL OR UNIT TAX	12 NON-RESIDENTIAL PARCEL TAX
Stability & Predictability	Low	Moderate	High	High	High	High
Revenue Growth Potential	Low	Moderate	High	High	High with Indexing	High with Indexing
Independence from Politics	High	None	High	High	High	High
Relationship to Service	None	None	Direct	Direct	Moderate	Little or None
Potential Additional Revenues	Little	Little	Moderate to High	Moderate to High	Moderate to High	Moderate to High
Relief for Low Incomes	Not Applicable	Not Applicable	Not Applicable	Not Applicable	Yes	Not Applicable
Data Availability	Not Applicable	Not Applicable	Good	Not Currently	Yes	Yes
Ease of Implementation	Low	Not Applicable	High	High	High	High
Comments	Inspect only over long term with very strong program	Unlikely to contribute the 25% additional required to off-set Special Tax revenues	Must have relationship between tax and benefit to service funded	Must have clearly defined relationship between Assessment and benefit from services funded	Current Special Tax program	Current Special Tax program

VI. EVALUATION AND ELIMINATION OF ALTERNATIVES

Premises

In order to evaluate and eliminate infeasible funding alternatives, the Task Force found it useful to first enumerate certain premises which would serve as a backdrop against which to judge the options.

Because the current Special Tax constitutes approximately 20% of the Library budget, it would not be reasonable to assume that the General Fund could automatically be relied upon to make up that shortfall when the Special Tax expires on June 30, 2008.

Whatever funding measures are implemented, they should be capable of supporting the current level of library service being provided. This conviction is based on the demonstrated support this concept of the level of service received in the 1993 special election and 1997 municipal general election. If the Library were to absorb a 20% reduction in its total funding, there would have to be significant unpopular reductions in the levels of service (e.g., days facilities are open and hours of operation).

Initial Elimination of Alternatives

The Task Force first screened all the alternatives in Exhibit 5 to eliminate those that were obviously incapable of providing all or a significant part of the funding for the Library upon expiration of the current Special Tax. Increasing and dedicating the transient occupancy (hotel) tax, construction tax, and business license tax, while legal, are not likely to produce a stable revenue stream and would require a 2/3 voter approval.

Utility taxes, while a large revenue source in Pasadena, would be an unlikely candidate for additional support for the Library because they are currently in the mid to upper range of such taxes for municipalities. Another factor in rejecting this source is that there is not a significant correlation between the revenues generated and utilization of library services.

Library user fees and earnings from "enterprise" activities were considered to be categories which should be given close scrutiny in the future as potential augmentation funds. However, based on the history of those revenues in Pasadena and experience elsewhere, those sources would be very unlikely to be able to provide the level of funding that will be lost upon the expiration of the current Special Tax. This is also true of endowment funds. While there is potential for growth in that area, those funds are by their nature very unpredictable. In addition, a very long lead time well past the expiration of the current Special Tax would be necessary to buildup a fund that could generate significant earnings on an after inflation basis to fund a portion of annual Library operations.

Community Facilities Districts (CFDs) have traditionally been used to finance capital improvements although they are occasionally use to fund annual operating costs. There is some

uncertainty about whether or not a CFD can be used to provide funding for a service that is *already being provided* and funded from some other source. The Task Force was able to determine that there does not appear to be a single instance in which a CFD has been used to provide funding for continuing an existing level of library service. In all the known cases, the library services that have been funded by CFDs have been *new* or *extended* services for the area taxed. If Pasadena were to finance a portion of the *existing* library services with a CFD it would be breaking new ground in the use of a CFD in California. Consequently, this approach was dismissed.

A benefit assessment district is similar in some respects to, but not the same as, a CFD. A *special benefit* to the properties assessed must be established. An assessment can *not* be used to finance a general benefit. This is a relatively stringent test to pass. If a library system were financed in part by an assessment, it would be necessary for the assessment to fund only those identifiable portions of the services for which a special benefit to the properties assessed could be demonstrated. Establishing and documenting the necessary benefit relationships to create an assessment district would be an expensive and very time consuming undertaking. The Task Force was not able to find any instances in which an assessment district was formed to finance existing library services that had previously been funded by some other means. This approach was also dismissed.

Evaluation of Final Alternatives and Selection of Recommended Funding Program

In order to select the recommended funding program, it was necessary to evaluate the three remaining funding methods. Those alternatives were:

1. Reliance only on the General Fund
2. Sales Tax Increase
3. Special Parcel Tax

Each was examined in turn and its relative potential for funding the Library operations compared to the others.

Full Reliance on the General Fund

The option of complete reliance on the General Fund upon the expiration of the current Special Tax was evaluated first. This raises two issues. One issue is the extent to which the General Fund is likely to be able to bear the burden of funding the level of library services now provided. The other issue is whether or not (even if the requisite level of funding is initially provided) funding could be assured to provide in the future for the current level of library service.

Although the General Fund revenues have risen faster than inflation in recent years, there is no assurance that the factors that have caused that level of increases will continue in the future. The General Fund now provides approximately 80% of the cost of funding the current level of library services. That means that if the General Fund were to fund that level of service on its own, it would have to *increase* the commitment it now makes by approximately 25%. Meeting such a commitment would require that Library funding enjoy a level of preference and priority well in

excess of all other City expenditures. The Task Force considered that to be both unlikely and unrealistic.

Even if the General Fund were to initially commit a level of funding that would provide for maintaining the current level of services, assuring the *continuation* of that support over the years would require a City Charter amendment. This approach has been used in the City of San Francisco. That program has a complex combination of provisions reserving portions of both property taxes and other General Fund categories for Library operations. The Task Force considered that approach to be overly complex and one which would be both cumbersome and difficult to replicate in Pasadena.

Based on what the Task Force considers to be the low likelihood that provisions for maintaining the current level of library services could be made entirely from the General Fund, and the need for a City Charter amendment to assure continued funding if it were initially provided, this funding option was not considered to be realistic in Pasadena.

Increased Sales Tax

The City of Pasadena receives a share of the sales tax collected by the State on all taxable retail purchases that take place in Pasadena. The sales tax rate in Los Angeles County is 8.25% of the retail purchase price. Pasadena's share of the sales tax is equal to 1.00% of the retail sales price. Pasadena is expected to receive in excess of \$35 million in sales tax revenue in FY 2008.

Pasadena would be able to increase the amount of sales tax levied on sales in Pasadena and dedicate that additional tax to a specific purpose such as Library funding. Such a measure would require approval by a 2/3 margin in an election.

Based on the current volume of taxable sales in the City, the Task Force estimated that a 0.05% increase in the sales tax rate in the City (i.e., from 8.25% to 8.30%) would be approximately sufficient to raise the amount of revenue that is now being raised by the parcel tax.

Increasing the sales tax would have the advantage (to residents of Pasadena) of being partially funded by non-residents who make purchases in the City. However, it would also have at least two disadvantages. First, if Pasadena were to have a higher (albeit by a small amount) sales tax than other nearby jurisdictions where purchasers could also buy goods, Pasadena might be put at a competitive disadvantage. Another disadvantage is that the level of taxable retail sales varies in unpredictable ways from year to year. The high growth that Pasadena has enjoyed in recent years may not be soon repeated. In addition, there is no assurance that change in taxable retail sales may fall short of inflation in some years.

Based on these disadvantages, the Task Force decided not to recommend an increase in the sales tax rate in Pasadena as a way of funding the Library operations.

Special Parcel Tax

The Library's current funding arrangement is a Special Parcel Tax. One of the elements that makes a special tax "special" is the ability to dedicate the proceeds of the tax to a particular identified use, and that use only.

Special taxes on real estate can be based on a variety of factors other than value (i.e., they must not be *ad valorem*). This also means that taxes need not be levied in precise proportion to a calculated benefit based on a predetermined formula. Special taxes can only be imposed with the approval of 2/3 of the voters in an election.

Unlike CFDs and assessment districts, there is ample precedent for special taxes being used to fund services already in existence which were formerly financed from other sources.

Based on the permitted flexibility in establishing tax rate criteria, the ability to dedicate the tax to a particular purpose, and the clear precedent for funding existing services, the Task Force determined that a special tax would be the most desirable approach to dealing with the scheduled expiration of the current Library funding program.

VII. TERMS OF RECOMMENDED SPECIAL TAX

Having determined that a Special Tax would be the best approach for dealing with the expiration of the current funding arrangement, the Task Force then deliberated on the precise terms of the tax.

Timing of Implementation

In order to avoid the possibility of a gap in the financing of the current level of library services, it would be necessary for the new Special Tax to follow immediately upon the expiration of the current Special Tax. This means that the tax would have to be approved by 2/3 of the voters prior to June 30, 2008. That in turn means that the March 2007 municipal election would be the last opportunity to place the Special Tax on a ballot to assure continuous Special Tax funding.

A rejection of the measure in the March 2007 election would provide a year's time to determine if other alternative funding sources could be found if it would be necessary to adjust to as much as a 20% reduction in the Library budget unless increased General Fund support could be provided.

General Fund Threshold Amount and Tax Rates

The Task Force took a systematic approach to determining what combination of Special Tax and General Fund commitment should be recommended to meet the objective to continue the funding for the current level of library services.

Exhibit 6 presents, for comparative purposes, five different approaches to funding the Library, four of which involve some combination of minimum threshold contribution from the General Fund and Special Tax revenues. As with the current Special Tax arrangement, if less than the Threshold Amount is appropriated from the General Fund, the Special Tax could not be levied. Further, if the Threshold Amount is initially appropriated (and the Special Tax levied) but is reduced later in the year, the Special Tax would not be able to be levied in the subsequent year. This provision will eliminate the possibility that the total Library budget could be slowly and incrementally reduced even though a Special Tax was still levied.

A key element of this recommendation is the link between citizens agreeing to pay the tax and their receiving an identified level of library services in return. The Task Force strongly believes that the citizens who are being asked to approve a continuation of the Special Tax to augment funding for library services should have a high degree of confidence that the expected level of service will be provided in return. The Task Force also believes that being able to have that confidence in the level of service to be provided is *essential* for continued public support.

With the approach recommended here, taxpayers are not just being asked to fund *some* portion of a budget that will produce *some* level of service. They are being asked to contribute (through the Special Tax) to what would be a known level of library service.

The City is currently contributing in excess of the minimum Threshold Amount from the General Fund to fund the current level of library services. This is in no way inconsistent with the purpose, spirit or intent of the Special Tax ordinance. The Threshold Amount is in fact a *minimum*, not a target maximum.

As Exhibit 6 indicates, a scenario with full General Fund reliance (Scenario A) and four Special Tax arrangements were examined. The idea of full General Fund reliance, as shown in Scenario A, has already been dismissed but is included as a point of reference.

Scenario B relies on a continuation of the terms of the current Special Tax and Threshold Amounts with only the usual annual CPI adjustments. Based on reasonable inflationary projections, it would require approximately a \$1.1 million non-mandatory General Fund contribution above the Threshold Amount in FY 2009. This has the disadvantage of not locking in the total funding package and thus assuring that the current level of funding and service levels will continue.

Scenario C illustrates what would be required in the way of a one-time increase in the Special Tax rates to assure full funding of the Library operations if the Threshold Amount is only adjusted for inflation (CPI adjustment) as called for in the current ordinance. That approach would require approximately a 60% one-time step-up in the parcel tax rates above the current levels. This would assure full funding if the Special Tax were levied but is a very high proportional increase in the Special Tax rate.

Scenario D illustrates the amount of a one-time increase in the Threshold Amount that would be required if the Special Tax rates were only adjusted for inflation as called for in the current ordinance. That approach would require approximately a 14% one-time step-up in the Threshold Amount above the current level. This would amount to approximately a \$1.1 million increase in the Threshold Amount. This would produce the same total General Fund commitment as in Scenario B except that the total amount would now be mandatory in order to be able to levy the Special Tax. With this scenario, funding for the full service level would be assured if the Special Tax were levied.

The large difference (respectively 14% versus 60%) in the required percent increase in only the Threshold Amount or alternatively only the Special Tax rate to fully fund the Library operations is a consequence of the different proportions of the burden of the Library funding that each represents.

Scenario E illustrates how the burden of the increased funding to assure full funding of the current level of library service could be distributed between the Threshold Amount and the Special Tax rates. This approach allocates approximately 80% of the increased funding to a one-time step-up in the General Fund Threshold Amount and approximately 20% of the increased funding to a one-time step-up in the Special Tax rates. This translates into roughly a 10% increase in the dollar amount of the Threshold Amount between FY 2008 and FY 2009. This would amount to approximately \$850,000. The one-time step-up in the dollar amount of the Special Tax rates for FY 2009 would be roughly 15%. That would be equivalent to a one-time step-up of \$4.25 for owner occupied residential parcels, \$3.00 for each apartment unit and \$30 for each non-residential parcel.

It is very important to note that the one-time step-up of \$850,000 in the Threshold Amount in Scenario E would mean that the total General Fund commitment will remain approximately level

EXHIBIT 6
FY-2009 - FIRST YEAR AFTER CURRENT ORDINANCE EXPIRES
FUNDING SCENARIOS

Scenario	A	B	C	D	E
Parcel Tax					
CPI Adjustment from FY 2008	Not Applicable	Yes	Yes	Yes	Yes
One-Time Adjustment					
Single Family and Condo Parcels	Not Applicable	No	\$17.05	No	\$4.25
Apartment Units	Not Applicable	No	\$11.10	No	\$3.00
Non-Residential Parcels	Not Applicable	No	\$125.35	No	\$30.00
Future CPI Adjustments	Not Applicable	Yes	Yes	Yes	Yes
Library Services Fund	No Change	No Change	No Change	No Change	No Change
General Fund					
Minimum Threshold					
CPI Adjustment from FY 2008	Not Applicable	Yes	Yes	Yes	Yes
One-Time Adjustment	Not Applicable	No	No	\$1,158,000	\$850,000
Future CPI Adjustments	Not Applicable	Yes	Yes	Yes	Yes
Other	As required to fully fund operations	As required to fully fund operations	None	None	None

Scenario	A	B	C	D	E
Parcel Tax	0	1,976,000	3,094,000	1,976,000	2,265,000
Library Services Fund	579,000	579,000	579,000	579,000	579,000
General Fund					
Minimum Threshold	0	8,533,000	8,533,000	9,651,000	9,362,000
Other	11,627,000	1,118,000	0	0	0
Total	12,206,000	12,206,000	12,206,000	12,206,000	12,206,000

Note: For Scenarios B through E, the dollar amounts include an estimated CPI increase from the FY 2008 figures

for FY 2008 and FY 2009. This is because the dollar amount of the one-time step-up is approximately equal to the amount by which the General Fund commitment now exceeds the minimum Threshold Amount. In other words, this one-time increase in the Threshold Amount essentially recognizes the total General Fund commitment that has been established in recent years. In addition, the new Threshold Amount for 2009 would be a smaller percent of total General Fund revenues than in 1994, the first year of the Special Tax.

Based on the relative merits of the different Special Tax scenarios, the Task Force unanimously recommends that the City Council approve Scenario E as the way to structure the continued funding of library services in Pasadena. This approach will both assure the funding of the current level of library services, provide for an equitable sharing of the burden of the increased assured funding level, and not impose significant new burdens in excess of those now being borne by the different sources of funding. Exhibit 7 presents an illustrative projection of Task Force recommendation for Library funding from 2005 through 2023.

Duration of the Special Tax

The question of whether the Special Tax should be of permanent duration was addressed. The Task Force determined that a permanent mechanism that tied the funding of the Library to a particular formula to be potentially too constraining in the long-run as well as one that would invite reconsideration in any event at some time in the future. On that basis, it was agreed to recommend establishing a limited duration for the Special Tax and thus create an absolute requirement to revisit the matter at a particular time in the future.

The Task Force considered several terms and agreed that a fifteen-year term would be reasonable. If the recommendation is implemented, that will in fact be the number of years that will have elapsed since the Special Tax was first implemented.

Library concepts, services, and facilities are constantly undergoing changes (particularly in the area of technology and electronic communication). Exactly what a library will look like fifteen years from now and what services it will offer can not be known today. That evolution of library services may require extensive review of services and budgeting needs by that time. Therefore, making the duration longer than 15 years or even permanent might unduly bind the City and Library in a budget and financing format that is unsuitable for those future conditions. Further, the City's fiscal circumstances and financing options may be different fifteen years from now. If for some reason the City determines that it is necessary to revisit the Library funding in less than 15 years, the City is free to establish a Task Force to examine the situation and recommend changes. Such changes could, be made on the basis of voter approval at any time before the initially established 15-year duration.

CPI Adjustment Calculation

The current ordinance describes a computational process for adjusting the Threshold Amount and Special Tax rates that is inconsistent with both the recommendations of the first task forces and how the adjustment has been described in various forums since its inception. Compared to the prior task forces' recommendations, the computational process described in the ordinance produces a total funding package that differs in two ways.

**EXHIBIT 7
PASADENA PUBLIC LIBRARY FUNDING
TASK FORCE RECOMMENDATION (SCENARIO E)**

Adjustments	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	
Annual CPI																				
One-Time for 2009																				
Special Tax	3.20%																			
General	4.25																			
Minimum Threshold	14.65%																			
Non-Residential	16.24%																			
General Fund Minimum	30.00																			
General Fund Minimum	850,000																			
Fiscal Year	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	
Year of Tax	7	8	9	10	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	
Special Tax Parameters																				
Parcel/Kind																				
1	28,753	29,850	29,008	29,695	30,205	30,605	30,605	30,606	30,605	30,606	30,606	30,606	30,606	30,606	30,606	30,606	30,606	30,606	30,606	30,606
2	23,648	23,445	23,768	24,158	24,658	24,959	24,959	24,959	24,959	24,959	24,959	24,959	24,959	24,959	24,959	24,959	24,959	24,959	24,959	24,959
3	2,855	2,821	2,886	2,886	2,886	2,886	2,886	2,886	2,886	2,886	2,886	2,886	2,886	2,886	2,886	2,886	2,886	2,886	2,886	2,886
4	10,338,562	10,862,482	11,468,594	11,830,168	12,205,627	12,593,387	12,993,798	13,407,344	13,834,443	14,275,548	14,731,129	15,201,968	15,687,666	16,189,642	16,707,681	17,242,295	17,794,016	18,363,381	18,950,946	
REVENUES																				
5	1,676,527	1,703,025	1,781,071	1,898,722	2,064,860	2,360,335	2,435,868	2,513,813	2,594,255	2,677,272	2,762,844	2,851,358	2,942,602	3,036,785	3,133,942	3,234,278	3,337,723	3,444,530	3,554,795	
6	248,653	591,557	543,206	560,842	578,511	597,034	616,139	635,955	656,203	677,201	698,872	721,235	744,315	768,133	792,713	818,060	844,259	871,275	899,156	
7	7,344,107	7,623,278	8,012,083	8,268,448	8,363,040	8,683,287	9,083,162	9,312,944	9,442,658	9,683,532	9,935,065	10,197,726	10,472,053	10,758,451	11,056,359	11,366,451	11,688,041	12,011,219	12,346,418	
8	212,700	212,700	212,700	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	
9	857,485	731,924	907,560	1,104,915	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	
10	8,414,382	8,597,900	9,132,323	9,373,364	9,363,040	9,683,287	9,993,162	10,312,944	10,642,658	10,983,532	11,335,065	11,697,726	12,072,053	12,458,359	12,857,026	13,266,451	13,683,041	14,111,219	14,543,418	
11	0	0	0	0	20,623	47,294	51,389	55,268	58,973	62,457	65,893	69,282	72,624	75,919	79,166	82,364	85,513	88,614	91,667	
12	10,338,562	10,862,482	11,468,594	11,830,168	12,205,627	12,593,387	12,993,798	13,407,344	13,834,443	14,275,548	14,731,129	15,201,968	15,687,666	16,189,642	16,707,681	17,242,295	17,794,016	18,363,381	18,950,946	
ANNUAL PERCENT INCREASES																				
13	0	0	1.6%	5.9%	19.4%	4.2%	3.2%	3.2%	3.2%	3.2%	3.2%	3.2%	3.2%	3.2%	3.2%	3.2%	3.2%	3.2%	3.2%	3.2%
14	0	0	3.8%	5.1%	13.5%	3.2%	3.2%	3.2%	3.2%	3.2%	3.2%	3.2%	3.2%	3.2%	3.2%	3.2%	3.2%	3.2%	3.2%	3.2%
15	0	0	1.8%	2.6%	0.1%	3.2%	3.2%	3.2%	3.2%	3.2%	3.2%	3.2%	3.2%	3.2%	3.2%	3.2%	3.2%	3.2%	3.2%	3.2%

Notes: 1 Actual 2005 through 2007 Barrington & Heninger
2 Actual and projected provided by Information Services Dept and Finance Dept
3 Actual 2005 through 2007 provided by Finance Dept on 8/17/08
4 This recommendation was unanimously adopted by the Library Future Funding Task Force on October 4, 2008

First, the total funding produced for the Library may be somewhat lower. Second, the Library does not receive net additional funding when additional residential units are added to the tax base. Under the current ordinance, the amount of the additional Special Tax revenue generated when new residential units are constructed and taxed is effectively deducted from the amount of the required Threshold Amount. In other words, the Library does not receive net additional funding to serve the new residents that occupy new residential units that are constructed in the City.

This inconsistency can be corrected with a relatively straightforward revision to a part of the existing ordinance. That revision would call for both the Threshold Amount and the Special Tax rates to be independently adjusted for changes in the CPI on an annual basis.

Definition of Library Services Fund Composition

The Library Services Fund receives revenues from three sources. Revenue from the Special Tax is one source. The Threshold Amount from the General Fund is a second source. The third source consists of several categories such as earmarked transfers from the State or other entities that can be used only for particular Library purposes and internally generated fund such as replacement charges for lost or destroyed books. The current ordinance does not clearly define this third category of revenues. It is recommended that the new ordinance contain a clearer definition of these revenues. Essentially, this would clarify and make consistent in the ordinance, the practice that is followed in the budget process.

Task Force Participation in Redrafting of New Ordinance

Inasmuch as the Task Force has undertaken a lengthy analysis of the mechanics of the Library Special Tax and its practical implementation, its members are well placed to provide advice on the drafting of a new ordinance to implement its recommendation. There are a number of elements to the recommended revisions to the Special Tax (e.g., the one-time step-ups in FY 2009, the CPI adjustment, and the definition of the Library Services Fund). Recognizing the potential complexity of aspects of the recommendation and the challenge of translating the recommendation into language for the ordinance, the Task Force believes its members can make a valuable contribution to the process. In particular, members of the Task Force are prepared to offer any clarifications required and to review proposed text to assure consistency with the recommendations. The Task Force recommends that several of its members be designated to participate in the ordinance drafting process.

Investigate Potential Residential Unit Undercount

A Special Tax is levied on each residential unit of a multi unit property in single ownership (e.g., an apartment building or bungalow court). The tax is paid by the property owner not directly by the tenant. The tax is levied based on parcel information in the Los Angeles County Assessor's parcel data base. It has come to the attention of the Task Force that for a certain category of properties, the Assessor's data base has missing data. That category of properties is the one designated "five or more units". That general category is for all properties that have five or more (rental) units. Properties in that category are supposed to have an entry in an additional data field that indicates exactly how many units the property has.

Berryman & Henigar, one of the City's property tax consultants, determined that approximately 210 properties classified as "five units or more" do not have an entry in the data field that is supposed to provide the exact unit count. They provided the Task Force with a listing of those properties. In cases such as those, the Assessor assumes by default that the parcel has five units even though it might have more. A check by a Task Force member of five randomly selected properties that do not have an entry in that data field indicated that at least one had more than five units and therefore was being under-taxed.

The Special Tax is being levied on approximately 3,000 fewer residential units than the State department of Finance believes exists in the City. The Department of Finance figure appears annually in an appendix to the City's Comprehensive Annual Financial Report. There are several thousand residential units in the City which are not taxed because they belong to tax exempt entities such as Caltech, Fuller Theological Seminary, etc. Whether or not there is a large undercount and therefore under-taxing of residential units in the City that ought to be taxed remains to be seen. For each undercounted unit that can be found, the Library will be able to recover three years tax in arrears and tax for all future years. It should be noted that there are an average of 12 units on each property classified as "five units or more" in the City. If 100 of the properties with missing data have the average number of units for the category, there would be approximately a 700 unit undercount (seven units missed out of an average of 12 for each property). It would be very easy and very inexpensive (perhaps requiring little more than a drive-by of each address by a student intern with the Planning and Development Department) to check the 210 properties for which the data is missing to determine how much legitimate additional Special Tax can be recovered.

VIII. ACTIONS REQUIRED

In order to implement these recommendations, the following specific actions by the Pasadena City Council will be required:

Because the Task Force has recommended that a Special Tax be created, implementation would require the City Council to pass a resolution placing the measure on a ballot in an election. In order to avoid the cost of a special election and to have the new Special Tax approved before the current tax expires, the Task Force recommends that the issue be placed on the ballot in the March 2007 municipal election.

Meeting that objective would require that not later than December 4, 2006, the City Council have the final form of the special tax ordinance in hand and vote in favor of putting the measure on the ballot in the March 2007 election. It should be pointed out that voting to place the measure on the ballot does *not* constitute an endorsement of the measure by any Council member. Rather, it is only an action to give the voters of the City an opportunity, subject to a 2/3 voter approval, to establish the recommended Library funding plan for a period of 15 years following the expiration of the current Special Tax.

IX. ACKNOWLEDGEMENT OF STAFF SUPPORT

Task Force members consulted and worked extensively with City staff in researching options, compiling data and producing this report. The Task Force wishes to acknowledge and thank the following City staff members:

Jan Sanders, Director of Information Services

Steve Mermell, Deputy Finance Director, Finance Department

Carolyn Williams, Assistant City Attorney, City Attorney's Office

Barbara Ayala, Library Principal Administrative Analyst

Jeanne Wright, Library Executive Secretary