San Mateo County Libraries

Agenda Item VI.

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To: JPA Governing Board

From: Anne-Marie Despain, Director of Library Services

Danae Ramirez, Deputy Director of Library Services

Date: February 3, 2021

Meeting: February 8, 2021

Re: FY 2020-21 Mid-Year Financial Report

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## Background

The FY 2020-21 Mid-Year Financial Report provides the Operations Committee and Governing Board with information about the status of the financial condition of San Mateo County Libraries for the current year. The report includes year-end estimates, and based on current indicators, budget development recommendations for FY 2021-22.

## Discussion

The FY 2020-21 Adopted Budget, approved in September 2020, totals $66,419,925 and distributes resources designed to meet performance and service objectives. Expenditures in the budget contain all operational functions including ongoing operations and one-time projects totaling $44.3 million and Reserves of $22.2 million. Due to the leadership provided by the JPA Governing Board and Operations Committee and sound fiscal stewardship, the Library's financial condition continues to be strong.

Current Year Financial Status

Using historical trends, projections, and actual activity in the current fiscal year, the Library is estimated to realize 107.6% of projected revenue and spend 93.1% of budgeted expenditures. The change in revenue of $2,573,263 is primarily due to realized distributions of Excess ERAF and updated property tax estimates, which exceed budgeted amounts.

Expenditure savings are estimated to be $3,074,663 primarily due to salary and benefit savings associated with reduced hours for extra help employees due to COVID-19 service reductions. Savings in services and supplies of one million dollars are also estimated due to the possibility that some projects may not be completed by year-end.

The FY 2020-21 Adopted Budget anticipated $22.2 million in Reserves to carry over to FY 2021-22 Fund Balance. At Mid-Year, we now estimate a Year-End Fund Balance of $27,811,311, representing excess revenue, expenditure savings, and budgeted Reserves.

The following table provides a breakdown of projected year-end revenues and expenditures.

**FY 2020-21 Mid-Year Estimate Summary**

| | FY 2020-21 Adopted Budget | FY 2020-21 Year-End Estimate | FY 2020-21 Year-End Variance | % of Budget Realized/ Spent |
|---|---|---|---|---|
| **Revenues** | | | | |
| Taxes | 32,914,656 | 35,287,328 | 2,372,672 | 107.2% |
| Use of Money and Property | 155,042 | 300,042 | 145,000 | 193.5% |
| Intergovernmental Revenue | 367,925 | 367,925 | 0 | 100% |
| Charges for Services | 24,000 | 3,000 | (21,000) | 12.5% |
| Interfund Revenue | 315,570 | 315,570 | 0 | 100% |
| Miscellaneous Revenue | 158,000 | 234,591 | 76,591 | 148.5% |
| **Total Revenue** | **33,935,193** | **36,508,456** | **2,573,263** | **107.6%** |
| Fund Balance | 32,484,732 | 32,484,732 | 0 | |
| **Total Sources** | **66,419,925** | **68,993,188** | **2,573,263** | |
| **Expenditures** | | | | |
| Salaries and Benefits | 19,790,444 | 17,715,781 | 2,074,663 | 89.5% |
| Services and Supplies | 20,554,885 | 19,554,885 | 1,000,000 | 95.1% |
| Other Charges | 2,162,685 | 2,162,685 | 0 | 100% |
| Fixed Assets | 1,733,396 | 1,733,396 | 0 | 100% |
| Other Financing Uses | 15,130 | 15,130 | 0 | 100% |
| **Net Appropriations** | **44,256,540** | **41,181,877** | **3,074,663** | **93.1%** |
| Operating Reserves | 4,264,763 | 4,264,763 | 0 | |
| Capital Reserves | 17,898,622 | 17,898,622 | 0 | |
| **Total Reserves** | **22,163,385** | **22,163,385** | **0** | |
| **Total Requirements** | **66,419,925** | **63,345,262** | **3,074,663** | |

**FY 2020-21 Year-End Fund Balance Estimate:** **27,811,311**
(FY 2020-21 Budgeted Reserves + Estimated FY 2020-21 Year-End Variance)

The County's Open Data Portal (checkbook.smcgov.org)continues to provide an easily accessible view of library expenditures and activity data to both the public and policymakers and a list of invoices and contracts with a total amount of $50,000 or more that were paid or executed between July 1, 2020 and December 31, 2020 is provided as an attachment.

FY 2021-22 Budget Assumptions

December marks the point at which we begin to evaluate current trends and conditions which may affect the development of the budget. The most significant factors which influence Library operations include property tax revenues and personnel costs. The following revenue and expenditure assumptions are based on current economic indicators, historical trends, negotiated agreements and potential legislative changes which may influence development of the budget. Significant sources of revenue are addressed followed by a summary of major operating costs.

**Revenue Assumptions**

County Free Library Property Taxes
Property tax revenues are the Library's primary source of funding. Designated as a special district, the system is entitled to receive a small portion of the property tax collected within the boundaries of the Library service area. Approximately 285,000 people live within the boundaries of the Library's legal taxing district, which covers 351 square miles.

Property tax revenues (taxes assessed against real property) are expected to increase 5% in FY 2021-22. This anticipated growth is attributed to property values continuing to increase, even amidst the pandemic. Unsecured property taxes (taxes on aircraft and commercial equipment largely generated from businesses at San Francisco International Airport) are expected to be budgeted at similar levels as FY 2020-21.

Excess Educational Revenue Augmentation Fund (ERAF)
Pursuant to Revenue and Taxation Code 97.2 and 97.3, property tax contributions made by local governments to the ERAF in excess of State-mandated school funding levels are returned to the local governmental entity that made the contribution. Due to the potential unpredictability of this funding, the JPA Governing Board has authorized the use of excess ERAF for non-recurring expenditures. Amounts not appropriated for one-time purposes are set aside in Reserves.

Next year we anticipate ERAF of approximately $5 million. State mandated changes to the County Excess ERAF calculation have not yet resulted in decreases to our distribution and our Excess ERAF amount is expected to increase in FY 2021-22. Factors which could influence the continuation and/or level of funding include State mandated changes to school funding formulas or the State utilizing these funds for other purposes.

Measure K
Measure A, a half-cent sales tax designed to support general county services and functions, was approved by voters in November 2012. Measure K, approved by the voters in November 2016, extended the half-cent sales tax for an additional 20 years. The Library is expected to continue to receive an allocation of Measure K funds of approximately $1.4 million to support Summer Learning and Big Lift Inspiring Summers in FY 2021-22.

In addition, Measure K funds to support the construction of a new library in East Palo Alto of $1.1 million will continue to be rolled over and included in the FY 2021-22 budget.

**Expenditure Assumptions**

Salaries and Benefits

Salaries and benefits represent the most significant ongoing operational cost for the Library. All library staff are employees of the County of San Mateo. All non-management regular and extra-help employees are represented by SEIU Local 521, the County's second largest union.

At Mid-Year FY 2020-21, the Library estimates that it will spend $17,715,781 for salaries and benefits. This estimate includes negotiated salary and benefits increases for SEIU and Management employees of 3% that went into effect on October 4, 2020 and December 13, 2020, respectively. These are the final negotiated increases of the existing labor contracts; no estimate is available for increases in the FY 2021-22 budget until the next round of negotiations are completed.

The Library currently has 123 permanent positions, it is anticipated our position count will increase by 5-7 positions, or an estimated annual increase of $822,000 due to the shift of operational responsibility from Redwood City to the Library JPA of the North Fair Oaks Library and additional staffing needs resulting from expanded hours at the new larger Atherton Library.

Services and Supplies

The Library will continue to restrict the use of County Free Library revenue as outlined in the Second Amended JPA Agreement. Preliminary estimates for FY 2021-22 will require that amounts of approximately $2 million to be set aside and withheld from general operations. The JPA Agreement includes a provision to split these excess funds 50%-50% between the Library JPA and member city when construction of the Atherton Library is completed (estimated for July 2021).

Costs associated with support provided by the Peninsula Library System, including delivery, management of the shared online library catalog, and costs related to databases and maintenance agreements, are estimated at $1.3 million.

Other Charges

County service charges for human resources, IT, accounting, facilities and vehicles are anticipated to increase next fiscal year by 1%. The contribution to Daly City for services provided on behalf of residents of unincorporated Broadmoor and Colma is estimated at $350,000. If a new service agreement is approved with Redwood City, the contribution to the Fair Oaks Library will be eliminated.

**Library Reserves**

The Library utilizes Reserves it has built up over time, primarily through the accumulation of excess ERAF, to support significant one-time projects, often in response to changes and service innovations made in the industry and community needs. Based on service priorities and past direction from the JPA Governing Board, the FY 2021-22 Recommended Budget will continue to include proposals in the range of $3-5 million annually to support one-time purchases and projects for collection enhancements, technology advancements, major system projects and costs associated with interior furnishings and equipment due to decisions made by member cities to build and/or remodel library facilities.

**FY 2021-22 Budget Development Recommendations**

Staff recommends moving forward with development of the FY 2021-22 Budget based on the following recommendations:

- Continue to operate at existing levels based on projected property tax revenue which is anticipated to roughly offset the estimated increases in ongoing personnel costs.
- Strategically use Excess ERAF and Reserves to advance priorities, innovate, and support exceptional service.
- Place an emphasis on developing services and programs that support and align with Strategic Plan goals and annual priorities.

The Library looks forward to making progress on our current year priorities and working with the JPA Governing Board and Operations Committee to establish ambitious goals for FY 2021-22.

## Fiscal Impact

There is no fiscal impact associated with accepting this report. JPA Operations Committee and Governing Board input and direction will be used to prepare the FY 2021-22 Budget.

## Recommendation

Recommend Library JPA Governing Board accept the report and direct staff to move forward with development of the FY 2021-22 Budget. Operations Committee members present at the February 2, 2021, meeting concurred with this recommendation.

## Attachment

FY 2020-21 Invoices and Contracts Over $50,000

FY 2020-21 Invoices and Contracts Over $50,000

## Invoices

| Vendor | Amount | Description |
|---|---|---|
| Interior Motion | 50,346 | 50% deposit for Brisbane furniture |
| Ross McDonald | 83,811 | 50% deposit for Brisbane shelving |
| Laptop Anytime Java Connection | 72,380 | Laptop Anytime for Brisbane |
| Zoom Licenses | 56,112 | Fees for licenses |
| Overdrive Digital Library Materials | 50,192 | Purchase of digital materials |

## Contracts

| Vendor | Term | Amount | Description |
|---|---|---|---|
| Kanopy | 7/1/20 - 6/30/22 | $96,000 | Streaming video platform |
| Baker & Taylor Axis 360 | 7/1/20 - 6/30/23 | 297,000 | eBook and eAudiobook platform |
| Baker& Taylor Pop-Up | 7/1/20 - 6/30/21 | 60,000 | Brings eBooks to community hubs outside of the physical library |
| EBSCO Periodicals | 7/1/20 - 6/30/21 | 100,000 | Subscription management service for electronic newspaper and magazine titles |
| BiblioCommons | 9/1/20 - 8/31/22 | 88,615 | Application to create, edit, and publish web content |
| Flipster | 7/1/20 - 6/30/23 | 90,000 | Provides eMagazines titles |
| WTCox | 7/1/20 - 6/30/23 | 96,000 | Provides print and electronic newspaper and magazine titles |
| Pheonix Motorcars | 10/6/20 - 6/30/21 | 350,000 | Contract to build makermobile |