San Mateo County Libraries

Agenda Item VI.

To: JPA Governing Board

From: Anne-Marie Despain, Director of Library Services

Lindsey Freeland, Financial Services Manager

Date: February 1, 2022

Meeting: February 7, 2022

Re: FY 2021-22 Mid-Year Financial Report

Background

The FY 2021-22 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 2022-23.

Discussion

The FY 2021-22 Adopted Budget, approved in September 2021, totals $72,053,116 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 $44.9 million and Reserves of $27.2 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 108% of projected revenue and spend 94% of budgeted expenditures. The change in revenue of $3,227,313 is primarily due to realized distributions of Excess ERAF, which exceed budgeted amounts.

Expenditure savings are estimated to be $2,632,725 primarily attributed to savings in services and supplies and fixed assets due to COVID-19 and supply chain impacts to project and purchasing timelines. Modest salary and benefit savings is also anticipated due to vacancies and the delay in returning to pre-pandemic hours.

The FY 2021-22 Adopted Budget anticipated $27.2 million in Reserves to carry over to FY 2022-23 Fund Balance. At Mid-Year, we now estimate a Year-End Fund Balance of $33,012,318, representing excess revenue, expenditure savings, and budgeted Reserves.

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

FY 2021-22 Mid-Year Estimate Summary

	FY 2021-22 Adopted Budget	FY 2021-22 Year-End Estimate	FY 2021-22 Year-End Variance	% of Budget Realized/ Spent
Revenues				
Taxes	36,100,144	39,178,243	3,078,099	109%
Use of Money and Property	395,542	395,542	0	100%
Intergovernmental Revenue	178,000	258,064	80,064	145%
Charges for Services	24,000	32,288	8,288	135%
Interfund Revenue	466,853	466,853	0	100%
Miscellaneous Revenue	1,012,332	1,073,194	60,862	106%
Total Revenue	**38,176,871**	**41,404,184**	**3,227,313**	**108%**
Fund Balance	33,876,245	33,876,245	0	
Total Sources	**72,053,116**	**75,280,429**	**3,227,313**	
Expenditures				
Salaries and Benefits	21,923,337	21,104,068	819,269	96%
Services and Supplies	17,636,402	16,097,946	1,538,456	91%
Other Charges	3,618,604	3,618,604	0	100%
Fixed Assets	1,691,506	1,416,506	275,000	84%
Other Financing Uses	30,987	30,987	0	100%
Net Appropriations	**44,900,836**	**42,268,111**	**2,632,725**	**94%**
Operating Reserves	4,464,763	4,464,763	0	
Capital Reserves	22,687,517	22,687,517	0	
Total Reserves	**27,152,280**	**27,152,280**	**0**	
Total Requirements	**72,053,116**	**69,420,391**	**2,632,725**	

FY 2021-22 Year-End Fund Balance Estimate: **33,012,318**
(FY 2021-22 Budgeted Reserves + Estimated FY 2021-22 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, 2021 and December 31, 2021 is provided as an attachment.

FY 2022-23 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 284,000 people live within the boundaries of the Library's legal taxing district, which covers 351 square miles.

Secured property tax revenues (taxes assessed against real property) are expected to increase 4% in FY 2022-23. 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 2021-22.

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 one-time expenditures. Amounts not appropriated for one-time purposes are set aside in Reserves.

Next year we anticipate budgeting ERAF at 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 2022-23. 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 $1.5 million to support Summer Learning and Big Lift Inspiring Summers in FY 2022-23.

Redwood City Contribution for North Fair Oaks
As established in the Library JPA agreement with Redwood City for the North Fair Oaks Library, the Library will start to receive a $400,000 contribution from Redwood City in FY 2022-23. As outlined in the agreement, that amount will be adjusted in future years based on San Francisco Bay Area CPI as of December 1 of the previous year.

Expenditure Assumptions

Salaries and Benefits
At Mid-Year FY 2021-22, the Library estimates that it will spend $21,104,068 for salaries and benefits. Salaries and benefits represent the most significant ongoing operational cost for the Library. The Library currently has 135 permanent positions.

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. No estimate is available for increases in FY 2022-23 until a new labor contract is completed. The County is currently engaged in extended negotiations with SEIU, as the last agreement expired in October 2021.

In addition, in November 2021, the JPA Governing Board and Operations Committee approved a recommendation to restore pre-pandemic hours and an expansion of hours pilot when safe to do so in the second half of the current fiscal year. Once implemented, new service hours will be evaluated for inclusion in the FY 2022-23 budget to accommodate a continuation of expanded hours.

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 2022-23 would require that amounts of approximately $2.4 million be set aside and withheld from general operations. The JPA Agreement includes a provision to split excess funds 50%-50% between the Library JPA and member city starting in the fiscal year following the completion and opening of the new Atherton Library. Since the Atherton Library will be completed this year, in FY 2022-23, these excess funds, after deduction of any activities approved by the Governing Board for library related expenditures within a member city, shall be split equally between the Library JPA and the member city to which the funds are attributable.
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 $1.5 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.

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 2022-23 Recommended Budget will continue to include proposals in the range of $3-5 million annually to support one-time purchases and projects for literacy efforts, 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 2022-23 Budget Development Recommendations

Staff recommends moving forward with development of the FY 2022-23 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 anticipated 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 2022-23.

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 2022-23 Budget.

Recommendation

Recommend Library JPA Governing Board accept the report and direct staff to move forward with development of the FY 2022-23 Budget. Operations Committee members present at the February 1, 2022 meeting concurred with this recommendation.

Attachment

FY 2021-22 Invoices and Contracts Over $50,000

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

Vendor	Amount	Description
Invoices:		
Coordinated Resources Inc.	61,596	Atherton Library furniture
Dell Technologies	57,716	Annual computer replacements
Kanopy, Inc.	60,000	Annual streaming video license
Ross McDonald Co., Inc.	137,976	Atherton and Brisbane Library shelving
Zoom	147,973	Zoom meeting licenses and phone system
Contracts:		
Brad Cox, Architect, Inc.	79,790	Foster City Library makerspace contract
Lakeshore Learning	100,000	Programming supplies and educational materials (2-year contract)
Phoenix Motorcars	300,000	Makermobile contract
RAFT	50,000	Programming supplies and other educational materials (2-year contract)
Sustainable Future Outdoor Academy	59,625	Field trips for elementary and middle school students
Velofix	54,600	Book-A-Bike maintenance contract