



Fiscal Snapshot: NOLS' Levy, Budget, and Fiscal Outlook

Updated: 9/2018

This document provides a summary of the major factors that impact NOLS' levy, budget, and fiscal outlook. Some non-essential details have been omitted or simplified in order to keep the summary as concise as possible.

TRANSPARENCY AND GOOD STEWARDSHIP.

NOLS' Fiscal Management Policy ([Policy 5.15](#)) establishes the fiscal, financial, and budget practices that support the Library's responsible and sustainable stewardship of public resources.

NOLS develops budgets through a staff inclusive process, and conducts public hearings on the budget. NOLS' fiscal management policies, financial records, budgets, annual reports, and Washington State Audit reports are routinely posted to the [Library's website](#).

LIBRARY LEVY BACKGROUND.

Tax District: NOLS is a Library Tax District as defined under Washington State Law ([RCW 27.12](#)). The majority of NOLS' revenues (approximately 93-96% of the annual operating budget) are derived from property taxes. The Library's tax revenues are levied and collected by Clallam County.

Calculation of the Library's Operating Levy: Fifty cents per \$1000 of the Assessed Valuation (AV) for all property in the county is the maximum levy rate allowable by state law for rural library districts. This formula ($AV \times .50/\$1000$) establishes the amount of property tax the Library District is theoretically eligible to collect each year. There are however other factors that impact this theoretical levy figure.

Washington State laws impose several limiting factors on property tax levy amounts.

- The levy cannot exceed the statutory maximum levy rate for the district;
- The levy cannot exceed the previous year's levy amount by more than one percent (1%);
- The levy cannot exceed the tax revenue amount specified in the district's approved budget;
- The levy cannot exceed the total levy amount authorized by Board resolution; and
- The levy cannot exceed the highest regular tax which could have been lawfully levied since 1985.

In calculating the levy, separate computations are performed to determine all the possible levy amounts, taking each of the limiting factors into consideration. Final determination of the certified

regular levy computation for the tax district always reflects the *least* amount that could potentially be levied based on *any* of the limiting factor computations.

The Library Levy in times of increasing Assessed Valuation (AV) – 1% growth limitation – shrinking levy rate: Theoretically speaking, when the assessed valuation of County property increases, NOLS' levy would also increase. Functionally speaking however, the 1% growth limitation established by state law ensures that a district's property tax revenues cannot grow by more than 1% over the previous year's actual levy, regardless of the rate of increase of the AV. Under this scenario, an additional levy rate factor may come into play: if the AV grows at more than 1%, and the district's actual levy receipts are capped at 1% growth, this will result in a shrinking levy rate. In essence, the rate is the only piece of the tax levy formula that can be adjusted, so it is.

NOLS' (2018) levy rate currently stands at 49¢ per \$1000 of the AV of all the property in the county. The Library's total property tax revenues may also include separate "add on" amounts for new construction and levy refunds, but in the context of NOLS' overall revenue/budget picture, the amounts of these potential add-ons are minor. Various factors, such as another dramatic drop in assessed valuation, could change the projected trajectory for levy and levy rates in the future. Generally speaking, however, if the present trend of an increasing AV continues, the one percent (1%) cap on year-to-year levy growth will be the pertinent limiting factor for NOLS' budgeting and levy calculation for coming years, and the Library's levy rate will experience ongoing compression.

The impacts of normal inflation on operational costs almost always exceed 1% per year, so even in the best case assessed valuation/levy rate situations, the 1% growth limitation inevitably results in an increasingly restricted levy over time.

The 2010 Levy Lid Lift: NOLS experienced the 1% limitation/shrinking levy rate scenario described above between the years of 2001 (when the 1% growth limitation was put into effect) and 2010 (when Clallam County voters approved a "levy lid lift" for the Library). Between 2001 and 2010, the District's levy rate dropped from 48¢ / \$1000 AV to \$31¢ / \$1000 AV. This reduced levy rate had severe fiscal impacts for NOLS and consequently, for library services. To improve NOLS' fiscal outlook, and ability to adequately serve the community, the Library developed a business plan ("The 2012 Plan") built on community input about services, and based in detailed financial projections. A levy lid lift was referred to the voters of Clallam County in November 2010. As a result of this vote, the Library's levy rate was successfully lifted back to 50¢ / \$1000 AV. The County began to collect this higher rate of tax revenue on NOLS' behalf in 2011.

NOLS' 2012 Plan: The 2012 business plan outlined a number of very specific initiatives that would be implemented in the event the levy lid lift was successful and tax revenues therefore increased. It was called the "The 2012 Plan" because the plan would be (and was) fully implemented by 2012.

Key elements of The 2012 Plan included:

- Longer and more consistent open hours at all branches
- Increased budget allocations for collection materials
- Specified expansions to programming, services, technology support, and the staffing necessary to support increased hours and expanded programs and services

- Capital improvement program to address long-deferred capital needs
- Development of a more robust volunteer program
- Establishment of a Library Foundation and strengthening of other community partnerships
- A commitment that NOLS would not seek additional levy lifts for at least 10 years

The Hold-for-Out-Years Financial Plan: The 2012 Plan was based on a fiscal reserve strategy that called for building operating reserves during the first several years following the levy lid lift, in anticipation of the inevitable erosion that would result in later years due to the limitations of the 1% cap and the shrinking levy rate. The reserved funds would be available to help balance NOLS' operating budget in the later years. The hold-for-out-years fiscal strategy was implemented, but unfortunately the planned reserve build-up was severely constrained by the unforeseeable local impacts of the Great Recession (see below).

The Library Levy in times of decreasing Assessed Valuation (AV) – statutory maximum levy rate as limiting factor: Almost immediately following the Library's successful levy lid lift, the County's assessed valuation began a multi-year series of dramatic drops related to the global economic crisis. The AV decreased year-to-year in 2012, 2013, and 2014, and was almost static in 2015. The "statutory maximum levy rate" was the relevant limiting factor on NOLS' levies during those years; NOLS tax revenues decreased or remained static in direct proportion to the shrinking AV.

Levy/budget impacts: As a result of the decreasing AV trend, even at the newly approved 50¢ / \$1000 AV levy rate, NOLS' property tax revenues over the first few years of the 10-year projection were significantly less than projected. NOLS had sufficient revenues to implement The 2012 Plan objectives, but except in 2011, did not have extra revenues to put into reserves – undercutting the long term viability of the hold-for-out-years reserve strategy. NOLS has responded to this fiscal situation in a number of ways, including: careful budgeting and spending, more solicitation of grants and donated funds, creative use of gift funds and volunteers, strategic adjustments to personnel costs, and careful preservation of the more-limited-than-expected operating reserves.

Between 70-75% of NOLS' operating expenditures are in personnel costs (salary and benefits). In comparison, approximately 10-11% of the annual budget is expended on library materials (including electronic resources), and all other library operating costs together total only about 15-20% of the annual operating budget.

The personnel budget was the area of the Library operating budget most substantially expanded through use of the increased revenues available following the 2010 levy lid lift, and is also the only budget area where significant cost savings or reductions can be realized in times of reduced revenues. Personnel costs routinely increase by at least 3% per year, not including additional increases that may arise from negotiated increases to salaries and/or benefits. Long term inflationary impacts of personnel cost commitments must therefore be prudently considered in projecting the Library's long-term fiscal sustainability.

Draws on Reserves and Banked Capacity. NOLS was able to set aside operating reserves for the "out-years" only in 2011. In 2012 and 2013, NOLS required the entire levy amount to meet annual operating needs, and in 2014, 2015, and 2016 operating budget revenues included a planned draw from

reserves in order to balance the budget. Through careful expenditure and cost cutting measures implemented during these years, the actual draw on reserve funds in each of the transfer-in years was somewhat less than the draw budgeted.

In 2016, based on NOLS' best understanding of the limiting factors being applied to the District's levy at that time, the levy resolution adopted by the Board reflected the 1% levy growth that the District expected to be able to receive. This inadvertently resulted in a 2016 levy that was somewhat lower than the District's potential highest lawful levy for that year, thereby inadvertently generating banked levy capacity.

Banked capacity is the difference between the highest lawful levy and the actual levy imposed. An infrequent occurrence in levy calculation, banked capacity is generally applicable only following a levy lid lift. A combination of factors, including the dramatic fall in AV shortly after the Library's lid lift, put NOLS in a unique levy situation that was somewhat new territory for both NOLS and the Clallam County Assessor. When it occurs, banked capacity essentially results in a levy reserve. The dollar amount of available banked capacity changes each year as the highest lawful levy and the actual levy are recalculated based on that year's AV. This makes it extremely challenging to predict available capacity until all assessed value and other levy calculation figures are known. Furthermore, having banked capacity in one year does not guarantee the District will have it in another year.

The 2017 budget included a negotiated 2% cost of living adjustment (COLA) for staff. To support this increase to personnel expenditures NOLS initially proposed a budgeted draw from operating reserves of \$207,428. Later in the budget process, when final AV values were available, NOLS consulted the Assessor regarding banked capacity, and ultimately decided to apply some of the Library's banked capacity to reduce the need to draw heavily on library operating reserves to support the negotiated salary increases in the 2017 budget. Using banked capacity, the levy growth was 7% (approximately \$176,657) over the 2016 certified levy, rather than the 1% growth (plus use of \$207,428 of reserves) originally budgeted. Use of banked capacity helped close the revenue gap, but did not entirely eliminate the projected draw from operating reserves.

In drafting the 2018 operating budget NOLS went through a similar calculation process, and when all AV figures were available in late November, determined that approximately \$168,500 of banked capacity was still available to be applied to the 2018 levy. Accordingly, the Board resolution and levy certification were calculated to utilize all remaining banked capacity, thus covering the projected 2018 shortfall of \$134,226, and again helping preserve the Library's vital operating reserves against a future date of greater need.

The 2018 Library levy, officially certified by the Clallam County Assessor on February 2, 2018, is \$4,105,381. This figure will exceed and replace NOLS' previous "highest lawful levy" (HLL) figure of \$4,082,156, and become the new HLL growth limiting factor. Levy capacity banked in prior years has been fully utilized. In 2019, therefore, the Library District can expect only a maximum of 1% levy growth over the 2018 levy (plus any add-ons for new construction and refunds). In 2019 this would likely result in tax revenue of approximately \$4,150,000 (year-to-year revenue growth of approximately \$41,500). If the new construction trends of recent years continue, NOLS might also anticipate receiving an additional \$20,000 to \$40,000 in new construction levy add-ons.

The District's levy rate currently stands at 49¢ per \$1,000 of assessed valuation. The gradual erosion of the levy rate, as a result of the 1% growth limitation, began in 2018, and is expected to continue in 2019. Operating reserves, which have been carefully maintained against the time that other options would not be available, will play an increasingly critical revenue role in future budgets.

The following table depicts AV and NOLS property tax levy for 2010 through 2019.

Year	Assessed value of County	NOLS property tax revenue	Levy Limiting Factor	% change from previous year's levy
<i>2019 projection</i>	<i>n/a</i>	<i>Estimated \$4,150,000</i>	<i>1% growth</i>	<i>1%</i>
2018	\$8,319,296,313	\$4,105,381	HLL w/banked capacity	6%
2017	\$7,697,314,552	\$3,848,657	HLL w/banked capacity	7%
2016	\$7,329,150,449	\$3,593,574	1% growth	1%
2015	\$7,064,518,822	\$3,551,460	Statutory Maximum	.74%
2014	\$7,004,800,000	\$3,517,400	Statutory Maximum	(-4.37%)
2013	\$7,165,800,000	\$3,550,000	Statutory Maximum	(-4.67%)
2012	\$7,540,600,000	\$3,770,000	Statutory Maximum	(-6.3%)
2011 (<i>levy lid lift</i>)	\$8,292,700,000	\$4,146,378	Statutory Maximum	45%
2010	\$8,243,327,771	\$2,715,357	1% growth	1%

LIBRARY BUDGET BACKGROUND:

Operating Budget: Every year in the late autumn NOLS develops an Operating Budget in accordance with its service priorities for the upcoming fiscal year (January-December). During this same time period the County Assessor is busy finalizing assessed valuation figures, so NOLS works with estimated levy/revenue figures during much of the development phase of the NOLS operating budget. Ideally, current year operations can be funded from current year revenues. As a matter of policy and fiscal prudence the Library endeavors to stay within its projected resources (revenues and reserves) and not incur debt for operational purposes.

Capital Budget: The Library's annual Capital Budget, which provides for routine capital maintenance and improvements, is submitted to the Board for approval each January. NOLS funds its Capital Budget through timber revenues, rather than operating levy revenues; adoption is therefore not subject to the Assessor's levy deadline. The Capital Budget is finalized and adopted in January so that it will can accurately reflect the completion status of prior-year capital projects, and prior-year timber-receipt revenues. See below for and more details on Capital Budget funding and development.

Timber Receipts, Capital Replacement Account, and Capital Budget: In addition to property tax revenues, NOLS also receives a share of receipts from the sale of private and public timber and forest products from County and Washington State Department of Natural Resources (DNR) lands. Timber revenues can be extremely volatile and the amount received in any given year is difficult to predict. As part of The 2012 Plan, the Board redirected this revenue stream into a separate NOLS Capital Reserve Account. As a general rule, timber revenues from the prior year determine the maximum revenue base for the annual Capital Budget in the following year. After adoption of the Capital Budget, the approved revenue amount is transferred to the Capital Budget Account for expenditure. Capital expenditures tend to be somewhat more discretionary than personnel-heavy operating expenses, therefore in years of low timber revenues capital projects can be postponed or

scaled appropriately. This budgeting strategy has worked well for NOLS, in that the District need not rely on difficult-to-predict timber revenues to balance the operating budget, and NOLS is able to budget for capital needs using a known revenue figure. As a result, NOLS is able to maintain public infrastructure responsibly, effectively address capital improvement needs, and make provision against future capital needs.

OTHER FISCAL RESOURCES AND STRATEGIES:

Reserve and Designated Accounts: NOLS maintains a number of reserve accounts, which are fully described in [Policy 5.15: Fiscal Management Policy](#). As noted above, reserve funds play a crucial role in NOLS' fiscal management strategy. Capital reserves improve the District's ability to adequately maintain public infrastructure and provide for the safety and comfort of staff and library users. Operating reserves provide a cushion against the inevitable erosion of the operating levy rate, helping the Library deliver library service in Clallam County in an ongoing and consistent manner. The catastrophic impact of the Great Recession on NOLS' ability to fully fund the hold-for-out-years reserve strategy as originally planned has increased the importance of wisely managing the Library's existing reserves.

NOLS also receives other gift, donation, grant, and bequest funds. Many of these funds are restricted as to use - by donor designation, Board designation, or legal designation. Gift funds are a useful supplemental revenue source for funding purchases and projects both small and large, thereby alleviating some pressure on the operating and capital budgets. Within the constraints of the fund's designated purpose, some gift funds may also serve as a reserve cushion to be utilized in times of decreasing operating levies.

Current balances for reserve accounts and gift funds are always documented in the Board's monthly Financial Reports, published on the [Library website](#).

Fiscal Planning for the Future: The 2012 Plan was a growth plan, outlining fiscal and service objectives to be accomplished in the event of a successful levy lid lift in 2010. Those objectives were all accomplished. In the immediate wake of the Great Recession however, Assessed Valuations dropped dramatically, unexpectedly reducing the Library's anticipated levy amounts for several years, and undercutting the hold-for-out-years fiscal reserve strategy on which The 2012 Plan was based. The 2012 business plan is no longer a good guide for fiscal decision-making into the future.

Development and publication of an updated fiscal business plan is one of NOLS' current strategic initiatives. The Library has navigated the last several years in a fiscally responsible manner with a general and developing understanding of the unexpected impacts of the economic collapse on NOLS. The unpredictable nature of the Clallam County's AV during the last several years, coupled with NOLS' somewhat unique post-levy-lid-lift circumstances, made it extremely difficult to reliably project tax revenues beyond year-to-year. This has constrained NOLS' ability to undertake reliable longer term fiscal planning. The levy calculation scenario that now exists for NOLS (the 1% growth limit), while not a bright revenue outlook, is at least more predictable, and thus better supports longer term fiscal planning.

NOLS has used the last few years constructively for fiscal planning groundwork. Fiscal and accounting practices and policies have been clarified or improved, and better understanding of financial resources, commitments, processes, and strategies has been cultivated. These preliminary activities have laid the foundation for development of a new fiscal business plan to guide NOLS through the next five to ten years. Development of a new fiscal business plan was initiated in 2018, and is expected to conclude sometime in 2019, with 2020 being the first budgeting year in which the outcomes of the new business plan will be fully available as a foundation for fiscal planning.

MORE INFORMATION:

NOLS strives for openness and transparency in its management and reporting of public funds.

Budgets are drafted with input from and involvement of Library staff. As part of NOLS' budget development process, public hearings on the operating budget are held in October and November each year, and the capital budget is reviewed at the regular January meeting; public comment is always welcomed. Copies of the NOLS' Operating and Annual Budgets, and the annual Budget Glance document are available on the library's webpage. Narrative's discussing the budgets presented to the Board for approval can be read in the Board Packets for October, November (Operating) and January (Capital).

Monthly financial reports, including current balances of reserve and accounts and notes about reserve designations, and are presented monthly as part of Board Packet materials. Annual fiscal reporting and reconciliation are covered in the January Board Packet. All the above documents, and others, such as state audit reports, can be viewed at <https://www.nols.org/board-administration/>.

If you have questions or comments, please contact the Library Director at Director@nols.org or 360.417.8500 x 7714.