



Fiscal Factors Overview:

NOLS Levy, Budget, and Fiscal Outlook

Updated: September 2023

This document provides a summary of the 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 80% 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.

Implicit Price Deflator: The implicit price deflator (IPD) for personal consumption expenditures is a figure used to measure inflation, and it can impact how much property tax revenue a jurisdiction can collect in any year.

Under state law, no local government may increase its property tax levy more than 1% in a given year, and local governments with a population of 10,000 or more are limited to the lesser of 1% or the rate of inflation (RCW 84.55.005 - .010). However, if inflation falls below 1%, a jurisdiction with a population of 10,000 or more may adopt a resolution of "substantial need" allowing it to increase the levy (or bank the excess capacity) up to the full 1%.

The inflation rate as of August 2023 is 3.9%, which means local governments in Washington with populations 10,000 or greater do not need to adopt a resolution of substantial need in order to receive the full 1% increase as allowed by law.

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' 2023 levy rate stands at 31¢ 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 a 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.

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 fiscal 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 (not before 2020)

The Hold-for-Out-Years Fiscal Strategy: 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 recession on local property valuations (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 recession. 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 72-73% of NOLS' operating expenditures are in personnel costs (salary and benefits). In comparison, approximately 9-10% of the annual budget is expended on the next largest budget

category, library materials (including electronic resources), and all other library operating costs together total only about 17-18% 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. The service expansions called for in the 2012, longer operating hours, more library materials, increased programming, and the addition of identified positions, all required additional staff to implement. Personnel 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-down 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-down budgeted.

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. As a result of incomplete understanding of these complex factors, NOLS under-levied somewhat in 2016, thereby inadvertently generating some 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. 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.

In 2013, 2014, 2015 and 2016 the operating budget included negotiated cost of living adjustments (COLAs), of various amounts, for staff. These personnel cost increases were supported through use of levy funds and judicious use of reserves. The 2017 budget included a negotiated 2% COLA. To support this increase to personnel expenditures, NOLS applied 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. Applying 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 anticipated. Use of banked capacity helped close the revenue gap for 2017, but did not entirely eliminate the projected draw from operating reserves.

The 2018 budget included another negotiated 2% COLA. To support this increase, NOLS applied the remainder of the library's banked capacity, approximately \$168,500, thus covering what would have

been a 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 was \$4,105,381. This figure exceeded and replaced NOLS' previous "highest lawful levy" (HLL) figure of \$4,082,156, and became the new HLL growth limiting factor for the Library District. Levy capacity banked in prior years has been fully utilized. In 2019, therefore, the District received only a 1% levy growth over the 2018 levy (plus add-ons for new construction and refunds). In 2020, this resulted in a tax levy, including add-ons for new construction valuation, of \$4,435,000. The District's 2020 levy rate was 43¢ per \$1,000 of assessed valuation. The levy rate dropped to 41¢ per \$1,000 of assessed valuation in 2021 and then to 37.6¢ per \$1,000 of assessed valuation in 2022.

The District's 2023 levy rate stands at 31¢ per \$1,000 of assessed valuation. The gradual erosion of the levy rate, as a result of the 1% growth limitation began in 2018, continued through 2023, and is expected to continue in 2024, and beyond. Operating reserves, which have been carefully maintained, will play an increasingly critical revenue role in future budgets.

The following table depicts AV and NOLS property tax levy for 2011 through 2023.

Year	Taxable Assessed Value (AV) of County	% change from previous year's AV	Levy Limiting Factor	NOLS Levy	% change from previous year's levy
2024	<i>Estimate</i> \$16,067,021,435	<i>Estimate</i> 7.3%	1% growth	<i>Estimate</i> \$4,678,707	<i>Estimate</i> 1%
2023	\$14,967,504,004	22.3%	1% growth	\$4,632,383	1%
2022	\$11,968,220,628	12.2%	1% growth	\$4,505,352	1%
2021	\$10,660,588,245	8.1%	IPD or 1% growth	\$4,397,988	1%
2020	\$9,863,835,562	9.1%	1% growth	\$4,308,000	1%
2019	\$8,321,650,465	8.7%	1% growth	\$4,207,459	1%
2018	\$8,319,296,313	8.1%	HLL w/banked capacity	\$4,105,381	6%
2017	\$7,697,314,552	5.0%	HLL w/banked capacity	\$3,848,657	7%
2016	\$7,329,150,449	3.7%	1% growth	\$3,593,574	1%
2015	\$7,064,518,822	0.9%	Statutory Maximum	\$3,551,460	.74%
2014	\$7,004,800,000	-2.2%	Statutory Maximum	\$3,517,400	(-4.37%)
2013	\$7,165,800,000	-5.0%	Statutory Maximum	\$3,550,000	(-4.67%)
2012	\$7,540,600,000	-9.1%	Statutory Maximum	\$3,770,000	(-6.3%)
2011 (levy lid lift)	\$8,292,700,000	3.3%	Statutory Maximum	\$4,146,378	45%

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 and capital reserves, 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 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 (NCR) Account. As a general rule, the revenue base for the annual Capital Budget expenditures is calculated in the context of the timber revenues received during the prior year, although the Board may authorize the use of other capital reserves or gift funds to address capital needs when necessary. 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 times 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 been laying the groundwork for a new fiscal business plan for several years. 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 provide a foundation for development of a new fiscal business plan to guide NOLS through the next three to five years. Planning stalled during the COVID-19 pandemic, but will continue in 2023, with 2025 being the first budgeting year for which the outcomes of the new business plan would 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 Executive Director at Director@nols.org or 360.417.8500 x 7717.