



## NOLS' Financial Picture Snapshot View

01/06/15

This document provides a very basic summary of the major factors that contribute to NOLS' financial situation. In order to keep the summary as concise as possible, a number of complexities have been simplified and some non-essential details have been omitted. The focus here is on the effects levy rates, caps, state laws, etc. have on NOLS specifically, although much of the information about those parameters would apply to other junior tax districts as well.

The majority of NOLS' revenues (approximately 93-96% of the annual budget) are derived from property taxes. NOLS' current levy rate is 50¢ per \$1000 of the assessed valuation (AV) of all property in Clallam County. This formula ( $AV \times .5/\$1000$ ) establishes the amount of property tax the Library District is eligible to collect each year. Fifty cents per \$1000 also happens to be the maximum rate allowable by state law for rural library districts. Other significant sources of revenue include timber revenues and donations. Every year in the late autumn NOLS develops an Operating Budget in accordance with its service priorities for the upcoming fiscal year. During this same time period the County Assessor is busy finalizing assessed valuation figures, so NOLS must work with estimated revenue figures during much of the development phase of the NOLS operating budget.

**The Library Levy in Times of *increasing* Assessed Valuation – one percent cap – shrinking levy rate:** Generally speaking, when the assessed valuation of County property increases, NOLS' levy also increases. However, state law establishes that a district's property tax revenues cannot grow by more than 1% over the previous year (101% of the previous year's certified levy figure). This 1% restriction is sometimes referred to as the "**one percent cap**." It is important to note that the annual inflation rate often runs more than 1%, so even in the best case assessed valuation/levy rate situations, the 1% cap tends to result in an increasingly restricted budget over time. In this scenario, an additional levy rate factor may come in to play: if the AV is growing 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.

**The Levy Lid Lift:** NOLS experienced the scenario described above between the years of 2001, when the 1% cap was put into effect, and 2010, when NOLS asked County voters for a "levy lid lift". During this period, the levy rate dropped from 48¢/\$1000 to 31¢/\$1000. This reduced levy rate had severe fiscal impacts for NOLS. In order to improve NOLS' fiscal outlook, the Library developed a new business plan and detailed financial projections, and ultimately referred a "levy lid lift" to the people of Clallam County on the November 2010 ballot. As a result of this vote, the levy rate was successfully lifted back to 50¢ per \$1000. This higher rate of tax revenue began to be collected on behalf of NOLS in 2011.

**NOLS 2012 Plan:** The 2012 business plan outlined a number of very specific initiatives that would be undertaken in the event the levy lid lift was successful. It was called the “2012 Plan” because the Plan would be 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 in a financial plan that called for building reserves during the first five to six years of the new 50¢/\$1000 levy rate, in anticipation of the inevitable erosion that would result from the combination of the 1% cap and the shrinking levy rate in the later four/five years of the 10-year period. The reserved funds would be available to help balance NOLS’ budget in the later years of the 10-year period. Unfortunately, also in 2011, the County’s assessed valuation began a multi-year series of dramatic drops due to the 2008 economic crisis. As a result, even at the new, higher levy rate, NOLS’ property tax revenues over those first five/six years of the 10-year projection were significantly less than projected. NOLS was therefore able to set aside revenues for the out-years only in 2011. Since 2011 NOLS has required the entire levy amount to meet annual operating needs, and in 2014 and 2015 the budget has required a draw from reserves to balance (although in 2014 the draw actual draw was averted through other cost cutting measures initiated during the year).

**The Library Levy in times of decreasing Assessed Valuation – maximum allowed levy rate - no 1% increase permitted.** The inability to set aside funds to be used in years of future need was a substantial blow to NOLS’ financial plan. This situation is further impacted in that tax districts that are already levying at the highest rate allowable by law are not eligible to receive even the additional 1% generally permitted year to year. NOLS has been in this double-bind situation since 2011.

All the factors described above have resulted in a shrinking or static revenue picture.

Year	Assessed value of County	NOLS property tax revenue
2015	\$7,064,518,822	\$3,551,460
2014	\$7,004,800,000	\$3,517,400
2013	\$7,165,800,000	\$3,550,000
2012	\$7,540,600,000	\$3,770,000
2011 (levy lid lift)	\$8,292,700,000	\$4,146,378
2010	(moot – NOLS revenue was 101% of previous year’s levy)	\$2,715,357

NOLS has responded to this shrinking budget reality in a number of ways, including careful spending, expanding the use of volunteers, more solicitation of donated funds, and, where operationally feasible, personnel attrition. NOLS is a service organization, and between 70 and 75% of NOLS' operating expenditures are in personnel (salary and benefits) costs. Thus personnel is the only budget area where really significant cost reductions can be made. For this reason every position vacancy is carefully considered, and when possible positions are left vacant or reconfigured to cost advantage.

**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 is difficult to predict. As part of the 2012 Plan, the Board redirected this revenue stream into a separate Capital Replacement Account instead of the operating budget. The purpose of the Capital Replacement Account is to fund capital budget needs in subsequent years. This strategic budgeting arrangement has worked well for NOLS, in that these difficult-to-predict timber revenues are no longer relied upon to balance the operating budget, and NOLS can budget for capital needs using a known (prior year timber receipts) revenue figure. Capital expenditures tend to be somewhat more scale-able than operating expenses, therefore in years of low timber revenues capital projects can be scaled appropriately. This strategy has allowed NOLS to effectively address capital maintenance and improvement needs. At this time all capital expenditures are included in the Capital Budget and funded via the Capital Replacement account. The Capital Budget is developed in November and December for the following year, and submitted to the Board for approval in January.

**Reserve Accounts and Financial reports:** NOLS also has a number of reserve accounts. Several of these accounts are restricted as to use, either by donor, the NOLS Board, or other legal designations. A full list of reserve accounts, notes about designations, and current balances can always be found in the monthly financial report prepared for Board meetings.

### **More information**

NOLS strives for openness and transparency in its handling and reporting of public funds. Additional information about NOLS' budget and finances (including an annual budget summary document, annual reports to the public, audit reports, and monthly board reports) can always be found on the library webpage at [www.nols.org](http://www.nols.org). As part of NOLS' budget development process, public hearings on the operating budget are held in November and December each year, and the capital budget is reviewed at the regular January meeting; public comment is always welcomed.