



Staff Report

Meeting Date: January 27, 2022
To: Library Board of Trustees
From: Noah Glaude, Executive Director
Subject: Approving the Capital Budget for FY 2022

Attachment(s): Proposed 2022 Capital Budget

Topic/Issue: Adoption of the 2022 Capital Budget in the amount of \$2,663,800. NOLS revenues supporting this budget include \$397,800 from the NOLS Capital Reserve (NCR), \$256,000 from the Port Angeles Capital Reserve (PA CR), \$2,000,000 from the Sequim Capital Project Account (SQ CPA) and a donation of \$10,000 from North Olympic Library Foundation (NOLF).

Policy Considerations: In accordance with [NOLS Policy 5.15: Fiscal Management](#), a Capital Budget is adopted in January of each fiscal year, to provide for maintenance and improvement of the Library's capital infrastructure.

As always, the Management Team played a key role in the development of this budget. The Management Team sets system-wide priorities, which reflect NOLS' Strategic Roadmap and Initiatives and branch and department work plans for the coming year. Managers analyze capital maintenance and improvement needs in their respective branch/department, work with Facilities, IT, and Administrative staff to develop cost estimates, and finally work together to jointly review and finalize the Capital Budget.

The Board Finance Committee has reviewed and approved the proposed 2022 Capital Budget, and the proposed funding sources.

The Capital Budget is primarily funded through revenue transfers from Library reserve accounts, but in some years may also include funding from Capital Project, Gift, or Donation funds, or other special revenue sources (such as grants). In 2022, revenue allocations are proposed from the NCR, the PA CR, and the SQ CPA to support Capital Budget expenditures. Revenue for the 2022 Capital Budget also includes a possible donation from NOLF in the amount of \$10,000. Inclusion of this potential funding in the budget is in keeping with NOLS' customary practices for documenting potential donations from Friends of the Library groups in the Operating Budget. If NOLF donations differ from the estimated revenue, expenditures will be adjusted accordingly.

For accounting purposes, NCR which are budgeted for Capital Budget purposes will be transferred to the Capital Budget account for expenditure. Capital Budget expenditures funded by the PA CR and SQ CPA, or other capital project funds, are paid directly from the designated account.

The NOLS Capital Reserve Account (NCR) serves as the repository for the Library's timber revenues. Timber revenues can be extremely volatile and the amount received can fluctuate dramatically from year to year. Since capital projects tend to be somewhat more discretionary and/or scalable than operating expenses, in years of low timber revenues capital improvement plans can be adjusted as appropriate to the revenues available. This methodology allows NOLS to effectively address capital maintenance and improvement needs, while reducing reliance in the operating budget on the unpredictable timber revenue stream. By customary practice, expenditures in the Capital Budget that are funded from the NCR, generally do not exceed the known timber revenues from the preceding year. In 2022, the amount funded by the NCR exceeds last year's timber revenue because so many projects are carried over from 2021. Timber revenue figures relative to 2022 Capital Budget funding are summarized in the Fiscal Considerations section below.

In 2021, timber revenue was reduced due to a technical issue. In August 2021, the Department of Revenue alerted Clallam County to a chargeback that would occur because of a failure of their software to compute and retain a portion of the timber excise tax for administrative fees. The chargeback covered the period from January of 2019 through May of 2021. The overpayment to Clallam County for this period was \$227,716.56. NOLS portion of the overpayment was \$25,182.31. Because under Washington State law the Department of Revenue is required to collect the overpayment, \$25,182.21 of timber revenue was withheld from NOLS in 2021.

The Port Angeles Capital Reserve (PA CR) was established as a sinking fund in 1997, as a conditional requirement related to the bonds that funded construction of the Port Angeles building. The Board-designated purpose of this reserve is to support significant, large scale, PA infrastructure maintenance, replacement, and improvement. The 2022 Capital Budget includes \$256,000 of expenditures to be funded through the PA CR; that amount has therefore been allocated as revenue in the 2022 Capital Budget. The PA CR is a substantial, but finite, reserve. The PA building is now over twenty years old, and costly projects that will need to be addressed over the next few years (such as replacement of the building HVAC system and roof) will significantly deplete this reserve in coming years.

To better preserve PA CR funds for their intended purpose, routine Port Angeles maintenance projects are funded by NCR allocations to the Capital Budget, just as they are for other branches and facilities.

Fiscal Considerations: The following tables summarize account and budget information pertinent to the 2022 Capital Budget.

Timber Revenues Summary

Timber Revenues 2021 (added to NCR)	\$370,348
2022 Proposed Capital Budget Revenues from NCR	\$397,800
Difference	\$27,452

NOLS Capital Reserve Summary

NOLS Capital Reserve (NCR) balance as of 12/31/21	\$1,032,615
Return of Unspent 2021 Capital Budget allocations	\$283,206
Proposed transfer of NCR funds to 2022 Capital Budget Account	\$397,800
NOLS Capital Reserve balance after transfer of funds (does not include any projected timber receipts for 2022)	\$918,020

PA Capital Reserve Summary*

PA Capital Reserve balance as of 12/31/21	\$975,294
Proposed expenditure of PA CR funds to support 2022 PA Capital Budget projects	\$256,000
PA Capital Reserve balance after expenditure of designated funds	\$719,294

**includes funds held in Undesignated Cash and in Certificates of Deposit. Does not include interest projections.*

It is unlikely that the full amounts budgeted for capital projects in 2022 will be expended. This is a common occurrence that happens for several reasons:

- project needs or priorities change as the year progresses;
- competing project timelines or scheduling/availability of staff or contractors results in implementation delays for identified projects;
- alternative revenue sources, such as grants or donations, are secured for some projects;
- actual costs vary from conservatively budgeted estimates;
- funds budgeted for emergency/contingency use are not needed.

The \$283,206 of Capital Budget funds that were allocated but unspent in 2021 is an unusually high figure. This mostly resulted from several large projects extending into 2022. Examples include the bookmobile, which a down payment was made on in April 2021, but the vehicle has not yet been delivered due to global supply chain issues. Similarly, a major network improvement project was scheduled for November 2021, but delayed by the vendor because they could not obtain the necessary hardware in time.

Discussion:

Buildings and Structures: The budgeted total in this category is \$168,000. \$156,000 of this total is projected for funding through the PA Capital Reserve.

A new security system is budgeted for Clallam Bay. This system will ensure the building has the same level of security as all other buildings in the system.

As part of the Library's effort to improve facility infrastructure, increase occupant comfort and safety, and reduce utility consumption, in 2021 NOLS hired a vendor to conduct an Investment Grade Audit (IGA) utilizing the Washington State Department of Enterprise Services (DES) Energy Program. Based

on the results of that audit and discussions with the vendor and DES, it was agreed that the Library's objectives can best be met with focus on the facilities and Energy Efficiency Measures (EEMs), such as LED Lighting, HVAC Upgrades and roof improvements.

The audit analyzed cost effective Energy Efficiency Measures and the vendor's Energy Services Proposal (ESP) provides guaranteed maximum construction costs, utility savings, and system performance for the selected EEMs NOLS could select to perform. Discussions with Department of Enterprises Services are ongoing, but at this time, switching all of the Port Angeles Building's florescent lighting to LED and installing advance control systems is a current priority. There is \$150,000 budgeted as a maximum amount for this project, but significantly less could be spent as the project is carried out.

Additional lighting improvements have been budgeted in Forks and Port Angeles to improve safety.

Other improvements: The budgeted total in this category is \$106,900. \$100,000 of this total will be funded through the PA Capital Reserve to complete major repairs and maintenance to the parking lot in Port Angeles. The work was originally funded and planned in 2020, but it was not completed due to impacts from the pandemic. Reduced traffic while the building was closed and only offering curbside service, has reduced the parking lot's deterioration and bought us time, but the improvements still need to be made to prevent more significant damage.

The remaining amount is to add diaper changing stations in restrooms and a large sign in Clallam Bay that will better identify the library to vehicle traffic traveling in both directions along Highway 101.

Machinery and equipment: The budgeted total in this category, \$388,900, is funded through the NOLS Capital Reserve account. As is usual, many machinery and equipment expenditures are directed toward maintaining, upgrading, improving and licensing NOLS' information technology network, hardware, software, systems, and peripheral devices. This category also provides funding for routine purchase/replacement of library furnishings and equipment for all branches and departments. Significant items include:

- \$75,000 is budgeted for the complete replacement of NOLS core networking equipment, including equipment at each branch. Current equipment was set up when standards were different; and more significantly, the hardware is fast approaching end-of-life.

Through the federal E-rate program, NOLS expects to be reimbursed 60-70% of these expenses. This substantial upgrade will modernize NOLS' network, allowing IT to keep equipment configured consistently and securely across the network. This project was budgeted for in 2021, but supply chain issues prevented the vendor from completing the work as scheduled.

- An additional \$20,000 is budgeted for network security software to eliminate security vulnerabilities. Currently, aside from standard filters that update automatically (anti-virus, anti-malware, some of the databases used by our firewall), NOLS does not have automated

detection and response to threats. The skills and availability of IT staff is too heavily relied upon to identify threats before problems develop. While it is not possible to replace skilled staff, automated software to quickly alert us to developing threats and in some cases to automate the response significantly reduces our overall cybersecurity risk. NOLS needs a combination of tools, such as a SIEM (which stands for Security Information and Event Management) and data harvesting and analytics, to better assure continued secure operation for patrons as well as staff.

- \$25,000 is budgeted for a UPS battery back-up and power protection project. Computer equipment subject to power fluctuations, brown-outs and spikes can become damaged. Also, data loss can occur as those power events take place. While NOLS' servers and highest-priority systems are protected by battery backup systems which also provide power conditioning, almost none of the staff or patron systems have any protection. As such, when the Library predicts a power event due to a storm or other reason, staff mobilize management at each site to shut down and physically unplug computer equipment. Of course, many power events are not predictable. Also, some of those that are predictable occur at times when there isn't staff available to disconnect the equipment. In addition to protection, proper battery back-ups also improve and enhance service because many power events are very brief and the batteries maintain continuous power to the equipment during those brief events. So, in addition to protection of the equipment, the UPS systems also maintain greater availability of NOLS staff and services for patrons.
- \$10,000 has been budgeted for an overhaul of the IT room in Forks and a caching system for the West End branches. This budget item addresses two separate needs in one package: an aging piece of HVAC system in Forks; and inadequate network speed in Forks. Currently, the IT room has an aging HVAC system that must be replaced or taken out of service because it is at end of life. However, that unit cools the entire IT room, which is inefficient. Additionally, adequate Internet connectivity is not yet available in Forks, which regularly interrupts the work flows of staff, as well as the flow of information for patrons. Although NOLS is working with community partners to attempt to galvanize interest from high-speed internet providers and make a faster connection available, that doesn't appear to be imminently forthcoming. Installing the proposed caching technology will have a small impact in curing this problem for staff and patrons in Forks, while also enabling us to leverage E-Rate discounts to replace the HVAC system with more efficient equipment that is specialized for IT and better-suited for the job.
- \$15,000 has been budgeted for a remote access printing system and a new public computer management system. Limitations in our current software inhibit us from enabling patrons using their own devices to print to NOLS printers. Additionally, the current centralized access management system (i.e. "Cassie" for short) which allows control of patron user sessions on public access computers is limited. Though there was earlier interest in replacing and upgrading that system before the pandemic, the pandemic brought the inherent limitations in Cassie to the forefront. It's not a very nimble system, and since it is also the system that controls access to printers (and accountability so that patrons can pay the correct amount for their print jobs), it makes sense to replace it at the same time as deploying a system to allow patrons to print to NOLS printers from their own devices.

- A total of \$25,000 has been budgeted to implement and certify multi-factor authentication (MFA) and acquire hardware authentication devices for all staff. MFA has become a vital foundational cornerstone of IT security. It is a means of augmenting passwords with the use of a hardware device that displays a code for the staff to input along with the standard username and password. It has become so important that it is becoming mandated by some insurance providers. A consultant is a good fit for this project because it will be done more quickly; it will provide a third-party certification that it has been done correctly, which will provide good legal foundation in the event an insurable event does arise; and it will engender better adoption and acceptance among staff. That last reason is a consideration because MFA does impose an additional requirement on the employee.
- In line with NOLS' 2021-22 Strategic Initiative to increase library awareness, access, and use among Clallam County Residents through additional outreach, \$130,000 has been budgeted for a library bookmobile. In the 2021 Capital Budget, \$130,000 was budgeted for a bookmobile, but only half of that amount was used on a deposit. Supply chain issues have delayed the delivery and customization of the vehicle, but it is now expected in the first quarter of 2022. The remaining balance will be due once the vehicle is delivered. Additional funds have been budgeted for bookmobile-related equipment, including \$6,000 for laptops, scanners and printers, and \$20,000 for exterior book return containers to be placed at sites the bookmobile will visit. The North Olympic Library Foundation has indicated they will make a donation to support these efforts.
- Lastly, there is a contingency of \$25,000 as insurance against unanticipated or emergency repair/replacement needs in facilities or technology. Some needs of this type inevitably arise every year, and having a designated contingency fund greatly facilitates staff ability to respond promptly and appropriately.

Construction of Capital Assets: The Sequim Expansion and Renovation Project will finally begin in 2022. \$2 million has been set aside for this project.

In June 2020, NOLS applied for the Library Capital Improvement Program Grant administered by the Washington State Department of Commerce. The funding would help correct pressing facility issues at the Sequim Branch Library; issues which have been exacerbated by the effects of COVID-19. In early October 2020, NOLS was notified that its application was selected as a recommended project, ranked 5th out of 33 applications, with recommendation for full funding of the project.

A staff report from May 28, 2020 about NOLS' grant application for the Library Capital Improvement Program can be found on the NOLS website at <http://local.nols.org/Docs/sequim-library-project/LCIP-Grant-Staff-Report.pdf>. More information about NOLS' efforts during the past decade to expand the Sequim Branch Library can be found at www.nols.org/sequimlibraryproject.

In May 2021, Governor Inslee signed [HB1080](#) – the Washington State 2021-23 Capital Budget, which includes \$2 million in matching funds for the Library Capital Improvement Program grant for the Sequim Branch Library. The Department of Commerce will administer the Library Capital Improvement Program grant.

On May 27, 2021, the Board of Trustees authorized the transfer of \$2 million to the Sequim Capital Project account to provide matching funds for the grant. A staff report about the transfer of funds can be found at https://local.nols.org/Docs/board-meetings/2021/agendas_minutes/05-27-21%20Board%20Packet%20FINAL.pdf.

A contract with an architect was approved in November 2021. The design phase began in December 2021 and is expected to be complete by summer 2022, allowing for construction bidding in fall 2022. Construction is expected to last from winter 2022 through fall 2023.

The conceptual plans that library staff developed in June 2020 had an estimated project cost of \$4.8 million. Based on that cost estimate and rising construction costs, NOLS will need to utilize the full \$2 million grant and \$2 million in matching funds. Additionally, NOLS will need to work with community partners to conduct additional fundraising efforts to cover the additional costs of the Sequim Library Expansion and Renovation Project. Library staff have already begun to seek additional grant opportunities and the North Olympic Library Foundation has offered its assistance in facilitating donations.

Recommendation/Alternatives for Consideration: The Board may request more information before adopting the budget, or request that staff make changes to the proposed Capital Budget or the proposed revenue sources.

Action/Motion: *That the Library Board approve the Capital Budget for fiscal year 2022 as presented, in the amount of \$2,663,800.*