



Staff Report

Meeting Date: November 18, 2021
To: Library Board of Trustees
From: Noah Glaude, Executive Director
Subject: Review and Adoption of Operating Budget for FY 2022
Public Hearing on the 2022 Operating Budget

Attachments: Proposed 2022 Operating Budget - Summary
2022 Budget Guidelines
2021-22 Strategic Roadmap

Topic/Issue: The Library Board of Trustees will review the final draft of the Library's Operating Budget for 2022, and conduct the second public hearing on the budget. In order to meet the Clallam County deadlines for submission of budget resolutions and levy certifications, the Board must adopt a budget at their November 18 meeting.

Background: The Board reviewed an earlier draft of the proposed operating budget at the October meeting. The public hearing in November provides a second opportunity for members of the public to review the proposed budget and provide feedback to the Board.

Background information on NOLS' levy, budget, and fiscal outlook is detailed in the Library's *Fiscal Factors Overview* document. A copy of this document was provided to the Board at the September meeting, and is always available to the public [on the NOLS website](#).

Policy Considerations: NOLS [Policy 5.15, Fiscal Management Policy](#) states the North Olympic Library System Board of Trustees establishes Fiscal Management Policy in order insure that the Library's fiscal, financial, and budget practices are conducted according to sound and accepted financial procedures and policies, and to support responsible and sustainable stewardship of public resources.

Discussion: The Management Team played a key role in the development of this proposed 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 developed their respective branch/department budgets, and then worked together to jointly review and finalize this budget. Financial Operations Manager John DeFrancisco built the all-important personnel detail with the assistance of HR and Business Manager, Shaina Rajala. The personnel detail calculates salary and benefit costs for all NOLS positions for the coming year. Personnel costs represent approximately

74% of the total 2021 budget, so having accurate salary and benefits projections is crucial to having an accurate budget. The Board's Finance Committee has reviewed and approved this proposed budget.

Revenues for the proposed budget were calculated based on certified Assessed Valuations received from the County Assessor's office on November 8, 2021. NOLS' 2021 levy rate stands at 41¢ per thousand of the county's AV. One percent growth in the 2021 tax levy will compress the levy rate to approximately 38¢/\$1000 AV in 2022. The total 2022 Operating Budget stands at \$5,514,646, an increase of \$407,898 (approximately 8.0%) from the 2021 Operating Budget of \$5,106,748.

Tax Revenue Estimates

Approximately 81.8% of estimated revenues for the 2022 budget derive from next year's property taxes. These revenues are levied and collected on the Library's behalf by Clallam County. Certified tax values were received from the Clallam county Assessor on November 8, 2021. Based on these figures the Districts taxable Assessed Valuation figure for 2022 levy is \$11,968,220,628, and the new construction value estimate is \$115,204,358. Library tax revenues were estimated applying all potential limiting factors to these values. The applicable limiting factor for the Library in 2022 is the 1% growth limitation allowed under law, resulting in tax revenue growth of \$43,980, for a total of \$4,441,986. New construction will provide an add-on of approximately \$64,016, and a refund levy will provide an additional \$4,929, in 2022.

If the 1% growth limitation were not a factor, which has compressed the levy rate to 37.6¢/\$1000 AV, and NOLS could collect at the statutory limit of 50¢/\$1000 AV, NOLS would have collected approximately \$5,984,110 in 2022, \$1,542,142 more than NOLS will currently collect.

Library Fees

Revenues for 2022 from lost and damaged materials fees have been estimated at \$10,000. This revenue line was first lowered in 2021 to account for reduced use while COVID-19 restrictions are in place. Some restrictions, which will result in less use and fees, are expected to continue into early 2022.

Miscellaneous Revenues

The sum of \$6,300 has been budgeted for interest income. The bulk of NOLS operating funds are invested via the State Pool. The interest rate on State Pool funds decreased from a high point of 2.538% in April 2019, to the low of 0.075% in May 2021. Based on the rates over the last few years, and available predictors for the coming year, 2022 estimates for interest income for operating funds held in the State Pool have been adjusted downward from the 2021 estimates. Interest from the Port Angeles Capital Replacement account and the Bode Bequest funds (held in certificates of deposit) is restricted by fund designation, and is therefore *not* included when calculating interest income to be applied to the operating budget.

A total of \$69,000, representing donations from Friends of the Library groups, has been included as estimated revenue. For the most part, Friends' donations are directed toward support for library programming and events. NOLS' exceptional array of public programming is largely dependent on the generous support of the Friends groups, whose donations comprise about 92% of the total revenues budgeted for program support in 2022.

The donations revenue line includes \$3,000 from the NOLS General Donation Fund to supplement programming supply needs at the West End Branches, specifically program prizes, which if purchased with property tax revenue would be considered a gift of public funds.

Also included in donations revenue is \$30,000 from the Sequim Donation Fund. These funds will be utilized to support activities related to the Sequim Library Expansion and Renovation Project, including fundraising, informational print material, and postage to notify residents about project progress, closures and temporary relocation.

Revenues and expenditures for grant projects are customarily not reflected in the NOLS operating budget, due to the varied timing, use restrictions, and pass-through accounting nature of most grant projects.

E-rate revenues are received as part of the federal reimbursement program related to telecommunications. E-rate reimbursements have been estimated at \$52,000 for 2022, 23% more than in 2021.

Timber Revenue

In accordance with Policy 5.15: Fiscal Management, and established Board practice, projected revenues from timber and forest products are not included in the operating budget for 2022. The Board will be presented with a draft of the Capital Budget for 2022 at the January 2022 meeting. Revenue for the Capital Budget is drawn from the Capital Budget account. The Finance Committee will have opportunities to review drafts of the 2022 Capital Budget prior to its presentation to the Board in January.

Personnel Expenditures

Personnel costs (salaries and benefits) represent 73.65% of the total 2022 budget. Personnel costs stand at \$4,061,724 in this proposed operating budget, up from the \$3,730,079 budgeted in 2021, an increase of 8.89%. Personnel expense calculations reflect salaries, anticipated step (proficiency) increases, longevity benefits (CSBs), and other established cost increases and decreases, for all current and proposed 2022 positions; routine annual increases to these costs are projected.

In 2022, the minimum wage will increase by 80¢, 5.83%, to \$14.49/hour. As recommended by the State Auditor, provision is also made for “pay out” of compensated leave balances, to support anticipated or possible retirements/separations. The personnel array for 2022, on which the personnel budget is based, includes a very limited number of strategic staffing reconfigurations and/or reclassifications, which may be implemented for operational purposes during 2022. Even with those expected changes, at this time, FTE is expected to increase only 0.5 to 56.6 FTE in 2022.

NOLS has completed collective bargaining with the General Employees Union (GEU) and has reached a tentative agreement on a 2022 contract. The proposed 2022 Operating Budget reflects all known personnel costs, and increases which resulted from the negotiations with the GEU Union, including a 4% cost of living adjustment, a pro-rated dental benefit for part-time employees, and beginning the Continuous Service Benefit after an employee has been employed for six years, two years earlier than current practice.

There will be a moderate increase to medical (1.3%) premiums and dental (3%) premiums for 2022. Possible increases to L&I are not yet known. At present there is no expectation of any 2022 rate increase related to Public Employees' Retirement System (PERS); a 21% decrease to the employer-paid PERS rates went into effect in 2021. No additional rate changes are expected in 2022, although it should be noted that PERS rate increases have been known to go into effect unexpectedly.

Supplies Expenditures

Friends of the Library contributions are essential to NOLS' ability to provide library programming. For budgeting purposes Friends' support for programming is split between *Supplies* and *Services*; in the 2022 Operating Budget, Friends' funding for program supplies stands at an estimated total of \$69,000. Programming supplies include expenditures for a wide array of items, ranging from craft materials to prizes. As noted above, Friends' donations provide about 88.5% of the funding necessary to support library programming – NOLS truly could not provide this core service without support from the Library's wonderful and generous Friends of the Library groups.

Collection materials (books, DVDs, downloadable audio books, e-books, online databases and other library materials) are included in the Supplies category. The proposed 2022 operating budget decreases the amount budgeted for collection materials by 1%, bringing the total materials budget to \$480,000 or approximately 9% of the total budget. In 2011 (following the 2010 Levy Lid Lift) NOLS initiated a plan to address longstanding inadequacies in the collection. The 2022 materials budget represents a 51% increase over the pre-levy 2010 materials budget of \$317,754. As a result of this increased funding during the past decade, the NOLS collection has fully recovered from earlier years of tight budgets. The modest year-to-year spending increase in recent years has primarily addressed inflation, rather than growth. Due to COVID-19 impacts on the publishing industry and library use the past year, library staff believe they can continue to develop the collection without an increase in funding in 2022.

Most of the projected costs for general operating supplies have remained relatively stable, with the usual year-to-year small increases and a few minor decreases.

Services and Charges

Most of the projected costs within this category have remained relatively stable, with the usual year-to-year small increases and a few minor decreases.

In order to help complete NOLS' Strategic Initiatives in 2022, funds have been designated for several consultants. In 2021, \$25,000 was budgeted for fiscal planning and a library card campaign, but those funds were not utilized, due to the continued response to the pandemic and other complications. Consultants for fiscal planning and the library card campaign are being budgeted for again in 2022, in addition to \$40,000 for a consultant to complete a staff compensation study and \$5,000 for an accessibility audit of NOLS facilities, part of the Library's focus on equity, diversity and inclusion work. RFPs will be conducted as necessary before hiring consultants, so exact costs could be significantly less than what is budgeted.

NOLS will continue to budget for an E-rate consultant to ensure the Library is fully and efficiently utilizing the Federal E-rate program. Consultants may be needed for Facilities and IT work (repaving

parking lots or updating network infrastructure), so \$3,000 for consulting fees has been budgeted for each of those departments.

Friends of the Library donations are also key in the area of *Professional Services*, contributing \$34,500 to help cover the \$40,500 that is budgeted to pay for contracted speakers and performers at Library-sponsored events, and other reimbursed services.

Communications

A 20% decrease in *Communications* can mostly be attributed to the resolution of an ongoing issue NOLS has had with CenturyLink / Lumen related to the internet service provided to the Clallam Bay Branch Library.

The amount budgeted for postage has increased from \$17,000 to \$22,000. This increase is mostly meant to cover increased communication with Sequim-area residents about the Sequim Expansion and Renovation Project.

In anticipation of the need for additional cell phone service for Outreach staff on the new bookmobile, and other staffing needs, the amount budgeted for cell phone service has doubled from \$1,500 to \$3,000.

Travel

Since the pandemic moved most trainings and conferences to a virtual format, the 2021 travel budget for training was reduced by 80%, from \$25,130 in 2020 to \$5,000. Staff training and development continues to be a priority for NOLS, so the training budget has been restored at \$17,000 in 2022. As NOLS' ongoing investment in this area continues to expand skill sets and staff abilities, the Library will continue to refine this budget line to best address current training needs.

Insurance

Actual insurance costs in 2021 were \$82,340. In 2022, premiums are expected to increase, so \$97,400 has been budgeted for insurance, an 18% increase over 2021 actual spending.

Intergovernmental Services

NOLS budgeted \$16,000 for its biannual audit in 2020. The audit was delayed due to COVID-19, and in October 2020 the Office of the Washington State Auditor informed NOLS that it now only needed to be audited every three years and its next audit would take place in 2021 and the cost of the Audit would increase to \$17,000.

On November 9, 2021, the State Auditor notified NOLS that it planned to begin the audit in late November 2021. The audits usually take a couple months to complete, so bills for the work will not be paid until 2022. For this reason, \$17,000 is included in the 2022 budget.

Capital Outlays

As noted elsewhere in this report, all capital outlay expenditures are reflected in the 2022 Capital Budget, which will be presented to the Library Board of Trustees in January 2022. The Capital budget is funded through the Capital Budget account and expenditures are generally scaled to align with timber/forest product revenues received during the previous fiscal year. Timber revenues of \$247,217 have been received through October 31, 2021. The 2022 Capital Budget is still in a very

early stage of development. Both Capital Budget revenue and expenditure projections will change between now and adoption of the Capital Budget.

Transfers-in / Transfers-out

The proposed 2022 Operating Budget requires a transfer-in from Operating Reserves in the amount of \$799,636, (14.5% of total revenues). NOLS has a history of budgeting conservatively, so there is a reasonable expectation that the full \$799,636 will not be utilized.

The amount needed from reserves to balance the budget is significant, but it is important to consider the amount in context of what NOLS has transferred in to balance the budget in recent years compared to actual expenditures and what NOLS has been able to transfer to reserves at the end of each year.

In January 2021, \$540,283 was transferred from Operating Reserves to balance the budget. Based on projected expenditures during the rest of 2021, it is estimated that NOLS will not need to utilize the transfer from reserves, and will be able to transfer \$617,577 into reserves (\$77,294 more than was transferred from reserves). In 2021, the large savings can be attributed to the impacts of the pandemic the past 18 months, including several positions remaining vacant, but the budgeting of a transfer from reserves to balance the budget and then transferring into reserves at the end of the year has been the pattern between 2016 and 2020. During the last five years, on average \$271,000 was transferred into reserves from the Operating Budget at the end of the year. The trend to build reserves instead of utilizing reserves as budgeted is a result of the Library's practice of budgeting very conservatively and spending conservatively.

With inflation at such high rates, and the personnel budget growing substantially, it should not be expected that this trend will last forever. In adopting the Budget Guidelines for 2022, the Board recognized that operating reserves, which have been carefully nurtured as a buffer against the inevitably shrinking levy rate, will play an increasingly important role in balancing budgets in coming years. Utilizing a consultant in 2022 to develop a new fiscal business plan, a current Strategic Initiative, will help determine how NOLS will navigate this issue in the future.

Alternatives for Consideration:

As always staff will continue to seek cost-savings and efficiencies in all areas, in order to bring down the bottom line as the budget year progresses. The Board may direct or suggest specific changes to proposed expenditures.

Action/Motion:

- The Board must conduct the second Public Hearing on the 2022 Operating Budget at the November 18, 2021 meeting.
- The Board must adopt the 2022 Operating Budget by motion at the November 18, 2021 meeting. Proposed language: "I move to adopt the 2022 Operating Budget in the amount of \$5,514,646 as presented."
- The Board must also adopt Resolution 21-11-06, which authorizes collection of the regular property tax levy for 2022. A separate staff report will addresses this action.