Multnomah County Library
District Analysis Group Report

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On November 2, 2010, ballot measure 26-114 passed with 72% voter approval. This measure amends the Multnomah County Home Rule Charter to allow for the direct referral of a library district measure by the Board of County Commissioners (the Board) to the voters, and recognizes that the operation of the county library system is a matter of county concern.

Library Director Vailey Oehlke formed the District Analysis Group and charged the members with the tasks of analyzing district formation and identifying any issues that might give pause to moving the district forward. The Group was not charged with making a recommendation, and thus was made up of library staff, county budget and legal staff, and Local 88 representatives. It did not include library stakeholders. The District Analysis Group met six times between November 12, 2010 and February 22, 2011 and completed substantial research outside of meetings.

In an effort to be inclusive and to anticipate as much as possible, the group consulted with Labor Relations, the County Benefits Office, AFSCME legal counsel, Brian Wilson (Charter Review Committee Chair), and Michael Gaston (the former Director of Deschutes Public Library when it became a district in 1998).

The group focused their work around three major questions:

1. Is a library district financially feasible?
2. Will a library district work for employees?
3. Are there any other issues that would prevent a district measure from moving forward?

Current Library Funding

Multnomah County Library's 2010-11 budget is $61.9 million. Sixty-six percent of the library's budgeted revenue is from the current 5-year local option levy (passed in November 2006), with 24% coming from the County's General Fund, 7% from non-tax revenues (fines, interest, grants), and 3% from the Library Fund reserve (*Attachment A*). Overall, the General Fund support has decreased from 47% in 1998-99, while the levy rate has increased 50% in the same time period.

Overall assumptions regarding a Library District

The group made the following assumptions about the library district. The district will:

- Maintain and fund current library services including:
  - Open hours and services at the 18 neighborhood libraries and the Central Library;
  - Purchase of books and other library materials;
  - Outreach and support programs operating out of Library Administration.
- Keep the same or similar level of wages and benefits for all library employees, and maintain PERS as the retirement plan.

Financial Feasibility & Impacts

The financial feasibility of a library district rests on its cost structure relative to its revenues. With 25 existing library districts in Oregon *(Attachment B)*, Multnomah County would be the largest and there is no fundamental reason it wouldn't be feasible. The real question is the political viability of a tax (revenue) source relative to service expectations. County Budget Office staff reviewed the costs associated with forming a library district (relative to a County department), modeled costs and property tax revenues under various economic scenarios and assumptions, and determined impacts to the County and other jurisdictions.

Costs

Ongoing Costs -- It is assumed the Library will maintain status quo operations and that costs will be roughly similar as today. As a stand alone entity, it is possible that its costs could be higher (i.e., a smaller employee base for health insurance rates) or lower (i.e., contracting for services such as facilities maintenance). A review of the possible increases or decreases (see section below) suggests that a significant shift up or down is unlikely. Moreover, the rate of long-term cost growth, such as health care costs, is more likely to impact the long term viability rather than modest cost increases or decreases as a stand alone entity. We have modeled higher and lower cost growth in setting an appropriate permanent rate.

As a base case, it is assumed current library costs will grow at 4.50%, covering all operating costs and providing funds for routine maintenance and scheduled capital life cycle replacement (i.e., HVAC or roofs). Previous financial modeling for library local option renewals, for the 2007-08 Library Funding Task Force, and for the Charter Review Committee have used a cost growth estimate of 4.50%. Historically, library costs have grown slightly less than this, but this rate has proved to be a reliable, conservative estimate. A review of operating costs of eight library branches from FY 2001 to FY 2010 showed an average cost increase of 4.36%, with the largest increases being health insurance and PERS related.

Support Costs – The Library currently purchases a number of services from other County organizations. These range from health insurance to accounting/payroll to security. All of these services, with the exception of the Board, are paid for via various rate mechanisms already in the Library's operating costs. Therefore, we do not anticipate any significant costs that the Library is not already paying for in some form. (A more detailed discussion of support services is provided later.)

Capital Costs – The Library will pay asset preservation charges of $645,000 and capital improvement charges of $135,000 to maintain its existing capital infrastructure in FY 2012. It is assumed that the Library would not engage in any expansion requiring additional capital funds until after FY 2022. If so, the Library as a stand alone district would be able to issue general obligation bonds with voter approval or issue full faith and credit debt as an independent taxing entity.

It should be noted that the County's current asset preservation charge system is a 'pay as you go' system. It is assumed the Library will start with a zero balance for scheduled maintenance. Consequently, there may be insufficient funds for replacement as the large number of recently constructed and remodeled branches come due for life-cycle replacement in a 'lumpy' pattern. This should not be insurmountable as the Library may borrow to smooth the costs or set aside additional funds from any under-spending. A new district will likely generate additional funds in the early years, which could be set aside for future needs.

It is also assumed that any IT related capital costs, such as servers or RFID equipment, would be covered by the existing IT rates embedded in the ongoing costs.

Transition Costs – There will likely be some one-time-only transition costs associated with the creation of a library district. For instance, any compensatory time would need to be paid out as required by ORS 236.610(3). With regard to PERS, ORS.610(7) notes:

> *If the public employer that is transferring a public employee participates in the Public Employees Retirement System, the transferring employer and the*

> *receiving employer must enter into a written agreement that addresses the manner in which any unfunded Public Employees Retirement System liability or surplus of the transferring public employer will be paid out or credited, as required by ORS 238.231.*

In conjunction with this statute, the County issued PERS pension bonds to reduce its unfunded liability. The debt payments are recovered via a charge on personnel costs. Accounting for repayment of these bonds and any balance in Fund 2004 PERS Bond Sinking Fund would need to be addressed as outlined in the table below.

From a financial perspective, it is assumed the Library Fund's projected ending balance of $5 to $6 million on June 30, 2012 will be able to absorb transition costs (and that any remaining funds would be transferred to the newly created library district). Moreover, with the Board of County Commissioners operating as the governing board of the library district, any necessary agreements regarding the transition would be worked out. In some cases, a financial liability, such as sick leave, would be transferred from one entity to another, but effectively would be paid out of the same Library Fund. Below is a table of possible transition costs/issues.

Issue Name	**Issue Description**	**Method to Address/Solution**
PERS	PERS liability/surplus and Pension Bond repayment	Actuarial Study & Agreement between County and Library District
Vacation	Vacation payout or liability	Any payout before or after transfers from Library Fund. Any remaining Liability transfers with Library Fund
Accrued sick leave	Liability	Transfers with Library Fund where liability already exists
Compensatory Time	Payout cost	Pay out of Library Fund
Professional services for transition	May need outside expertise (e.g., legal, actuarial, project management)	Pay from Library Fund or from County subsidy

Debt & Property

The Library currently occupies twenty buildings: Central Library, eighteen neighborhood libraries (six are leased sites), and the Administration/Title Wave building *(Attachment C)*. It is assumed that title to library properties would be transferred to the library district. In instances where libraries are in leased properties, those leases would be transferred or sub-leases implemented. While there are a number of issues that would need to be worked out, the general assumption is that there would be no material financial impact.

Likewise, any current debt (i.e., 2010A Full Faith & Credit) attributable to the Library would remain the Library's responsibility. In the case of the General Obligation Bonds (Series 2010 Refunding), the principal and interest is covered by a dedicated tax levy. For the Full Faith & Credit debt, the Library is already covering the debt, so there would be no financial impact.

Revenues

The primary reason for forming a library district is to establish a permanent property tax rate. Currently, the Library relies on a 5-year local option levy for the majority of its funding (66%). The County General Fund currently provides another $14.3 million (excluding $800,000 of OTO support), or 24%, of its ongoing funds. The levy must be renewed every 5 years, creating significant uncertainty for operations and planning as well as incurring repeated campaign costs (roughly $500,000+ per election funded by library stakeholders and supporters). The local option levy is also subject to 'compression', which can vary widely. In FY 2009, compression was 13.2%, and by FY 2011 had increased to 21.6%. This increase means the library 'lost' an additional 8.4% of its local option tax revenue. For FY 2012, compression is estimated at 29.0%. A permanent rate experiences significantly less compression and the compression varies less *(Attachment D)*.

The Library District Rate

The new, permanent rate for a library district would be set such that:

- It would replace the existing local option of $0.89/$1,000 of assessed value;
- It would replace the current County General Fund support of $14,293,244 (FY 11 amount, excluding OTO funds);
- It would provide sufficient funding of current operations through FY 2022.

The rate could range from $1.12/$1,000 to $1.21/$1,000 depending on the economic scenario and various assumptions used. **A rate of $1.18/$1,000 was**

deemed the most likely to provide sufficient funding without over collecting or risk setting too low a rate for most likely scenarios modeled. Assumptions regarding assessed value growth and cost growth were the key drivers for setting the rate. In general, rates lower than $1.18 were dependent on cost growth of 4% or less or assessed value (AV) growth of greater than 4%. Given AV growth is limited to 3% for individual properties, higher growth rates would be dependent on exception value, such as new construction.

<u>An Alternative: Renewal of the Local Option</u>

In addition to modeling a new permanent rate, a renewal of the local option for FY 2013 to FY 2017, and then another renewal for FY 2018 to FY 2022 were modeled for comparative purposes. Based on the same set of assumptions and economic scenarios for a permanent rate (although not replacing the General Fund support), the local option rates would be:

- Estimated FY 2013 to FY 2017 Rate: $1.14 to $1.17
- Estimated FY 2018 to FY 2022 Rate: $1.05 to $1.18

The local option alternative has what may be a surprisingly high rate due to higher compression than experienced during the last levy and higher compression than that experienced by permanent rates.

<u>Financial Modeling</u>

Possible rates were modeled for the 10 year period from FY 2013 to FY 2022. The following assumptions were varied for each of 17 scenarios (to test the sensitivity to the assumptions):

- Assessed Value Growth
- Local Option Levy Compression
- Permanent Rate/District Rate Compression
- General Fund Support if Local Option Renewal
- Cost Growth Rate

The assumptions were also varied by individual year within each scenario. All model runs were subject to maintaining positive fund balances. It was assumed all existing tax rates were constant through the 10-year period, and the Portland's Children Levy would be renewed at its current rate upon expiration. However, it is assumed the Oregon Historical Society Local Option would expire after five years and not be renewed.

<u>Financial Impacts on Other Jurisdictions (including Multnomah County)</u>
Establishing a library district and a permanent rate will impact other jurisdictions by increasing compression and reallocating existing compression. Based on a permanent rate of $1.18/$1,000 and the FY 2011 Certified Values and Rates, *Attachment E* shows the impact on the various jurisdictions. The table shows what tax collections would have looked like this year had there been a library district in place. The major reductions in property taxes to other jurisdictions are:

- City of Portland - $6.3 million
- City of Portland Children's Levy - $940,000
- Multnomah County (General Fund) - $3.7 million

The East County cities are not impacted because they generally do not experience compression on their tax rates.

<u>Other Possible Financial Impacts on Multnomah County</u>
Increased General Fund for Other Services
With a library district in place, the General Fund would no longer provide General Fund support to the Library. This would free-up an estimated $14.4 million of support for FY 2012. Accounting for lost property tax, the County General Fund would net roughly $10.5 million.

There are other financial impacts to the County that may or may not occur. The library district may contract with the County for many of its existing support services (IT, payroll, facilities, etc.), pool with the County for health care costs, perform the services itself, or contract with a third party. These impacts can be thought of in three general categories:

1. Internal Service Providers – The Library currently purchases services, such as facilities, IT, and security, from the County. For FY 2012, these services are estimated to cost $9.6 million. The Library also receives legal support via rates attached to personnel costs. These services may continue to be provided via intergovernmental agreements (IGAs), but the Library or the County may also discontinue them. In this case, the County could transfer the non-library positions (e.g., facilities or IT positions) with the employees to the Library, cut the positions and employees holding them, or partially absorb the costs. The later may be true of functions, such as SAP, which can not be easily scaled up or down. This could translate into higher internal service rates for County departments.

2. Central Indirect Revenue – It is estimated that the Library will pay $1.4 million in FY 2012 for central services, such as accounting, HR, and budgeting. Like internal service providers, these may continue to be provided via intergovernmental agreements. Absent an IGA provision, the County could transfer the positions with the employees, cut the positions and employees holding them, or partially absorb the costs.

3. Demographic Shifts & Economies of Scale – While we understand that ODS and Kaiser have already agreed that the Library could continue to be a part of the County's benefits pool, the movement of the Library's 495.09 FTE could positively or negatively impact the County's actuarial experience for health insurance and PERS. Likewise, the more independent the Library is operationally, there are areas where economies of scale could be lost, such as a single accounting system or auditor (both internal & external functions).

<u>Employee Impact</u>

Library Employees

It is assumed that existing Library positions and employees would be transferred to the new library district. ORS 236.605 to 236.640 governs the rights of public employees transferred to another employer *(Attachment F)*. It provides that public employees shall:

- Not have their salary reduced during the first twelve months after transfer;
- Have their accrued compensatory time paid out at the time of transfer;
- Retain any sick leave balances;
- Retain 80 hours of vacation leave or retain more than 80 hours of vacation leave if agreed to by the transferring employer, the receiving employer and the transferred public employee;
- Be covered under the new employer's benefits plan even if there are additional premiums due to pre-existing conditions; and
- Retain any accrued seniority.

It would be management's intent to maintain the same or similar benefits as what the County is currently providing. The Library would explore opportunities to pool with other employers, including the County, in order to reduce the costs of purchasing health insurance packages. ODS and Kaiser have already agreed that the library district could continue to be a part of the County's benefits pool. The Library also intends to continue to be a part of PERS.

The Library would voluntarily recognize AFSCME as the employees' representative. AFSCME would determine the union structure. One potential option is that library district employees would be a sub-local under Local 88 with a separate contract.

Bargaining could be entered into as soon as the district is formed as long as the provisions in ORS 236 are not violated, which ensures that employee wages will not be reduced for the first twelve months after the employees are transferred to the district. Since the Library has been a party to the prior Local 88 negotiations and agreed to the terms of the contract, it is likely that significant provisions of the Local 88 contract would be carried over into a new and separate contract. Regarding timing of employee transfer, the district could be formed and, after formation, employees could be transferred from the County to the district. The period between formation and employee transfer would give the district time to enter into IGAs with the County and to set up governing regulations, policies and procedures.

County Employees

There may be an impact on County employees who provide internal services to the Library if it becomes a district. Currently, the Library pays over $11 million annually for internal services with the majority of those costs paid to Facilities & Property Management and Information Technology.

The library district may enter into IGAs to continue to purchase some internal services from the County, which would minimize the impact on County employees. If the library district does not enter into IGAs, there may be County positions that are no longer funded. The employees in these positions would likely either be laid off or assigned new duties, as determined by the County.

After accounting for reduced property tax revenue due to the new library district, the County's General Fund would net roughly $10.5 million. These funds could be reallocated to other departments to provide public services and may result in the creation of new County positions or funding of positions that may have otherwise been cut.

There could also be an impact on employees if the library district is not a part of the County's benefits pool. The costs of purchasing benefits could be increased or decreased depending upon how the County's experience rate is affected by removing Library employees from the County's benefits pool.

Other Issues

District Governance

As outlined in the charter amendment *(Attachment G)*, the Board of County Commissioners will be the governing body of the library district. The Board will appoint a district librarian (library director). It is the Analysis Group's understanding that the Charter Review Committee intended that the library director serve as the executive officer for the library district.

The Library Advisory Board will continue in their advisory role as outlined in the Charter Amendment. Members will continue to be appointed by the Chair subject to approval by the Board of County Commissioners.

Legal

The Charter Review Committee discussed whether a district formed through the County's home rule authority was vulnerable to legal challenge. District formation via charter amendment and home rule authority is a new method in Oregon. However, the County has authority based on its home rule powers to form a district in this manner.

Transition

If a district measure is pursued and is passed, the charter amendment allows the County to subsidize the district while the County and the district negotiate the IGAs which will allow for the transfer of property, employees and debt. The District Analysis Group recommends selecting a transition manager and team (as was created when the Library became part of the County in 1990) to oversee the transition process.

Expectations

Creating a library district has long been discussed and expectations of the district may vary among stakeholders, advocates, advisory boards, employees, citizens, and elected officials. ***Ultimately, creating a library district is a mechanism to secure stable and permanent funding***. Differing expectations about how a district would impact employees, library operations, costs, and governance could cause uncertainties and disagreement. While not a reason to avoid creating a library district, managing these expectations will be a critical piece of the process.

A Permanent Rate vs. Local Option and the Dollar Amount

With a new library district, a permanent rate would be established. While that permanent rate provides stable and permanent funding, it does eliminate the need to renew the levy every five years and thus removes the direct and regular accountability to voters that the levy engenders.

A permanent rate, for practical purposes, means the Library would not be able to raise additional operating revenue by increasing the rate at a later date. Conversely, it guarantees a minimum level of funding. Whether the fixed amount is a positive or negative depends on one's perspective. However, it is worth noting that the Library local option levy rate has increased with each levy renewal and there is a real risk that at some point an increased rate will not pass.

Conclusion

Though there are many details to address in order to achieve a successful transition, the District Analysis Group found no substantial barriers to the formation of a library district.

Possible Timeline

If the Board chooses to place a district measure on the November 2011 ballot, the District Analysis Group prepared a possible timeline for proposal of the measure and for a potential transition timeline if the measure should pass *(Attachment H)*.

Attachments

Attachment A: Multnomah County Library FY 2010-11 Adopted Budget - Revenues $61.9 Million
Attachment B: Library Districts in Oregon: 2011
Attachment C: Multnomah County Library Locations
Attachment D: Multnomah County AV, RMV, and Compression
Attachment E: Estimated Impact of a Permanent Rate for a Library District on other Jurisdictions
Attachment F: Transfer of Public Employees (ORS 236.605-640)
Attachment G: Text of Charter Amendment Adding New Chapter for Ballot Measure F – Multnomah County Library District
Attachment H: Draft Library District Timeline