



## STUDY SESSION MEMORANDUM

**TO:** Mayor and Members of City Council

**FROM:** Nuria Rivera-Vandermyde, City Manager  
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**DATE:** September 22, 2022

**SUBJECT:** Discussion of options for budget reallocation of library funding if the library district passes

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### EXECUTIVE SUMMARY

The purpose of this agenda item is for council to have an initial conversation about potential uses of funds that could be reallocated if the proposal for a library district passes. This November, voters in Boulder County will consider the establishment of a library district and an associated 3.5 property tax mill levy to fund library services provided by the district. If the ballot initiative passes, the Boulder Public Library will transition from being a city-run department funded through city taxes, to an independent government entity with funding through a dedicated property tax. This would result in roughly \$11-12 million dollars of the city budget that could be reallocated once the district would be fully independent.

Many voters may be interested in the options city council may consider for reallocation of General Fund monies that are currently appropriated to the library if a library district is formed and funding is approved by the voters.

Based on current information, the soonest that budget dollars may be available for reallocation is the 2024 budget, with the final timing dependent on the transition timeline established in an intergovernmental agreement with the new district if approved. Council has requested information on a process for potential reallocation and the types of investments that could be prioritized. Staff has met with the Financial Strategy Committee to discuss a proposed process that would build on previous work to identify underfunded and unfunded needs.

The recommended process includes the following elements:

- Council review preliminary process for reallocation (September 22, 2022)
- Inventory of funding needs (September – November 2022)
- Prioritization of needs with Financial Strategy Committee (November – December 2022)
- Council reviews FSC recommendations (January 2023)
- Recommendations inform 2024 budget process (May – October 2023)

Staff has also identified five major categories of underfunded and unfunded needs and has begun to assess and categorize potential investments for reallocated dollars:

- Core Operational Needs (More than \$19 million of priority need)
- Program/Service Enhancements Aligned with Established Policy
- New Investments Aligned with Established Policy
- New or Expanded Investments to Meet Emerging Community Needs
- Tax Relief & Rebate Considerations

Staff recommends that the Core Operational Needs category be a top reallocation priority, due to the significant needs identified across the city organization.

### **QUESTIONS FOR COUNCIL**

1. Does council have questions on the process for reallocation?
2. Are there categories of need Council would like to emphasize for consideration?

### **BACKGROUND**

#### **Post-election library district formation process**

If the ballot measure is successful, the city and the County would appoint an initial board of directors for the library district. The City would then begin to negotiate an intergovernmental agreement with the district to determine the timing of the transfer of assets including financial, property, and people. Staff assumes that the existing draft IGA discussed by council in the spring of 2022 would be used as a starting place. The district would begin collecting property tax in January 2023; however, there would likely be a lag before the district could operate independently. A part of the negotiation would include any “start-up” loan the City may provide for library-related operations until such time the district was self-sufficient, and services could be transitioned to the new district. It is anticipated the district would repay the city for any loan over a short period of time, as well as for any of the time the district exists and is collecting revenue, but the city is providing the services.

#### **Timeline for reallocation of current city library funding**

Upon a successful ballot initiative to fund the library district, there will be General Fund budget to reallocate. Assuming a ballot measure to fund the library district is successful in 2022, the most optimistic timeline for reallocation would occur for the 2024 city budget. This assumes an IGA is negotiated quickly, and library services transition at the end of 2023. During 2023, the library services would continue to be provided by the city

while the library district develops the administrative and operational capacity to begin operations. The district would then take over all library services beginning in January 2024. If the negotiation of an IGA takes longer, or if the timeline for the library district to be able to effectively operate library services needs to be longer, reallocation may not be available until 2025.

**Current City Library Funding and Reallocation Implications**

*Library Department Budget Overview*

There are two primary sources of revenues to support library operations: General Fund Revenues (largest source is sales and use tax), and Library Fund revenues (property tax). Capital projects are covered through General Fund dollars or through separate revenue sources, such as Community, Culture, Safety tax. Some programs are also supported through grants and gifts to the library.

Below is a brief overview of the 2023 Recommended Library Department budget.

<b>Library 2023 Recommended Budget</b>	
<b>Sources</b>	
General Fund	\$9,225,580
Library Fund	\$1,657,146
<b>Total Sources</b>	<b>\$10,882,726</b>
<b>Uses</b>	
Administration	\$3,126,081
Community Literacy & Outreach	\$742,125
Public Services	\$4,267,956
Collection	\$1,955,245
Programs & Events	\$975,947
<b>Total Operating Uses</b>	<b>\$11,067,355</b>

*Library Fund*

The city charter requires that property tax revenue equivalent to 0.33 of a mill be dedicated for library services and related capital investments. This charter requirement dates back to the original city charter written in 1917. Below is a summary of the 2022 fund financials for the Library Fund.

<b>Library Fund – Projected 2023 Fund Financials</b>	
<b>Total Sources</b>	
Property Tax (0.33 mill levy) revenues	\$1,406,083
Other Revenues (grants and gifts)	\$251,063
<b>Total Uses</b>	<b>\$1,841,775</b>
<b>Projected 2023 Ending Fund Balance, Before Reserves</b>	<b>\$2,228,978</b>

The current draft IGA anticipates the city providing the Library Fund ending fund balance to the library district since the current purpose of the dedicated property tax revenue is to directly support library services and operations.

The city currently supports the majority of library operations through General Fund dollars allocated through the annual budget process. As outlined above, the General Fund supports operating costs of the Library Department. In 2023, the recommended direct General Fund budget in support of library operations is \$9,225,580. This amount includes the funding necessary to support the operational costs of the north Boulder branch library scheduled to open in 2023. Additionally, there are indirect costs and other direct costs of operating the library that are not captured in the library’s adopted budget. Indirect costs such as human resources, finance, city attorney, and information technology support are not directly tracked but rather estimated. There are other direct costs not accounted for in the library budget that are tracked yet can vary year-to-year. Largely, these are facility-related costs.

In 2017, the city shifted budget from the library to the Facilities and Fleet Department for facility maintenance. From 2018 through 2021, all facilities maintenance expenses were made from and budgeted within the Facilities and Fleet Department, an average of \$505,370 in expenses.

<b>Library Facility Maintenance Average Costs (2018-2020)</b>	
Custodial	\$228,826
Building & Equipment Maintenance	\$241,684
Other	\$34,859
<b>TOTAL AVERAGE</b>	<b>\$505,370</b>

Below is an estimate of direct General Fund savings and property tax collections that will be available to reallocate beginning with the 2024 budget:

<b>Estimated General Fund Savings due to Library District Creation (2024)</b>	
Projected General Fund Library Budget in 2024*	\$9,250,000 - \$9,750,000
Other Direct General Fund Expenses^	\$500,000 - \$1,000,000
<b>Total Estimated General Fund Savings</b>	<b>\$9,750,000 - \$10,750,000</b>
*Based on a variable annual cost increase and includes the addition of \$1M in operating expenses for the North Boulder branch library beginning in 2023	
^Includes facility maintenance savings and other direct cost savings that vary such as communications and other administrative needs	

<b>Estimated Property Tax Savings (2024)</b>	
Projected Available Property Tax Collections Available for Reallocation in 2024	<b>\$1,518,570</b>

<b>Estimated Total General Fund and Property Tax Savings Available for reallocation (2024)</b>	
Projected Available Property Tax Collections Available for Reallocation in 2024	<b>\$11,268,570 – 12,268,570</b>

There are also potential indirect cost savings, which are difficult to quantify, but could be realized in 2024 such as software licensing, staffing adjustments, and increased staffing capacity. If a library district is formed there may be some incremental savings in these support services, but those are not easily identifiable. Most realistically, these departments would gain some margin of staff capacity to provide a better service level or address projects that have been tabled due to a lack of capacity. In other words, in many instances it would be fractions of staff and the city could not easily reduce staff in these department if they no longer supported library services.

### **Financial context**

The 2023 Recommended Budget makes important investments across our Sustainability, Equity, and Resilience goal areas. In order to advance many Council and community priorities, we examined our revenue projections and risk posture, improved our personnel budgeting to maximize the use of resources, and other enhancements to free up as much ongoing dollars as possible. While the structural changes will advance these initiatives in 2023, our ability to add additional ongoing costs in 2024 will be limited. Utilizing our improved strategic budgeting process will be even more important in making strategic decisions in alignment with our citywide goals and leading with equity.

In addition to the ongoing funding needs identified in the 2023 Budget, there are many areas that remain under-funded or funded with one-time dollars without the promise of future availability of funding. Key recommendations from previous reports including Budgeting for Community Resilience and the Blue Ribbon Commissions, aim to address structural weaknesses in the long-term financial stability of city services and programs. Many recommendations relate to revenue vulnerabilities, such as the reliance on sales tax and the dedicated use of many revenue sources, underfunding known core operational needs, and improving strategic decision-making within master planning and the annual budgeting process.

While significant steps were taken this year to improve the budgeting process, the road to accurately measure our intended outcomes and understand the true community impact of all our investments will continue over the next two or three budget cycles, in concert with continued organizational strategy efforts to align our community goals to outcomes with our budget, workplans, and operations. Council is familiar with the organizational need for clear and centralized data collection and analysis especially as it relates to our equity goals. The work to modernize our data practices will coincide with and enhance our efforts to improve how we budget and hopefully the impact of our investments. The success of our budget process improvements depends on our ability to measure progress towards our equity goals and make subsequent budgeting choices based on this data.

The potential reallocation of funding currently budgeted for library services presents an opportunity to continue building a solid foundation for future budgets while utilizing community goals, intended outcomes of current investments, and available to data to help guide prioritization. The 2024 Budget process will allow for the consideration of the potential reallocation of funding within the context of all community needs and existing programs and services.

## **Process of reallocation**

### *Process for Potential Reallocation of General Fund Budget Savings*

Similar to the Community, Culture, Resilience, and Safety tax renewal process, staff recommends a process guided by the Financial Strategy Committee in parallel with the library district formation process to identify and review unfunded or underfunded General Fund ongoing needs, gather community feedback and prioritize for the full council's consideration. It is recognized that any official reallocation would not happen until the 2024 budget development following action to form the library district and approval by voters to fund the library district through a property tax mill levy. However, as acknowledged by the LDAC, and referenced in the beginning of this section of the memorandum, voters will be interested in how the city would consider reallocation of these dollars as a part of their decision-making process on the library district.

Staff proposes the following process for reallocation, if a resolution for library district formation is approved by the city and the county:

1. Council review preliminary process for reallocation (September 22, 2022)
2. Inventory of funding needs (September – November 2022)
3. Prioritization of needs with Financial Strategy Committee (November – December 2022)
4. Council reviews FSC recommendations (January 2023)
5. Recommendations inform 2024 budget process (May – October 2023)

## **ANALYSIS**

In preparation for the potential of this reallocation conversation, staff identified five categories of priorities that the general fund monies currently allocated to the library could be reallocated to. They include:

- Core Operational Needs
- Program/Service Enhancements Aligned with Established Policy
- New Investments Aligned with Established Policy
- New or Expanded Investments to Meet Emerging Community Needs
- Tax Relief & Rebate Considerations

Each of the sections below highlight examples of potential funding options within each category. Staff has begun our inventory of needs with core operations/asset management but recognize there may be interest in funding additional priorities like master plans and new council priorities. Additional analysis, cost estimates and materials would be developed for each of these categories to assist in decision-making.

### **Core Operational Needs**

This category includes more than \$19 million in critical investments that are needed to maintain existing services levels within the core operational services of the city. Some of these services have already experienced service reductions in recent years or are anticipated to begin reductions in service levels with the increase of costs and not the corresponding increase in funding. Examples include:

- Facilities (More than \$2.5 million in additional funding needed)
  - Facilities maintenance, city facility parking lot maintenance
- Transportation (More than \$5.5 million in additional funding needed)
  - snow plowing, median maintenance, pavement management/streets, path maintenance, sidewalk repairs, bridges, bus stop maintenance
- IT (More than \$5 million in additional funding needed)
  - software replacement, fiber maintenance
- Parks & Recreation (More than \$6 million in additional funding needed)
  - parks maintenance, urban canopy, courts, turf, horticulture

**Program/Service Enhancements Aligned with Established Policy**

This category includes continuing investments or enhancements to achieve goals associated with adopted policy, such as Department Master Plans. These enhancements are ones that are desired to occur, but do not have additional funding identified. Examples include:

- Implementation of Advanced Life Support/Emergency Medical Services
- Transportation system additional vision zero safety improvements

**New Investments Aligned with Established Policy**

This category includes new investments to achieve goals associated with adopted policy, such as Department Master Plans. These investments are identified, but no funding strategy has been established. Examples include:

- Implementation of the Facilities Master Plan (addressing system-wide deferred maintenance, adequate funding levels, and building consolidation to meet climate goals)
- Expanded programming/activities to meet Climate Action Plan goals
- Funding for needed capital improvements identified in the East Boulder Subcommunity Plan or the Transit Village Area Plan Phase 2

**New or Expanded Investments to Meet Emerging Community Needs**

This category includes new or expanded investments to address recently identified community needs not currently established in policy and/or work plans. Examples include:

- Ongoing operations of a permanent day center for persons experiencing homelessness
- Ongoing needs associated with ARPA-funded initiatives

**Tax Relief & Rebate Considerations**

This category includes the approach of reducing property taxes or sales tax to help in offsetting some of the tax increase that will occur if the district is approved. While the categories above demonstrate there is significant need for this funding, this option has been discussed in previous meetings on this topic. In addition, a rebate program for a portion of property or sales taxes could be developed for certain community members

within city boundaries. Additional analysis would be needed for this option. For context, the following shows what the current revenues are for property and sales tax per mill or cent:

- General Fund property tax relief up to the amount of General Fund savings.
  - 1 mill = ~\$4.2 million
  - 0.1% sales tax = ~\$4.0 million

## **NEXT STEPS**

Based on council feedback, staff will continue to develop materials and cost estimates for potential uses and proceed with the timeline as identified in preparation for the 2024/2025 budget process.