

Date: January 23, 2018

To: Kitsap Regional Library Board of Trustees

From: Dan Baer, Chief Financial Officer

Re: 2018 Operating and Capital Budgets

### Summary

On November 7, 2017 Kitsap County voters approved Library Levy Proposition 1, providing Kitsap Regional Library with a levy lid lift raising the regular property tax rate by 8 cents. As a result of this rate increase, the 2018 operating and capital budget increases 26.4% over the 2017 Adopted Budget. Of the combined budgets, the operating budget increases 16.1% with the restoration of Sunday service as well as providing more consistent hours. Support of youth education goals increases with more robust programs in early development as well as afterschool STEM and teen internships. Physical and digital collections of books and other materials will be increased. Library staff will receive a modest cost of living increase, only the second in nine years.

The capital budget increases by \$1,340,650 to address critical maintenance needs of aging buildings, invest in up-to-date technology and create spaces that are flexible and welcoming.

Property Tax revenue is projected to increase by 34.1% in 2018. In subsequent budget years, revenue growth will be constrained by a state law restricting the district's general increase in property taxes collected to 1% of the previous year's revenue total.

For budget details, please see Attachment 1.

### Kitsap Regional Library 2018 Combined Operating and Capital Budget

	2017 Adopted	2018 Adopted	% Difference	\$ Difference
<b>Expenditures</b>	\$12,165,440	\$15,371,715	26.4%	3,206,275
<b>Revenue</b>	12,206,856	15,271,778	25.1%	3,064,922
<b>Difference</b>	41,416	(99,936)		
<b>Carry-Forward Balance from prior year</b>	222,962	501,762		
<b>Restricted Balance</b>	-	(101,000)		
<b>Transfer to Reserves</b>	250,000	(300,000)		
<b>Adjusted Year-End Balance*</b>	14,378	826		

\*\*Year-End Balance remains in the General Fund

## Major Assumptions

Salaries: The budget provides funding for a 2% cost of living adjustment and employee step increases. Step increases are 2% and generally are triggered on the employee's hiring anniversary date and upon satisfactory completion of a performance evaluation. A compensation study will be completed in 2018.

Benefits: The budget continues the package of benefits offered through the Association of Washington Cities (AWC) Employee Benefit Trust. The base health care increased 13.2% but KRL earned a 2% Well City discount lowering the increase to 11.2%.

The employee share of health care premium costs continues at the same level as last year at \$12.50 per pay period, though a few employees on the Group Health plan may pay a little less.

Premiums for the dental and vision insurance remain the same as last year.

Pensions: KRL employees working a minimum of half-time (defined for the purposes of pension at 0.4 FTE and above) are automatically eligible to join the Washington Public Employees Retirement System (PERS). On July 1, 2017, the employer-paid portion of PERS increased 1.5% for the next biennium. The pension budget is set according to guidance provided by the state actuary. Required employer and employee contributions are determined by the State Legislature.

Revenue: Projected overall revenue in the 2018 budget increased 25.1% compared to the 2017 budget.

2018 property tax revenue is projected to be \$14,826,843 compared to \$11,060,182 in the 2017 Adopted Budget, an increase of 34.1%. This amount includes projected tax refunds and canceled taxes totaling \$57,748.

Overdue fines from all materials is eliminated in the 2018 Budget as of April 1<sup>st</sup> with the goal of eliminating unintentional barriers to access and support the Library's goal to promote learning and literacy. Retaining existing due date and renewal structures in addition to charging for lost materials, will maintain patron accountability and demonstrate continued fiscal responsibility on behalf of the system. 2018 revenue is projected to decrease by \$152,000 with the elimination of fines.

Revenue from grant-funded projects is down 65.8%, largely because 2017 revenue included off-setting grant revenue of \$214,965 for 2016 expenditures to the Silverdale Branch project as well as the final reimbursement of \$250,000 for Silverdale Branch property acquisition. The 2018 budget includes spending and revenue from programs directly supported by the Kitsap Regional Library Foundation (KRLF), the final year of a three-year grant from the Institute of Museum and Library Services (IMLS) and from donations to the Silverdale Branch project.

## Year-End Balances and Budget Reserves

KRL finished the 2017 fiscal year with a positive balance of \$528,800. Revenue exceeded budgeted expenditures by \$176K. \$353k of savings accrued from deferred capital projects and positions held vacant in the event the levy did not pass. \$150,000 is budgeted to be transferred to the Library Capital fund for future projects. The 2018 revenue budget allows for an over collection of \$150,000 in property taxes. Any over collection will be transferred to the Library Reserve Fund.

KRL financial policies state that the Library maintains reserves in a range of between 10% and 15% of the operating budget. In the 2018 Budget, KRL is expected to achieve a 12.5% reserve ratio.

## Cash Flow

Cash flows are anticipated to be sufficient to meet library needs throughout the year.

## Tax Rate

The library's property tax rate is set according to state law. For 2018, the tax rate for property owners is estimated at 43 cents per \$1,000 of assessed valuation. The rate increased by about 8 cents from last year. An owner of a hypothetical residential property assessed at \$250,000 would pay \$107.50 in property taxes for KRL operations in 2018.

## Highlights of 2018 Budget changes

All division budgets reflect a 2% cost of living adjustment, step increases to eligible staff and changes in benefit rates.

Public Service (Branch Budgets): This budget increases by 18.4%. Sunday hours are restored in five locations: Bainbridge Island, Port Orchard, Poulsbo, Silverdale, and Sylvan Way. Staffing is increased at Downtown Bremerton, Little Boston, Manchester and Silverdale branches bringing staffing ratios above emergency levels. Youth Services Librarians in small branches are increased to full time. A STEM Coordinator is added increasing investment in afterschool STEM (Science, Technology, Engineering and Math) classes for K-12 youth. The Library will perform a needs assessment of existing infrastructure and engage the community in providing input on resources to support early learning at all locations, including story time/play group materials, furniture, interactive materials and collections.

Support Services: This budget increases by 6.9%, reflecting a change in the E-rate payment process and the addition of one full time position to Information Technology to support operations. Service improvements as a result of the levy include implementation of Microsoft Office and improved Wi-Fi public printing.

Administration: The budget increases by 11.2%, reflecting Community Engagement funding for enhancements to the Inspire publication, community event communications tools such as interior display systems for print and digital signage at all locations, as well as increased usability and personalization of the library website.

Facilities: The budget increases by 47.7%. The increase reflects addition of a 1.0 FTE Groundskeeper to handle backlog of landscaping projects and provide vacation relief for facilities staff. 1.0 FTE Assistant Facilities Manager and 1.0 FTE Custodian are added to increase the level of routine building cleaning and maintenance with the goal of equalizing interior maintenance at all locations.

Capital Budget: The budget increases by \$1,340,650 to improve and preserve all library facilities. 2018 projects include a branch roof replacement, electrical upgrades, furniture replacements, fire sprinkler system and design services for future projects.

Collections Budget: The budget increases by 7%. Early learning program support will increase with annual replacements of board books. The Library will begin a leased books program with the goal of decreasing the holds ratios. The Library will add an instructional tutorial web resource in addition to increasing funding for electronic resources.

Training and Conferences: The budget increases by 48.2% with the goal of promoting more equitable practices by transforming what we do to better meet the needs of our patrons.

## Attachment 1

### Uses

	2016 Actuals	2016 Budget	2017 Actuals	2017 Budget	2018 Budget	Change
Administration	1,611,350	1,686,067	1,823,157	1,949,663	2,168,700	11.2%
Public Services	5,263,211	5,339,623	5,326,912	5,442,518	6,444,701	18.4%
Support Services	2,156,257	2,118,593	2,116,765	2,158,589	2,307,133	6.9%
Facilities	700,758	680,630	784,322	744,277	1,099,561	47.7%
Collections	1,215,926	1,216,000	1,178,427	1,178,000	1,261,000	7.0%
Training and Conference	108,459	103,560	122,463	119,393	176,969	48.2%
<b>Operating Budget Total</b>	<b>11,055,960</b>	<b>11,144,473</b>	<b>11,352,046</b>	<b>11,592,440</b>	<b>13,458,065</b>	<b>16.1%</b>
<b>Capital</b>	<b>610,365</b>	<b>782,223</b>	<b>460,667</b>	<b>573,000</b>	<b>1,913,650</b>	<b>234.0%</b>
<b>Total</b>	<b>11,666,325</b>	<b>11,926,696</b>	<b>11,812,712</b>	<b>12,165,440</b>	<b>15,371,715</b>	<b>26.4%</b>

### Sources

	2016 Actuals	2016 Budget	2017 Actuals	2017 Budget	2018 Budget	Change
Property Tax & Associated	10,849,938	10,753,318	11,081,002	11,060,182	14,826,843	34.1%
Intergovern	14,228	17,200	11,023	26,000	14,000	-46.2%
Fees and Fines	226,555	241,000	202,614	226,000	50,750	-77.5%
Charges for Service	73,940	71,300	73,049	74,300	74,300	0.0%
Interest	21,315	10,000	36,684	23,000	33,120	44.0%
Grants, Gifts, Other	946,799	1,013,087	937,140	797,374	272,765	-65.8%
<b>Total</b>	<b>12,132,776</b>	<b>12,105,905</b>	<b>12,341,512</b>	<b>12,206,856</b>	<b>15,271,778</b>	<b>25.1%</b>
Balance before Transfer	466,450	179,209	528,800	41,416	(99,936)	
Trnfs from previous yr's budget	73,119	73,119	222,962	222,962	501,762	
Restricted balance	(66,607)		-	-	(101,000)	
Rev un-restricted balance	472,962	252,328	751,762	264,378	300,826	
Transfer to/from reserves	(250,000)	(250,000)	(250,000)	(250,000)	(300,000)	
<b>Net Balance (to General Fund)</b>	<b>222,962</b>	<b>2,328</b>	<b>501,762</b>	<b>14,378</b>	<b>826</b>	

Library General Fund Reserves	Est Beg Balance	Est Interest	Transfers	2018 Proj. Balance
Library Reserve Fund	1,357,026	400	150,000	1,507,426
Library Capital Fund	20,780	65	150,000	170,845
<b>Total Reserves</b>	<b>1,377,806</b>			<b>1,678,271</b>
<b>% of 2018 Operating Budget</b>	<b>10.2%</b>			<b>12.5%</b>