

Office of the City Manager



**TO BE DELIVERED
AGENDA MATERIAL**
(Agenda Item #2)



June 21, 2003

To: Honorable Mayor and
Members of the City Council

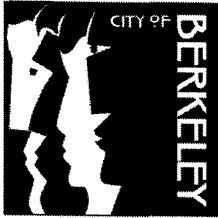
From: Weldon Rucker, City Manager

Subject: Ordinance Establishing the FY2004 Library Tax

Please add the attached item to your Council packet for the Special Workshop of June 24, 2003. Thank you.

Attachment

cc: City Manager
City Attorney
City Clerk
City Auditor
Library



Office of the City Manager

SPECIAL MEETING
June 24, 2003

To: Honorable Mayor and
Members of the City Council

From: Weldon Rucker, City Manager

Subject: Ordinance Establishing FY2004 Library Tax Rate

RECOMMENDATION:

It is recommended that the City Council adopt the first reading of an Ordinance setting the FY2004 Library Tax rate at \$0.1292 per square foot for residential dwellings units and \$0.1956 per square foot of industrial, commercial and institutional buildings. These rates are based on the allowable 13.9% increase in the Library Tax using the per capita statewide personal income growth inflationary index, as authorized by Berkeley Municipal Code Section 7.56.040.

FISCAL IMPACTS:

The Library Tax rates recommended in this report are expected to generate \$1,362,000 in additional FY2004 Library Tax revenue over the levels projected for the current year, and roughly \$970,000 more than estimated in the City Manager's FY2004 and FY2005 Proposed Budget. The recommended rates would result in increased costs to residential property owners of approximately \$30 per year (1,900 s.f. home), and increased costs to commercial, industrial and institutional property owners of \$238 per year (10,000 s.f. building). The measure also provides for a low income exemption.

CURRENT SITUATION:

At its Special Meeting of June 17th, the City Council was requested to provide staff direction as to the setting of the Library Tax rate for FY2004. While I recommended an increase not to exceed 13.9%, the Library Board provided the Council with a revised recommendation to provide for a 27% increase – reduced from Boards original request for a 36% increase.

The City Council requested that staff prepare ordinances based on both alternatives, and deferred making its decision until tonight's meeting. The City Manager's recommended tax increase of 13.9% is reflected in the Ordinance provided as Attachment A to this report. The 27% increases requested by the Library Board is reflected in the Ordinance provided as Attachment B.

RATIONALE FOR RECOMMENDATION:

Berkeley Municipal Code Section 7.56.040 provides that the City Council may increase the Library tax rate each year by either inflation in the Bay Area or personal income growth in the State of California. The following table summarizes the options available in calculating annual inflationary increases in the Library Tax:

| | <u>Annual</u> | <u>Cumulative</u> |
|---|---------------|-------------------|
| Bay Area CPI | 2.2% | 2.2% |
| Per Capita Personal Income Growth (state-wide) | 2.3% | 13.9% |
| <i>City Manager's Proposed Budget</i> <i>(based on 5/13 estimate of annual inflationary indices)</i> | 4.0% | -- |

The Bay Area CPI and the Per Capita Personal Income Growth provide alternative measures for "inflationary" adjustments. The Bay Area CPI reflects "price" inflation, while the Per Capita Income Growth reflects statewide "wage" inflation.

In the past, the Library Tax has been increased based on the Bay Area Consumer Price Index (CPI). Since increases were not implemented every year, the Council has, in the past, provided for periodic retroactive increases in order to "catch-up" with allowable increases had the tax rate been increased each year.

For FY2004, it is recommended that the Library Tax be increased by 13.9% which is the maximum allowed on the basis of changes in the state's per capita personal income growth index, including adjustments for retroactive increases since passage of the measure in 1988.

ALTERNATIVE ACTIONS CONSIDERED:

The Library Board had originally requested that the City Council approve an increase in the Library Tax rate of 36% for FY2004, based on a calculation utilizing **total** statewide personal income growth, which is not adjusted for population growth. Staff believes that this an inappropriate application of the personal income growth index for the purpose of calculating inflationary adjustments for this municipal tax. Following a series of discussions with the City Council, the Library Board subsequently reduced their requested FY2004 tax increase to 27%.

Impact on Library Budget

The City Manager's Office has reviewed the Library budget, in consultation with Library staff, and concludes that "baseline" (i.e. current) library services could likely be maintained in FY2004 with a tax increase of approximately 8%. This level of increase in the tax rate would provide for the increased cost of salaries and benefits for current staff (6.0%) as well as offset the projected loss of State Library funds (2.0%). Beyond FY2004, however, the ability of the Library to support current services at this level would depend on many factors including future costs of salaries, benefits and utilization rates. In addition, the Library has proposed additional increases to meet specific operational and programmatic needs.

The following table provides an itemized summary of the Library Board's original and revised funding request as well as an assessment of funding that can be supported within the recommended increase of 13.9%:

| Item | Original | Library Request | | City Manager | | Comment |
|--------------------------------------|------------|-----------------|---------------------|----------------|---------------------|--|
| | | Revised | \$ | Recommendation | | |
| Baseline Tax Increase - Current Svcs | 12% | 12% | \$ 1,176,000 | 8.0% | \$ 784,000 | Balance from carryover \$ |
| Increased Staffing | 3.0% | 3.0% | 294,000 | 3.0% | 294,000 | Staffing a Priority |
| Add \$100K to Materials Budget | 1.0% | 1.0% | 98,000 | - | - | Restore proposed cut of \$480,000; Fund at current level |
| Repayment of City Loan | 4.0% | 0.0% | - | - | - | Defer Loan Payment |
| Increase for Technology Investments | 6.0% | 6.0% | 588,000 | 1.9% | 186,200 | Finance over useful life of equipment |
| Increase Library Reserve Fund | 5.0% | 0.0% | - | | | One-time need; current reserve is \$500-\$600K |
| Support of School Libraries | 5.0% | 5.0% | 490,000 | 1.0% | 98,000 | Provide "pilot" funds; consider as part of City measure |
| TOTALS | 36% | 27% | \$ 2,646,000 | 13.9% | \$ 1,362,200 | |

By providing for an increase in the FY2004 Library Tax rate of 13.9%, significant funding will be made available to address priority needs at the Library. First, the \$770,000 in budget reductions that were contemplated in the City Manager's Proposed Budget would be restored, including the \$480,000 proposed reduction in the materials budget. With this rate increase, there would more than likely be *no reduction in hours of service at the Central Library or any of the branches.*

In addition, a 13.9% increase would appear to provide sufficient increased funding to support:

- An increase in staffing at the level requested by the Library Board (\$300,000)
- Funding necessary to finance a technology investment of up to \$2.0 million for automated shelving equipment
- Initial "seed" funding to pilot the proposed program of staffing Berkeley Unified School District campuses with a full-time librarian.

Items not able to be covered with a tax rate increase of 13.9% include:

- Funding to repay the City for the loan made in support of the Central Library Expansion Project; repayment would thereby be temporarily deferred.
- Funding to increase the materials budget beyond current levels;
- Funding to further increase the Library Reserve; as a one-time item, it is not clear that establishment of a prudent reserve would necessarily result in the need for a tax increase.

Among the issues that would require future consideration by the Council and the Library Board include:

- ❑ The ability of the Library to further expand services and increase staff,
- ❑ Funding for full implementation of the proposed staffing of school libraries, and
- ❑ The timing of the proposed ballot measure to fund retrofit/expansion of the branch libraries.

Impact of Proposed Tax Increases on Taxpayers

The Library Tax currently has a “split roll” whereby residential property owners pay a lower tax rate than commercial/industrial property owners. The following table compares current taxes paid by sample property owners under the current rates as well as under the alternative tax increase proposals contemplated for FY2004:

| Impacts on Taxpayers | | | | | | | | | |
|----------------------|-------------|--------|---------------|--------|--------|-------------------------|----------|-----------------|----------|
| | Residential | | | | | Commercial / Industrial | | | |
| | Rate | 1,500 | 1,900 | 2,300 | 2,700 | Rate | 5,000 | 10,000 | 20,000 |
| Current FY2003 | 0.1134 | 170.10 | 215.46 | 260.82 | 306.18 | 0.1717 | 858.50 | 1,717.00 | 3,434.00 |
| 13.9% | 0.1292 | 193.74 | 245.41 | 297.07 | 348.74 | 0.1956 | 977.83 | 1,955.66 | 3,911.33 |
| 27.0% | 0.1440 | 216.03 | 273.63 | 331.24 | 388.85 | 0.2181 | 1,090.30 | 2,180.59 | 4,361.18 |

The City typically reports the impact of new taxes, assessments and fees using an “average” residential property of 1,900 square feet. Sample tax burdens are also shown for residential properties ranging from 1,500 to 2,700 square feet, and for commercial/industrial properties of 5,000, 10,000 and 20,000 square feet.

For the “average” residential property owner, an increase of 13.9% would yield an effective tax increase of \$30 per year (from \$215 to \$245). With a 27% tax increase, the same property owner would experience an increase of \$58 (from \$215 to \$273).

CONTACT PERSON:

Paul Navazio, Budget Manager 981-7000

Attachments

- A – Ordinance establishing FY2004 tax rates consistent with City Manager’s recommendation
- B – Ordinance establishing FY2004 tax rates consistent with Library Board’s recommendation

Attachment A

ORDINANCE NO. -N.S.

LEVYING THE MUNICIPAL TAX RATE FOR THE CITY OF BERKELEY FOR FY
2004

BE IT ORDAINED by the Council of the City of Berkeley as follows:

Section 1. Pursuant to Ordinance No. 5262-N.S., the rate of tax for the Fiscal Year 2004 to support the usual and current expenses of operating the City of Berkeley Library Services is hereby fixed and apportioned upon the square feet of improvements as defined in the Ordinance as follows:

Dwelling units \$0.1292 per square foot

Industrial, commercial and institutional building \$0.1956 per square foot

Section 2. This ordinance shall take effect and be in full force from and after its final passage.

Section 3. Copies of this Bill shall be posted for two days prior to adoption in the glass case located near the walkway in front of Old City Hall, 2134 Martin Luther King Jr. Way. Within fifteen days of adoption, copies of this Ordinance shall be filed at each branch of the Berkeley Public Library and the title shall be published in a newspaper of general circulation.

Attachment B

ORDINANCE NO. -N.S.

LEVYING THE MUNICIPAL TAX RATE FOR THE CITY OF BERKELEY FOR FY
2004

BE IT ORDAINED by the Council of the City of Berkeley as follows:

Section 1. Pursuant to Ordinance No. 5262-N.S., the rate of tax for the Fiscal Year 2004 to support the usual and current expenses of operating the City of Berkeley Library Services is hereby fixed and apportioned upon the square feet of improvements as defined in the Ordinance as follows:

Dwelling units \$0.1440 per square foot

Industrial, commercial and institutional building \$0.2181 per square foot

Section 2. This ordinance shall take effect and be in full force from and after its final passage.

Section 3. Copies of this Bill shall be posted for two days prior to adoption in the glass case located near the walkway in front of Old City Hall, 2134 Martin Luther King Jr. Way. Within fifteen days of adoption, copies of this Ordinance shall be filed at each branch of the Berkeley Public Library and the title shall be published in a newspaper of general circulation.