

Minutes - Board of Trustees' Finance and Audit Committee Meeting
March 29, 2012
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- A 5% reduction in property tax revenues (estimated at \$1.7M decline), due to a decline in valuations.
- Consolidated Sales Tax (CTX) revenues estimated to increase by \$1.2M, 7.9%.
- Investment Income reduced by \$70,000 to reflect the reality of the current investment environment.
- Other revenue sources are projected to remain stable.

Ms. Goodrich then discussed the proposed operating budget for FY 2012-2013 compared to the current fiscal year (FY 2011-2012).

CURRENT (FY 2011-2012)

Salaries & Benefits:	\$ 32,094,097	63%
Services & Supplies:	10,877,625	21%
Library Materials:	7,350,000	15%
Capital Outlay:	<u>358,600</u>	1%
TOTAL	\$ 50,680,322	

- This operating budget provided a stable service environment as compared to previous fiscal years: no reduction in hours, no layoffs, seven day service maintained, and library materials budget held steady at 15% of the operating budget.
- Employee wage concessions, the roll-back in health insurance rates, and stringent cost reduction and containment all contributed to the stability afforded by this budget.

PROPOSED (FY 2012-2013)

Salaries & Benefits:	\$ 32,270,260	62%
Services & Supplies:	11,502,065	22%
Library Materials:	7,804,840	15%
Capital Outlay:	<u>507,600</u>	1%
TOTAL	\$ 52,084,765	

- This proposed operating budget allows for a small (2.8%) uptick in expenditures while continuing the careful cost containment strategies adopted in previous years.
- Some badly-needed part time hours in the branches are added in Public Services to meet service demands as staff are stretched badly.
- A public services management position is added back to the budget. Currently, Deputy Director, CFO Robb Morss has 23 direct reports. His long experience in the District allows him to handle this large number. In terms of succession planning, it would be a very large jump from Branch Manager to Deputy Director, especially in terms of developing internal capacity for staff advancement.
- Needed IT equipment, backup systems, an additional staff member and training are added to the IT budget.
- Deferred maintenance and repair projects are included in the General Services budget.

- The Library Materials budget is increased to maintain it at 15% of the operating budget.

Ms. Goodrich then discussed staff recommendations for the Capital Projects Fund, which accounts for the acquisition, replacement or construction of major capital projects and facilities. It has consisted of five programs to accumulate available resources to be appropriated in subsequent budget years. The programs are: Integrated Library Systems, Technology Replacements and Upgrades, Building Repair and Maintenance, Capital Construction, and Library Materials.

Staff recommends the following :

- Establishment of a sixth program for vehicle replacement. During times of growing budgets, vehicle replacement was done as part of the routine budgeting process. The District currently owns 31 vehicles and a number of the vehicles are 15-20 years old. It is critical that planning be done to replace aging vehicles that are becoming unreliable and costly to repair.
- Expenditures for needed major building repair and maintenance: cooling tower replacement at Clark County, roofing system replacement at Summerlin, and asphalt parking lot replacement at Sunrise.
- Set-aside in the Technology Replacement and Upgrades program for a new Management Information System/Human Resources Information System. We are experiencing increased difficulties in preparing payroll, lack a position control system, and are required to prepare salary and benefits spreadsheets manually as we prepare the annual budget or prepare for labor negotiations. Current systems are inadequate for these tasks and are no longer being supported.

Ms. Goodrich continued by explaining staff's plan to pay off the District's medium-term bonds, the proceeds of which were used to construct the Windmill Library and Service Center. The balance of the proceeds can only be used for capital projects and bond repayment. Staff has confirmed that the District cannot pay the bonds off early. The District has money remaining from the bond due to the change in the economy between the sale of the bonds and the commencement of the project.

In order to ensure that the District has the funds necessary to retire the medium term bonds on schedule, staff is proposing that additional funds be set aside in FY 2012-2013 in the Debt Service Fund. The District has the funds to do this now, which means that General Fund monies in FY 2017-2018 will be free to use for other programmatic purposes, in effect paying off the bonds one year early. The set-aside approach provides flexibility, should unforeseen expenditures or revenue declines appear. Ms. Goodrich noted that the 15-year projection spreadsheet provided by Deputy Director, CFO Fred James clearly shows the implications of this strategy.

Ms. Goodrich added that the 15-year budget projection spreadsheets prepared every year by Business Office staff show how the proposed

spending levels and projected revenue levels will result in a balanced, sustainable budget going forward. Staff have adjusted revenue projection assumptions downward from last year's projections, making this an even more conservative projection. At the same time, due to expenditure reductions and cost containment efforts and the resulting larger ending fund balance last year, staff are able to preserve current service and materials levels, make needed expenditure enhancements, increase the District's ending fund balance target, and transfer funds to manage the medium-term debt obligations in a way that allows the District to free up funds one year earlier than projected last year while maintaining critical Capital Project Fund balances over the next six years.

Mr. James then explained the specifics of the tentative budget for FY 2012-2013, compared to FY 2011-2012, explaining how savings and unanticipated revenue have improved the District's overall financial picture. In response to questions from Chair Saunders and Trustee Wadley-Munier, he reiterated that the District, in common with other entities, is still waiting for final numbers from the Nevada Department of Taxation regarding property tax revenue. The delay is due to the large number of appeals filed and the time it takes to resolve these appeals.

FY 2011-2012 Budget (General Fund)

Total Revenues -	\$ 57,505,000
• 95% of the District's revenue comes from property taxes (PTX) and consolidated taxes (CTX). The rest come from contracts, fines and forfeits, contributions and donations, investment income and miscellaneous revenue.	
Total Expenditures -	\$ 50,680,322
• Expenditures are divided by function; Public Services, Information Technology, Administration and General Services or by Activity; Salaries, Benefits, Services and Supplies, Library Materials and Capital Outlay	
Excess Revenues over Expenditures -	\$ 6,824,678
Beginning Fund Balance -	\$ 19,160,430
• Mr. James noted that this figure is well above the District's usual projection of \$6,500,000. It is an audited figure as it is the ending fund balance from FY 2010-2011. He also commented that staff must always estimate the ending fund balance for the next year's budget as the final figure is not known until after the end of the fiscal year. He said that the increased amount is due to additional staff savings and PTX revenue that came in higher than projected and the increase in CTX revenue towards the end of last fiscal year.	
Transfers from the General Fund to other District Funds -	\$8,150,400
• Mr. James noted that this transfer is required to cover this year's payment on the medium-term bonds.	
Projected Savings – Expenditures	\$ 2,700,000
• Mr. James noted that he projected this amount based upon the	

increase in CTX revenues as the year progresses plus savings in several expenditure areas.

Ending Fund Balance - \$ 20,534,708

- Again, this figure is well above the District's goal of \$6,500,000 as the ending fund balance.

Preliminary FY 2012-2013 Budget (General Fund)

Total Revenues - \$ 56,921,000

- Overall, this total is 1.02% lower than the FY 2011-2012 Budget due to a projected 4.3% reduction in PTX revenue; this is partially offset by a 7.9% increase in CTX money. Charges for services remain the same, while fines and forfeits and investment income are projected to come in lower as well.

Total Expenditures - \$ 52,084,765

- This reflects the staffing, planned repairs and equipment replacement and library materials increases already discussed by Ms. Goodrich.

Excess Revenues over Expenditures - \$ 4,836,235

Beginning Fund Balance - \$ 20,534,708

- The FY 2011-2012 Ending Fund Balance becomes the FY 2012-2013 Beginning Fund Balance.

Transfer from the General Fund to other District Funds - \$18,799,036

- To the Capital Project Fund for the Technology Replacement & Upgrade Program for the Management Information System/HR Inform System - \$1,000,000.
- To the Capital Project Fund to establish the Vehicle Purchase & Replacement Program - \$500,000.
- To the Debt Service Program for this year's medium-term bond payment - \$7,631,350. Additional funds are proposed to transfer to the Debt Service Program for additional medium-term bond payments - \$9,550,000.
- To the Special Revenue Fund - \$117,686.

Ending Fund Balance - \$ 6,571,907

Mr. James then discussed staff's 15-year projection for the District. This exercise is done annually by his office and is one way for staff to evaluate the effect on the District's budget of major changes, such as the proposed transfers to the Debt Service Fund as well as possible health care costs and staffing changes. The most important years in the projection are the first five years, but extending the projection out for another 10 years allows staff to fully understand the effect of such changes.

Mr. James listed the assumptions that were included in the FY 2012-2013 projection:

- No COLA or merit increases for staff.
- Materials budget to remain at 15% of operating costs.

- Proposed transfers approved for FY 2012-2013 totaling \$46,799,036 which include the \$18,799,036 transfer from the General Fund plus a proposed transfer from the Capital Project Fund to the Debt Service Fund of \$28,000,000. This represents the last of the bond proceeds and can only be used for capital projects or bond repayment. These transfers will ensure that the District now has all the money in place to pay off the medium-term bonds. It also allows the District to see what is available for future years.
- Maintain minimum ending Fund Balance of \$6,500,000.
- Property Tax revenue assumptions
 - FY 2012-2013 - 5%
 - FY 2013-2014 - 3%
 - FY 2014-2015 - 1%
 - FY 2015-2016 + 1%
 - FY 2016-2017 +2.5%
 - FY 2017-2018 +3.5%
 - FY 2018-2019 on +5.5%

Ms. Goodrich commented that staff did project COLA and merit increases for future years, excluding FY 2012-2013 as increases have been frozen per agreement with Teamsters. Even with the reductions in revenue, the District still ranks in the top of libraries its size for the percentage of operating income allocated to library materials.

Trustee Yturralde wanted to confirm the number of staff to be added and then asked whether the cost of the positions staff proposes to add have been included in the expenditures for this and future years. She also asked what they will be told about advancement. Ms. Goodrich noted that staff, upon selection for the new positions will be advised that future increases are based upon the result of negotiations with the union. The current contract expires in 2013.

Trustee Moulton confirmed the date upon which the medium-term bond debt is paid off. She then asked about the large amount to be reserved for medium-term bond repayment and questioned whether anyone could take it, such as when the state pulled money from cities and counties several years ago. Counsel Welt advised that the Legislature would have to change the law in order for that money to become available to the state.

Ms. Goodrich and Mr. James, acknowledging the large amount required to pay off the bonds in one fund, noted that the District could use some of the money in different areas if necessary, but using the 15-year projection exercise allows them to see the effect on the District's finances if used in ways other than proposed. Using this money in other areas means the District will have to find other means to pay off the medium-term bonds.

Trustee Moulton then asked about investment of these funds. Mr. James said that the District was limited in the types of investment vehicles by statute as well as the length of time money could be invested. He explained that the District has financial advisors and

Assistant Finance Director Floresto Cabias works with them to maximize what is permitted. Moulton also asked whether any change in the proposed transfers, once approved by the Board, would need to be brought back to the Board for approval. James said that changes that require staff to adjust transfers or supplement the approved budget must be approved by Trustees.

Mr. James next discussed the preliminary FY 2012-2013 budgets for the other funds established by the District.

Capital Project Fund

Total Revenues -	\$300,000
Total Expenditures -	<u>\$2,707,000</u>
Excess Revenues over (under) Expenditures -	(\$2,407,000)
Beginning Fund Balance -	\$36,013,828
Transfers to other funds -	(\$28,000,000)
Transfers from other funds -	<u>1,500,000</u>
Ending Fund Balance -	\$7,106,828

Special Revenue Funds

Total Revenues -	\$1,800,000
Total Expenditures -	<u>\$2,026,132</u>
Excess Revenues over (under) Expenditures -	(\$226,132)
Beginning Fund Balance -	\$479,611
Transfers from other funds -	<u>\$117,686</u>
Ending Fund Balance -	\$371,165

Debt Service Fund

Total Revenues -	\$120,000
Total Expenditures -	<u>\$7,660,400</u>
Excess Revenues over (under) Expenditures -	(\$7,540,400)
Beginning Fund Balance -	\$8,146,946
Transfers from other funds -	<u>\$45,181,350</u>
Ending Fund Balance -	\$45,787,896

TOTAL ALL FUNDS (Including the General Fund)

Total Revenues -	\$59,141,000
Total Expenditures -	<u>\$64,478,297</u>
Excess Revenues over (under) Expenditures -	(\$5,337,297)
Beginning Fund Balance -	\$65,175,093
Transfers to other funds -	(\$46,799,036)
Transfers from other funds -	<u>\$46,799,036</u>
Ending Fund Balance -	\$59,837,796

Mr. James showed the amortization schedule for paying off the medium term bonds should Trustees approve the proposed transfers from the General Fund and Capital Projects Fund to the Debt Service Fund for FY 2012-2013. The schedule showed the annual payments with the final payment being made in July, 2019.

Trustee Ence commented on the "light at the end of the tunnel" in seeing how to pay off the medium-term bonds. He noted that in the

current, tentative economy, there is still some flexibility to make changes. Trustee Wadley-Munier said that the information speaks volumes for the District's stewardship.

In response to a question from Chair Saunders, Ms. Goodrich explained that staff should receive the tentative revenue figures from the Nevada Department of Taxation in time for the Trustees to review the Tentative FY 2012-2013 Budget at their April 12 meeting, in time for the District to submit it to the State by April 15. Any changes would be discussed at the District's Budget Hearing at the May 17 Board meeting. There should be no need for an additional Finance and Audit Committee Meeting unless the numbers came in much different from staff projections.

Trustees Moulton commended staff for their hard work. She appreciated the conservative approach and especially liked the transparency so important to a public entity. Moulton felt that the District could present this budget to staff, patrons and elected officials with confidence that it could continue on its current path.

This item is for discussion only.

Public Comment
(Item V.)

No.

Adjournment
(Item VI.)

Chair Saunders adjourned the meeting at 5:03 p.m.

Respectfully submitted,

Michael Saunders, Chair