



Charlotte Mecklenburg Library
**Business Case for
FY'11 Funding Support**

VERSION: 1.1

REVISION DATE: 05/19/2010

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Executive Summary

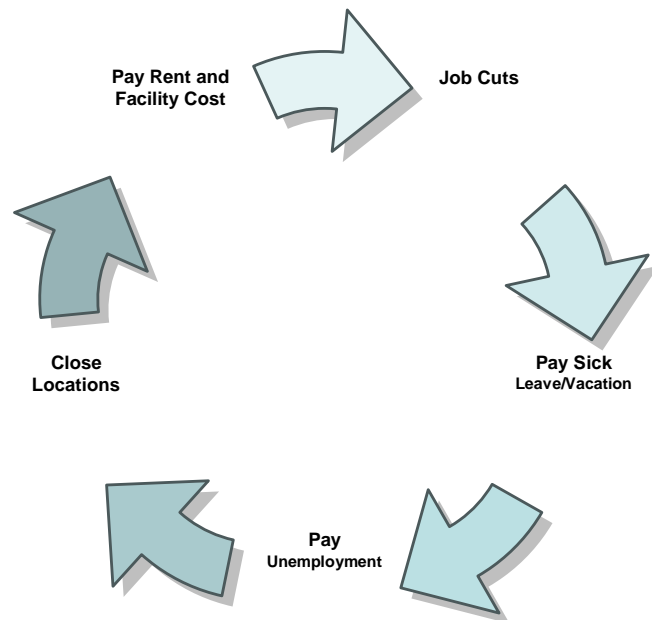
1.1 Issue

The County Manager's \$17.67 million recommended budget for the Charlotte Mecklenburg Library will have significant impacts on both operational revenues and expenses. As Mecklenburg County reduces financial support for the Library, the Library anticipates that other revenue sources, such as state support and revenue generation capacity at the branch level, will be reduced proportionately.

To achieve a deficit neutral (break-even) position, the Library will have to reduce staffing levels by approximately 200 employees in addition to the 120 reductions already taken in Q4 FY'10, which is a 63.1% reduction from FY'10 staffing levels. Since employees and employee-related expenses are its largest cost (approx. 75%), the Library must cut employee expenses at a disproportionately higher rate than other categories of expenses to achieve deficit neutral. In addition, the system will have to reduce both fixed and variable costs by reducing the number of locations by 66%, to 8 locations.

The Library anticipates the possibility of a negative feedback loop, where initial cuts spur more cuts, and the system never achieves true break-even. As the Library lays off employees to reduce expenses, a correlated inverse effect occurs; namely, the Library must reimburse the State for unemployment benefits and must pay for unused sick leave and vacation, for all laid off employees.

Also, the Library remains contractually obligated to pay rent, utilities and security monitoring for leased and owned facilities, even if they are closed. To pay for these shuttered building expenses, the Library will have to lay off more employees, contributing to the same circular cycle.



At some point, the Library cannot sustain these circular cuts, without becoming effectively insolvent. At the \$17.67 million funding level, the costs of terminating employees could be as much as **\$3.94 million** and the cost of unproductive buildings, including rent, would be approximately **\$625,000**, for a total cost of **\$4.56 million**. Additional staff reductions to pay this expense will have the inverse effect described above and cause this number to go up. Additional funding or a special appropriation will be necessary to break the cycle, **unless** additional funding can, instead, be provided at the front end to avoid the lay offs and closings.

1.2 Anticipated Outcomes of a \$17.67 Million Funding

With the layoff of approximately 200 employees and the reduction from 24 to 8 branch locations, the Library anticipates that:

- a) The Library has the potential to become effectively insolvent, due to the need to reimburse the state for unemployment expenses, to cover sick/vacation leave payout for laid off staff, for lease and contract defaults, and other operational risks due to decreasing branch revenues.
- b) Under a worst-case scenario, the Charlotte Mecklenburg Library faces an unfunded unemployment liability in FY'10 of **\$345,788** and **\$2.96 million** for FY'11.
- c) The Library will have **\$974,886** payout in FY'11 for sick and vacation leave pay causing an approximately an additional 20 layoffs.
- d) The Library will have ongoing operational expenses for closed leased and owned facilities of at least **\$624,745.62**.
- e) The Library will face significant operational challenges with the limited staff. The Library will have an operational deficit of 70,728 hours for the regional libraries after the layoffs, requiring 2,828 volunteers managed by less than 200 remaining staff, to continue the same level of service at the remaining 8 locations.
- f) The Library will not be able to efficiently serve Mecklenburg County's tax base. Under the current reduction plan, we anticipate **39.2%** percent of Mecklenburg County's tax base will not be served within 3 mile radius of branch locations.

1.3 Recommendation

The Library has proposed, and seeks support for, a plan that would enable the Library to operate facilities in 20 of its 24 existing locations,¹ with hours and services at the current, reduced levels at least through June 30, 2011.

Subject to such changes as may be agreed upon by all of the participants, the principal elements of the plan are described as follows:

- The County would provide at least \$22.67 million for Library operations, which is \$5 million more than the manager's announced target, but approximately \$12 million less than provided for in the Library's original FY2010 budget.
- The Towns and the City, in some combination, would provide at least \$3 million in the aggregate for Library operations.²

¹ The Carmel branch will close on or before its lease expiration date of June 30, 2010. The Belmont Center and Checkit Outlet locations will close by then as well. When the current 5,000 square foot expansion of the Beatties Ford branch is complete, it will be operated as a regional library, and the Library will discontinue its joint operation with Charlotte Mecklenburg Schools in the Philip O. Berry Academy, known as the Freedom branch.

² Of the community branch libraries to remain open, four are located in the towns (one each in Cornelius, Davidson, Matthews and Mint Hill), seven in the City, and one in the unincorporated area of the County. A regional branch library is located in Huntersville and seven regional branches are in the City.

- The Library would reduce operating expenses or increase other revenues as necessary to compensate for the remaining \$9 million funding reduction, in accordance with a revised FY2011 budget.
- The Library would consolidate its maintenance and security service functions with those of the County.
- The Library would expand its use of volunteers beyond the current numbers of approximately 1,000 per year.
- The Library would withdraw a major portion of the most recent layoff notices sent to employees, thereby avoiding (i) further contraction of library services, (ii) the loss of valuable professionals and (iii) the substantial cost of unemployment reimbursements³ and accrued vacation payments to laid off staff.
- The Library would diligently pursue strategies for a sustainable operating model for FY2012 and beyond.
- Commitments from the participating governmental entities would be memorialized in an appropriate interlocal agreement.

1.4 Sustainability Plan Outcomes

Implementation of the proposed plan will allow the Library to:

- a) Open 12 branch locations in addition to the 8 regional locations, increasing Mecklenburg County's tax base being served from a level of **60.8% to 79.5%**.
- b) Reduce the un-funded unemployment liability from **\$2.96 million to \$1.35 million** with a net savings to Mecklenburg County of **\$1.65 million**
- c) Reduce ongoing unproductive building expense.
- d) Be on stable financial footing to seek long-term alternative funding sources.

Issue Definition

2.1 Problem Statement

As the Charlotte Mecklenburg Library's funding is cut, a disproportionate effect happens to the expense line items. The tables below illustrate how the revenue and expense line items flow through the operating statements. As noted in the costs tables, decreasing employee costs increase the termination expenses to a level that the Library has inadequate funding capacity to resolve.

2.2 Revenue Reductions

In figure 2.2, operating revenues have a year-over-year decrease of 45.01%, with the largest revenue source being Mecklenburg County, with a year-over-year decrease of 45.50%. FY'11 budgeted total operating revenues are approximately \$19.25 million.

³ Because the Library must reimburse the State of North Carolina for unemployment benefits paid to terminated employees, the Library projects a contingent liability of up to \$3,340,000. The Library has already been billed approximately \$340,000 due to layoffs that occurred this year.

2.2.1 Budgeted Revenue Reductions FY'11 by Source

Funding Source	Budget	Adjustments	Revised Budget	% Reduction
Mecklenburg County	\$32,437,042.20	(\$14,441,145.80)	\$17,678,188.00	45.5%
ABC Revenues	\$259,869.00	\$0.00	\$259,869.00	0.00%
Branch Operations	\$1,647,000.00	(\$664,078.00)	\$982,922.00	40.30%
State Funding	\$532,800.00	(\$266,400.00)	\$266,400.00	50.00%
City of Charlotte	\$2,500.00	\$0.00	\$2,500.00	0.00%
Contributions	\$60,000.00	\$0.00	\$60,000.00	0.00%
Totals	\$34,939,211.20	(\$15,371,623.80)	\$19,249,879.00	45.01%

Note: Branch Operation Revenues consist of Fines and Fees, Copier Revenues, Book Sales and Rentals, etc.

2.3 Employee Reductions

Figure 2.3 shows staffing levels as a percentage of operating revenues, compared between the current fiscal year and the proposed fiscal year. As staff levels are reduced, a disproportionate effect happens to employee percentage compared to operational revenue. An increasing number of employees will be terminated, causing a decrease in the percentage of employee costs from 72.88% to 57.99%. This is an indicator that a greater percentage of revenues are paying fixed and variable costs of the Library than historically normal. Specifically, the Library will be paying contractually obligated leases and sick and vacation payouts causing more terminations of employees.

2.3.1 Employee Costs Compared to Operational Revenues

Fiscal Year	Employee Count	Employee Cost	Branch Library Staff %	Shared System Staff %	Employees Compared to Operating Revenues %
FY'10	507	\$26,647,218.71	55.63%	17.25%	72.88%
FY'11	187	\$11,136,995.24	36.47%	21.52%	57.99%

Figure 2.3.2 reflects the inverse cost factor that exists as employees are terminated. Sick and vacation payouts increase for each incremental wave of layoffs. As the system goes deeper into the staff pool, factors such as seniority and tenure are the largest drivers in the payout calculation; i.e., the deeper the cut, the more tenured the employee, the more sick/vacation pay accrued, the greater the payout. The net result of layoffs in FY'11 is the equivalent of approximately 20 additional employees needing to be cut to achieve the same budget results.

2.3.2 *Employee Reduction: Actual and Anticipated with Sick/Vacation Payout*

Fiscal Year	Employee Count	Sick/Vacation Payout	Average Payout
FY'09	507		
FY'10	(120)	\$249,200.00	\$2,076.66
FY'11	(200)	\$974,886.00	\$4,874.43
Totals	187	\$1,224,086.00	

Figure 2.3.3 reflects the actual and projected costs of unemployment that have not been budgeted for in FY'11. FY'10 unemployment costs of \$345,788 are actual figures invoiced in July and due in Nov. FY'11 liabilities are projected maximums based on proposed cuts in FY'11 and cuts taken in Q4 FY'10. **Liabilities for FY'11 are not budgeted.** An external funding source is needed, or a negative feedback loop could occur, causing further cuts in service and staff, or insolvency.

2.3.3 *Employee Reduction: Actual and Anticipated with Unemployment Liability*

Fiscal Year	Employee Count	% Reduction of Staff	Unemployment Liability FY'10	Unemployment Liability FY'11	Unemployment Liability FY'12
FY'09	507	0%			
FY'10	(120)	23.6%	\$345,788.00	\$627,056.00	?
FY'11	(200)	51.6%	\$0.00	\$2,340,727	?
Totals	187	63.1%	\$345,788.00	\$2,967,783.00	?

Note: Unemployment Liability cannot be calculated for FY'12. Federal Extensions will dictate liability. Unemployment liability not budgeted for FY'11. Unemployment for FY'10 is actual at time of document, however increases daily until final bill comes in July.

2.4 Operational Expense

To achieve deficit neutral for FY'11 with the current proposed budget cuts, the Library will have to cut operational expenses along with employees. Every expense line item will be adjusted. The library will cut some expenses (such as 401k match) to zero, and others proportionately to the level of service for the locations that remain open in FY'11.

However, after the Library lays off employees and reduces each line item expense, it will be necessary to close 16 of the branch locations to achieve deficit neutral. As the library shutteres these facilities, the library is contractually obligated to pay leases, utilities and security monitoring. Table 2.4.1 shows the annual lease, utility and data line liabilities.

2.4.1 Ongoing Facility Expense

Location	Monthly Lease Payment	Annual Payment	Utilities	Data Lines	Totals
Belmont				\$1,202.73	\$1,202.73
CheckIt Outlet	\$2,845.25	\$34,143.00	\$767.00	\$826.87	\$38,582.12
Cornelius			\$5,183.00	\$4,186.99	\$9,369.99
Davidson	\$5,869.73	\$19,109.00	\$6,405.50	\$4,585.40	\$35,969.63
Hickory Grove			\$38,146.50	\$12,027.27	\$50,173.77
Matthews	\$17,701.00	\$212,412.00	\$19,153.00	\$11,275.57	\$260,541.57
Mint Hill			\$11,496.00	\$9,020.45	\$20,516.45
Mt. Island			\$11,838.50	\$12,027.27	\$23,865.77
Myers Park			\$4,693.00	\$4,322.30	\$9,015.30
Plaza Midwood			\$ 8,915.00	\$6,279.74	\$15,194.74
ScaleyBark	\$10,400.00	\$62,400.00	\$4,674.00	\$4,096.79	\$81,570.79
Steele Creek			\$19,451.50	\$11,275.57	\$30,727.07
Sugar Creek			\$16,639.50	\$7,667.38	\$24,306.88
West Blvd			\$14,312.50	\$9,396.31	\$23,708.81
Totals	\$36,815.98	\$328,064.00	\$161,675.00	\$98,190.64	\$624,745.62

Note: Davidson Payments end Oct. FY'11. Scalebark has a right to terminate w/180 day notice. Utilities are factored at 50% reduction after closing. Data Lines are under a 36 month contract.

The net result of closing these facilities is an ongoing operational expense of **\$624,745** causing further reductions in staff.

Anticipated Outcomes Proposed Budget Reduction

The reduction in operating revenues will have a significant impact on the operations and the financial stability of the Library. To reach deficit neutral, a disproportionate number of layoffs are necessary, leaving the system with an operational deficit and an unfunded liability for unemployment expense.

3.1 Insolvency Risk

The Library has a risk for becoming effectively insolvent if worst-case scenarios occur as a result of layoffs and vacating locations. As illustrated in Figure 2.3.3 above, the system has an unbudgeted liability for unemployment expense of approximately \$3 million in FY'11. FY'11 projected amounts are based on 26 weeks of eligibility plus an additional 13 week extension. FY'12 liability cannot be projected; however, an additional liability after Federal Extensions could occur. Further layoffs will have an inverse effect on this line item and will not produce the desired result of budget neutral.

In addition, the Library has contractual ongoing obligations for both owned and leased facilities that are closed. Figure 2.4.1 above, is a summation of anticipated expenses; however, is not exhaustive. At the minimum, the Library will have an ongoing liability of \$624,745.62 a year, until either the building is sold or the lease expires.

3.2 Operational Challenges

Figure 3.1.1 reflects the Full-Time Equivalents (FTEs) needed to operate the 8 regional branch locations during FY'11, compared to the amount of FTEs available after the layoffs. The system will have a deficit that will not give flexibility for staff vacations or sick days. Volunteers will be needed to close the deficit in FTE hours worked.

3.1.1 FTE Needs Compared to FTE Actual After Reduction in Force

Fiscal Year	Hours of Operation	FTEs	FTE Deficit	Annualized Hours by Volunteers	Volunteers Needed
FY'10	50	154	0	0	0
FY'11	50	120	(34)	(70,720hrs)	2828

Note: Volunteers needed are calculated based on historical average of volunteers giving 25hrs annually. Deficit is for regional locations only. Table assumes branch locations are closed.

3.3 Mecklenburg County Service Area

Currently, the Charlotte Mecklenburg Library serves 84.6% of Mecklenburg County's \$159 billion tax base within three miles of its current locations. With the layoffs and the reduction of locations, the Library will not be able to provide the same level of service and coverage for Mecklenburg County residents. Figure 3.2.1 reflects the reduction in coverage of Mecklenburg County's tax base for FY'11.

3.2.1 Mecklenburg County Tax Based Serviced by Locations in FY'10 Compared to FY'11

Note: Tax maps pulled from Mecklenburg County Tax 2007 tax data. Tax maps are included in the appendix.

Locations	Tax Value Serviced	% Tax Value Serviced	% of Tax Base Not Serviced
Current	\$135 Billion	84.6%	15.4%
Reduced	\$97 Billion	60.8%	39.2%

Recommendation

The Charlotte Mecklenburg Library recommends implementing the Sustainability Plan developed by the library, which is comprised of a reduced operational footprint, consolidated services with Mecklenburg County, and additional funding.

4.1 County Funding

The County would provide at least \$22.7 million for Library operations, which is \$5 million more than the manager's announced target, but approximately \$12 million less than provided for in the Library's original FY'10 budget.

4.2 Municipal Funding

The Towns and the City, in some combination, would provide at least \$3 million in the aggregate for Library operations.

4.3 Reduction of Operating Expenses

The Library would reduce operating expenses or increase other revenues as necessary to compensate for the remaining \$9 million funding reduction, in accordance with a revised FY2011 budget.

4.4 Consolidation of Services with Mecklenburg County

The Library would consolidate its maintenance and security service functions with those of the County.

4.5 Volunteers

The Library would expand its use of volunteers beyond the current numbers of approximately 1,000 per year.

Plan Outcomes

5.1 Locations

Implementing the plan will reopen 12 locations, including: Cornelius, Davidson, Hickory Grove, Matthews, Mint Hill, Mountain Island, Myers Park, Plaza Midwood, Scaleybark, Steele Creek, Sugar Creek and West Blvd., in addition to the 8 regionals

5.2 Solvency

Implementing the plan will reduce the risk of becoming effectively insolvent, in other words, an inability to pay obligations as they mature.

5.3 Unproductive Use of Revenues

Implementing the plan will reduce the unproductive building expense. In other words, the Library will still need to pay rent and the County will still need to pay debt service on shuttered buildings; and the Library will have to pay the cost of protecting and preserving those buildings until they can be reused or transferred to other ownership.

5.4 Unemployment Liability

Implementing the proposed plan will reduce the unfunded unemployment liability from approximately \$3 million to approximately \$1.35 million. It is unsure whether additional funding will be required to cure this expense.

5.5 Tax Base

The Charlotte Mecklenburg Library will be able to increase service to Mecklenburg County's tax base from 60.8% to 79.5%.

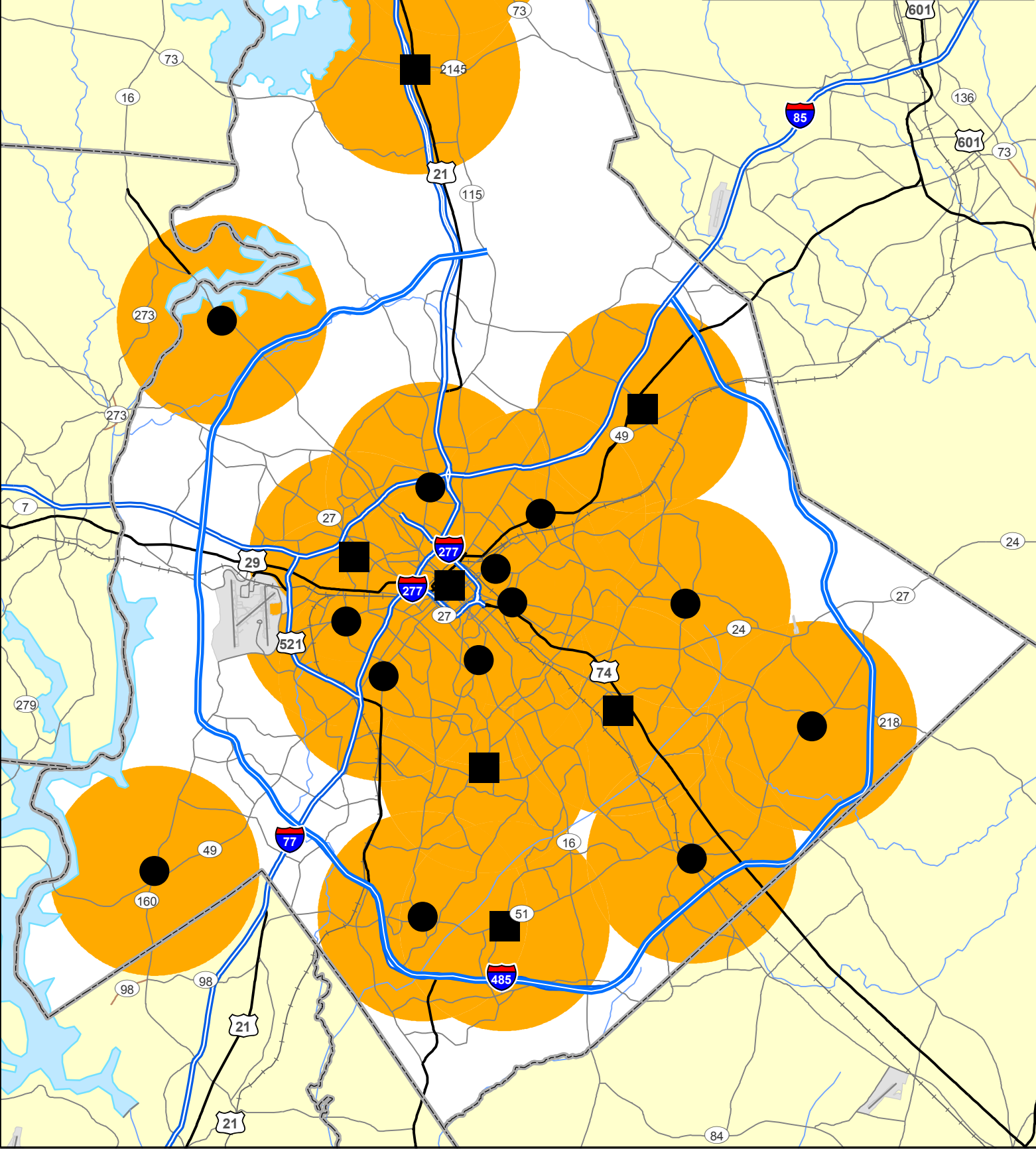
Appendices

Appendix 1: Library Service of Mecklenburg County Tax Base Existing

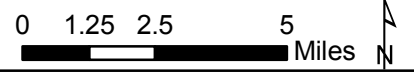
- Regional Facilities
- Branch Facilities
- 3-Mile Facility Radii

Area	Total Tax Value
3-Mile Facility Radii	\$135,106,497,795
Mecklenburg County	\$159,791,964,005
Radii % of County	84.6%

Source: Mecklenburg County



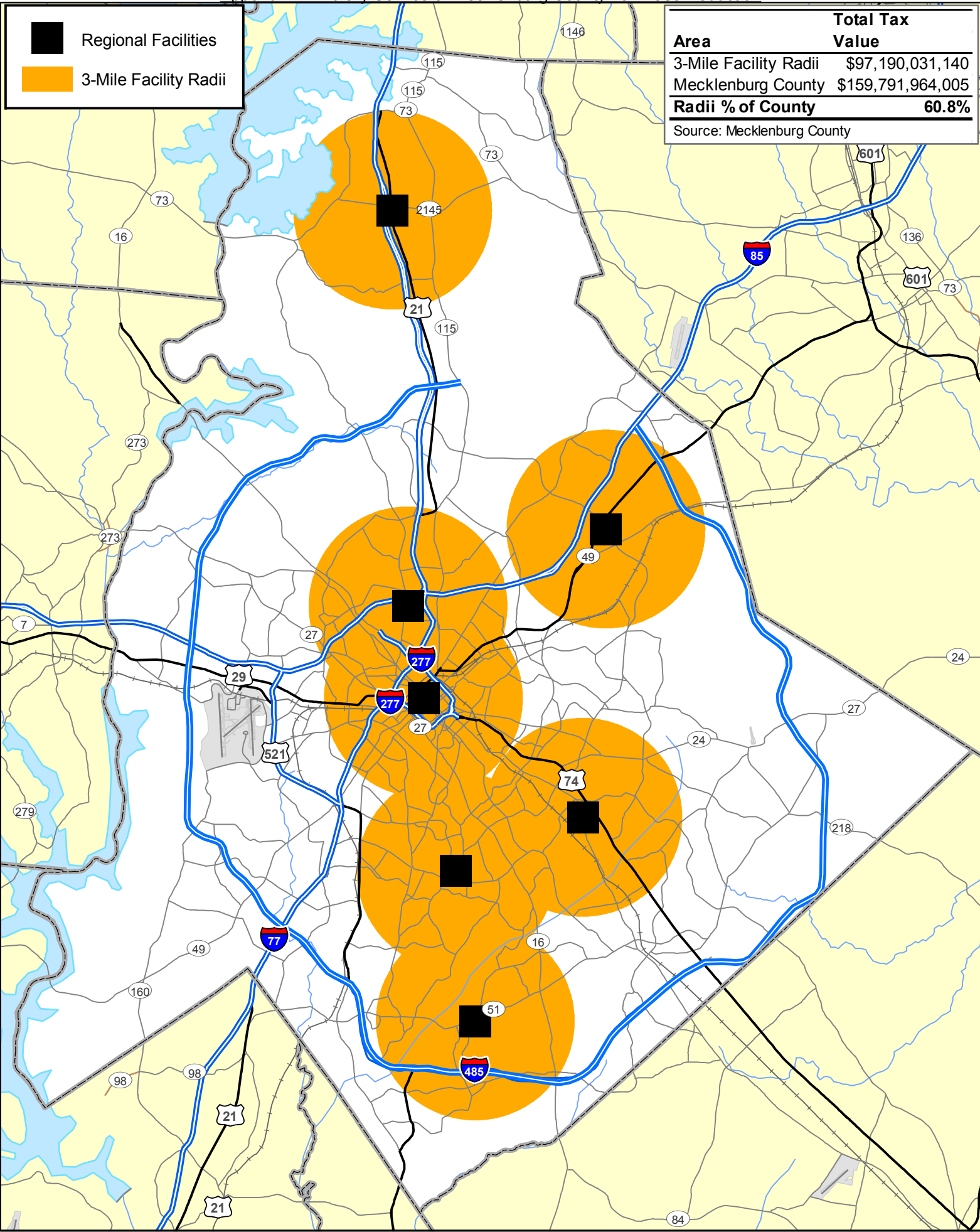
Scenario 1: Existing Regional & Branch Facilities
 Mecklenburg County Tax Parcel Data (2007) for Non-Exempt Properties
 Tax Base from Surrounding Counties Excluded



Regional Facilities
 3-Mile Facility Radii

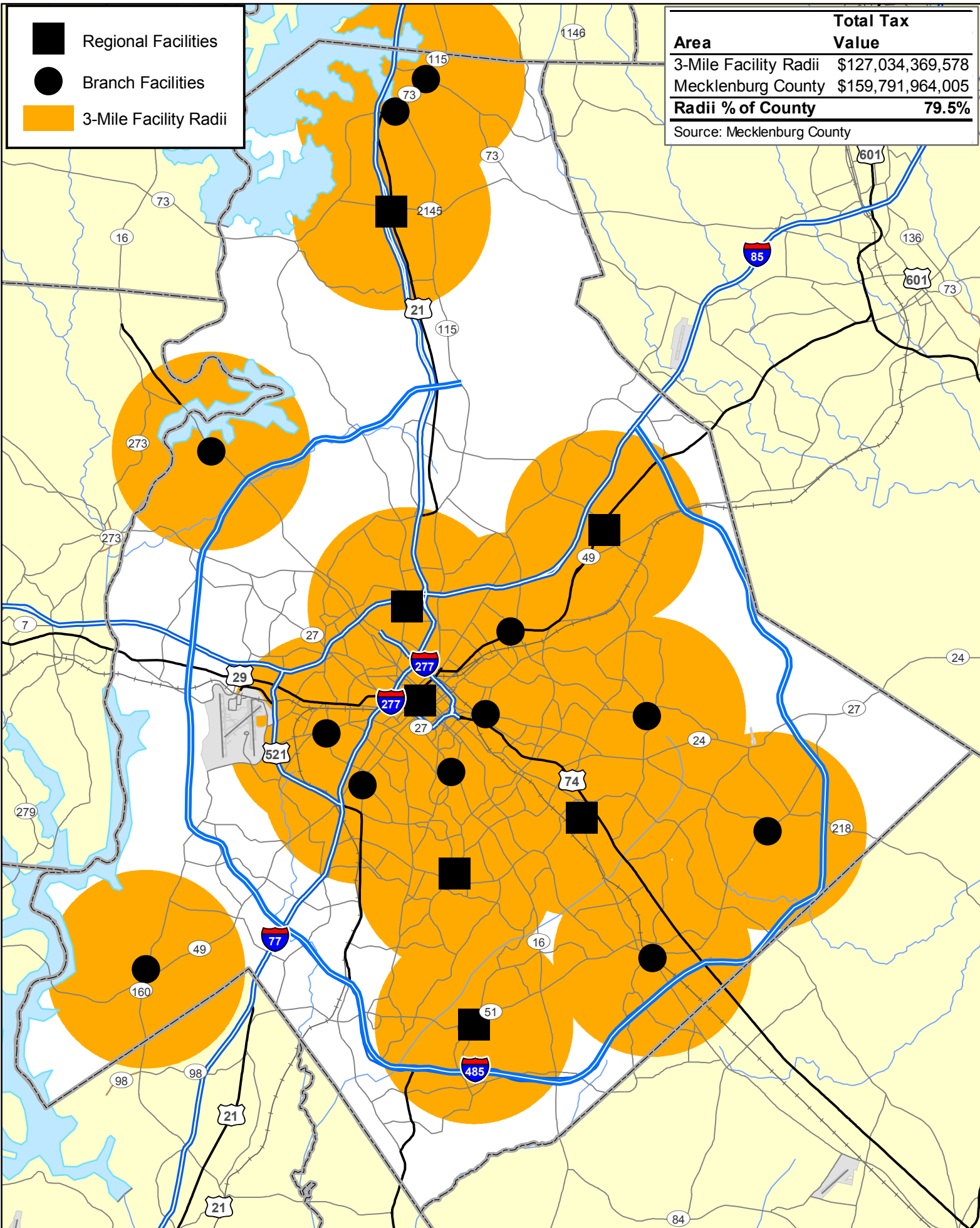
Area	Total Tax Value
3-Mile Facility Radii	\$97,190,031,140
Mecklenburg County	\$159,791,964,005
Radii % of County	60.8%

Source: Mecklenburg County



Scenario 2: Regional Facilities
 Beatties Ford Regional Replaces Freedom Regional
 Mecklenburg County Tax Parcel Data (2007) for Non-Exempt Properties





Scenario 3: Regional & Selected Branch Facilities

Mecklenburg County Tax Parcel Data (2007) for Non-Exempt Properties

Tax Base from Surrounding Counties Excluded; Beatties Ford Regional Replaces Freedom Regional

