

Millage Committee Report and Recommendation to Grosse Pointe Public Library Board of Trustees.

February 28, 2011

INTRODUCTION

The 2008 financial crisis and the significant drop in property values have caused financial difficulties for any entity that depends on tax revenues for its operations. The Grosse Pointe Public Library has long-term bond debt obligations to pay back the funds used to build the Ewald Branch in Grosse Pointe Park and the Woods Branch in Grosse Pointe Woods. The Library formed a Millage Committee to look into the possibility of a millage proposal to pay this bond debt.

EXECUTIVE SUMMARY

The Millage Committee, after numerous public meetings, much research, and much discussion, has concluded that the Library's financial situation is such that, due to the debt service obligations, the decreased revenue from the Headlee Amendment and the 2008 financial downturn, and the prospect of a slow recovery due to the economy and the limitations of Proposal A. In order to relieve the Library from this debt obligation, the Committee recommends that the Library approve a millage increase proposal to be placed on the ballot for the November, 2011, general election. The Committee recommends the millage rate increase be such that its revenue should be limited to paying only the debt obligations, it should be set at a rate sufficient to raise only enough money to pay off the debt obligations for each year, and the increase should end when the debt obligations are satisfied. The wording of the millage proposal should give the Library Board the power to reassess the millage rate to be levied each year. Thus, as property values begin to rebound, the millage rate can be decreased each year to ensure that taxpayers do not pay more than the debt obligation for that year.

This millage will allow the Library to pay its debt obligations without having to limit the level of services it provides to the public, and at the same time, assure the public that this increase is only for a specific purpose and has a definite end.

BACKGROUND

The Grosse Pointe Public Library is a district library serving the citizens of the five Grosse Pointe communities and a portion of Harper Woods. It is funded by a millage tax on all real

estate within the district. Originally, that millage rate was 1.700 mils, meaning that for every \$1,000 of taxable value (i.e., State Equalized Value, or SEV), the property owner would pay \$2.00 each year. Due to a reduction in the millage according to the Headlee Amendment, that rate has dropped to 1.5412. The revenue from this tax accounts for approximately 90% of the Library's funding. The remaining revenue comes from interest income, fines and rental fees, State and County aid, and generous support from the Friends of the Grosse Pointe Library, Grosse Pointe Library Foundation, and charitable donations from patrons and citizens.

The Bonds

In 2003 and 2004, the Grosse Pointe Public Library sold bonds to finance the construction of two new branch libraries. At that time, the Park Branch was located in Pierce School and the Woods Branch in Parcels Middle School. There were problems with the School District wanting that space and the needs of the Library in terms of size and capability left no option other than to build new branches. The money from selling those bonds went to finance the construction of the new Park Branch – now known as the Ewald Branch, named for the Ewald family to recognize their generous support to the Library – and the new Woods Branch.

The Library has begun paying off the bonds. The following chart shows the principal and interest payments due annually to service the bond debt obligation:

Fiscal Year Ending	Total Principal and Interest Due	Fiscal Year Ending	Total Principal and Interest Due
2012	\$1,193,825	2021	\$1,326,750
2013	\$1,275,075	2022	\$1,387,500
2014	\$1,351,450	2023	\$1,303,500
2015	\$1,323,450	2024	\$1,399,050
2016	\$1,295,450	2025	\$1,349,400
2017	\$1,367,450	2026	\$1,323,000
2018	\$1,335,450	2027	\$1,348,500
2019	\$1,403,050	2028	\$1,393,250
2020	\$1,365,750	2029	\$733,250

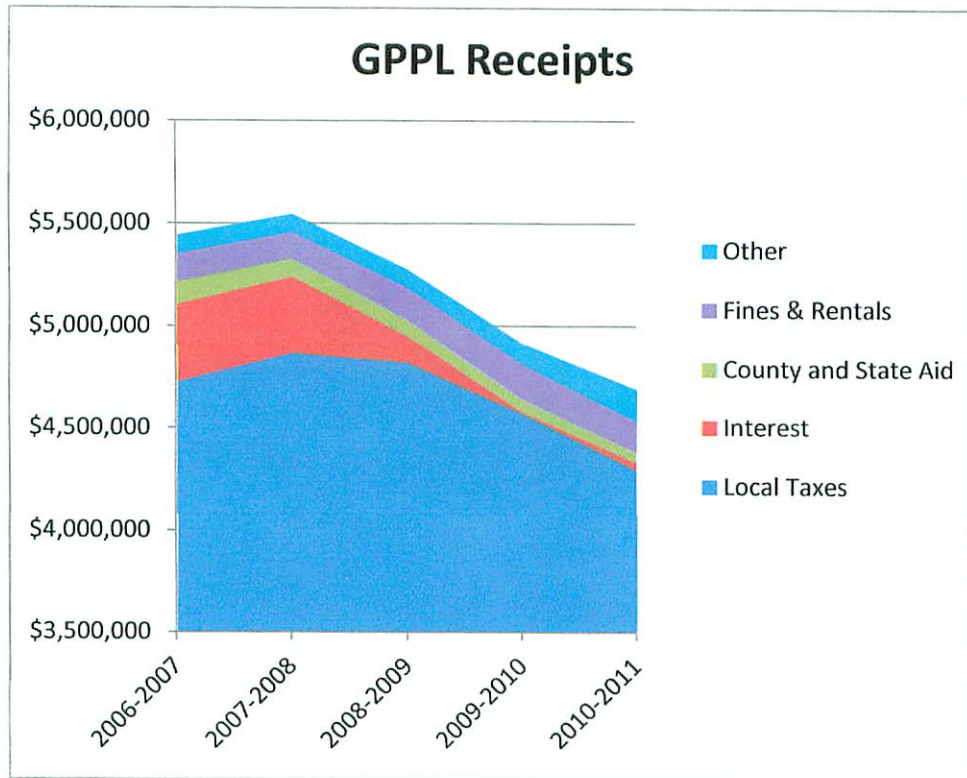
The Library's Current Budget and Financial Status

The 2010-2011 budget shows expected revenues of \$4,691,004, with expected expenses of \$4,960,366, leaving a deficit of \$269,362.

The 2008 worldwide economic problems directly affected the Library's receipts in terms of lower property values resulting in lower tax revenues, interest income, and State and County aid. At the same time, its resources have been stretched as the bad economic times have resulted in a significant increase in patrons' use of the Library and its resources. The Library's receipts have been as follows:

	2006-2007	2007-2008	2008-2009	2009-2010	2010-2011
Local Taxes	4,726,342	4,869,136	4,821,056	4,570,732	4,291,613
Interest	377,158	370,557	128,075	6,958	35,000
County and State Aid	110,377	88,402	79,284	65,027	50,000
Fines & Rentals	138,177	128,182	157,091	170,957	155,000
Other	91,273	89,312	89,991	103,740	159,391
Total Receipts	\$5,443,327	\$5,545,589	\$5,275,497	\$4,917,414	\$4,691,004

A graph shows the overall trend of the Library's receipts:



The interest income, dropping by a factor of 10 in just a couple years, is not expected to increase significantly in the near future.

Governor Rick Snyder's budget plan, submitted on February 17, 2011, calls for a 40% reduction in state aid to libraries over last year, meaning the Library's revenues will be lower than what had been expected. That revenue is unlikely to be increased in the foreseeable future.

The "Other" category includes donations from the Friends of the Grosse Pointe Library and from the Grosse Pointe Library Foundation. Those donations have helped to fund programs that the Library could no longer afford to present.

Fines and Rental income has remained fairly constant. The Library Board has recently raised the fines (they had been the lowest of all libraries in the metro-Detroit area).

The Committee was advised that property assessments for year will decline by 7%. With this and other drops in state/county aid, and interest, for the 2011-2012 fiscal year, the Library is facing a drop in the area of 26% from before the current recession. Combining this with a projected slow recovery over the next several years, the Library needed to look to alternative solutions.

THE LIBRARY'S COST-CUTTING EFFORTS

Since 2008, the Library has taken diligent steps to reduce expenses. The Library first had to determine where savings could be achieved. Debt service on the bonds, which represents about 25% of the budget, is fixed and cannot be cut. Similarly, because the latest union contract had gone into effect in July, 2008 – just a couple months before the economy took its nosedive – meaning that staff salaries and benefits covered by that 3-year contract were not cuttable, except by laying off full-time staff or cutting part-time and student staff (which, as is noted below, the Library chose to do). The uncuttable union salary and benefits amount constituted another 46% of the budget. This left only the remaining 29% of the Library's budget for possible cost-cutting.

It should be noted, in reviewing the below-listed cuts, that the issue of staffing cuts is one of primary significance. The Library prizes its staff for their knowledge, professionalism, and dedication. Faced with the need to cut costs, with staffing costs being the largest single item, it would be the logical first target. But, as mentioned above, the quirk of timing that the 3-year agreement was signed just months before the economy tanked, meant that the opportunity for savings was, in many respects, limited until the new agreement would be negotiated to go into effect in July, 2011. Those negotiations have begun on the new labor agreement.

This left the Library with three ways to decrease labor costs: 1) lay-off full-time workers; 2) decrease or eliminate part-time and student workers; and 3) by attrition, not filling positions as they become open. The Library decided not to lay-off any full-time workers, instead deciding to sharply cut the usage of part-time and student workers, as can be seen below. The attrition has been low, but is being evaluated as positions become open.

As a result, the cuts over the past two fiscal years have been significant:

2009-2010

- Reduced temporary librarian salary expense by 20%
- Reduced Tech Asst. weekly hours by 30%
- Reduced the number of Tech Asst. by 2
- Reduced student shelver hours to save \$10,000

Reduced Public Relations Professional services by 51%

Reduced purchase of AV materials by 26%

Reduced software & database items by 30%

Reduced book purchases by 6%

Reduced periodical purchases by 6%

Eliminated major programs including:

Books on the Lake

Adult author lecture

Health/Retirement Author lecture

Youth Author lecture

Reduced other programs, including:

Senior Symposium

Book discussion groups

And other adult and youth programs

Reduced number of newsletters and printing of guides & reports, saving \$30,000

Reduced office supply purchases by 47%

2010-2011

Reduced temporary librarian salary expense by 50%

Reduced Substitute clerical staffing by 26%

Reduced student shelver expense by 22%,

Eliminated all Tech. Assistant positions

Reduced purchase of AV materials further by 28%

Reduced software & database items further by 70%

Reduced book purchases by 29%

Reduced periodical purchases by 44%

Reduced Public Relations Professional services by 57%

Reduced printing expense by 12%

Reduced office supply purchases further by 52%

These areas, having suffered significant cuts in each of the past two years, cannot survive further reductions. Understanding this, the Library Board has looked in a number of directions. First, it has appointed Trustee Ed Frederickson and the Finance Committee to continue its work locating areas that can be cut or efficiencies that can be exploited to save money. Second, the Library appointed a Services Committee, chaired by Trustee Jennifer Nolan, to examine the services offered to see what the users like or do not like, and what can be eliminated or needs to be retained. Finally, the Library Board appointed the Millage Committee to examine whether that may be an option regarding the payment of the debt service on the bonds.

Millage Committee

The Grosse Pointe Public Library Board of Trustees approved the formation of a committee to investigate the possibility of approving a ballot proposal to increase the millage levied in order to address financial problems that had been created or exacerbated by the 2008 meltdown in the financial and residential real estate markets, which will severely decrease tax revenues for years to come. The Board asked Trustee Brian Garves to chair the committee.

The Committee members were selected to provide input from diverse perspectives. The Committee members were:

Brian Garves – Chair, GPPL Trustee
Jennifer Nolan – GPPL Trustee, Librarian, Real Estate Agent
Mary Beth Smith – GPPL Trustee, Member of Friends of the Grosse Pointe Library
Gina Granger – Member of the Friends of the Grosse Pointe Library
William Hodgman – Member of the Grosse Pointe Public Library Foundation
Jon Gandelot – Local attorney, former Grosse Pointe Public Schools Board member
Stefanie Lozon – GPPL Electronic Support Assistant
Pat McLary – GPPL Youth Librarian
Vickey Bloom – GPPL Executive Director

The Committee met five times. All of these meetings were publicized, open to the public, and subject to the Open Meetings Act. On average, one member of the public attended the meetings, although there were 6 in attendance at the final meeting on February 9, 2011.

Committee Findings and Recommendations

The final recommendations of the Millage Committee are as follows, and were unanimous:

1. The Board should proceed with a millage increase proposal for the voters to approve.
2. The millage should be dedicated solely to paying the remaining debt owed on the 2003 and 2004 bonds which were issued to raise money to build the Ewald Branch and the Woods Branch libraries.
3. The millage increase should last for a finite period – only until the bonds have been retired.
4. The Committee recommends a millage increase of 0.700 mils per year.
5. The Board should annually reassess the millage to calibrate the rate to ensure that no more than the amount needed to pay the debt service is levied.
6. The proposal should be placed on the November, 2011 ballot as part of the general election that is currently scheduled.

Issue 1: Should the Board Propose A Millage Increase?

The Board should proceed with a millage increase proposal for the voters to approve due to the financial situation caused by a number of factors that no one predicted or could have foreseen.

The 2008 financial and real estate crisis, coupled with the unintended consequences of two Michigan constitutional amendments – the Headlee Amendment and Proposal A – has resulted in a huge immediate drop in tax revenues, a large drop in interest income, and the prospect of a slow return of taxable property values and tax revenues. Some experts have predicted that it will be 12-15 years before tax revenues will return to 2007 levels.

When the Library decided to issue the bonds in 2003 and 2004, the Board understood and appreciated the debt that it was taking on. The Board expected – as did anyone in the financial world – that property values would either remain constant or increase, meaning that the tax revenues from the library millage would either stay the same or increase. Few predicted, or could have predicted, the meltdown in the financial and real estate markets and the significant and sudden drop in property values.

The 2008 financial crisis was led by a crash in securities funded by residential real estate mortgages. Through a confluence of events, the result was an immediate drop in residential property values of 30-50% and a worldwide recession affecting all areas of the financial, economic, and employment worlds. Outside of the Great Depression, the United States had never seen a significant drop in property values, let alone one of 30-50% in the space of just a couple years. The latest figures, released in February, 2011, show an overall decrease in the Library's district of approximately 7 percent. Experts believe that values will continue to drop for probably two more years. Because the Library is funded by a millage based on property values, as those values fall, the tax revenues fall, meaning that Library revenues will continue to drop for at least two more years.

But the Library's problem is not just the drop in property values. Two Constitutional provisions – the Headlee Amendment and Proposal A – intensify that drop both in terms of its overall effect and by slowing the rebound when the economy finally rebounds.

The Headlee Amendment exacerbates this tax revenue drop because it has already lowered the overall millage rate, with no mechanism to automatically return it to the original level. It provides that, if overall property values rise greater than the inflation rate, the entity's millage rate will be decreased accordingly so that the overall tax money generated stays the same. In terms of the Library, the original millage was 1.700 mills. Due to the Headlee Amendment, the current millage is 1.5412 mills. In theory, this protected the taxpayer from having to pay too much tax. In reality, while there is the automatic provision allowing the millage rate to be decreased if property values increase, there is no corresponding provision allowing for the millage rate to be increased back up to the original amount if property values decline. This oversight is likely due to the fact that no one believed that property values would ever significantly decline. Because of this unintended and unforeseen consequence, the Library is left

with both a lower millage rate and lower property values, which means the effect of the property value drop is multiplied.

Proposal A is similar, but it looks to individual property values, rather than overall values like Headlee. It affects how quickly the tax revenues can recover back to earlier levels. Similar to the Headlee Amendment, the concern was that property values would increase at a rate greater than inflation and thus the homeowner would face a much larger tax bill, possibly without the means to pay it. Proposal A provides that a residence's taxable value cannot increase in one year greater than 5% or the rate of inflation, whichever is less. This mechanism has provided tax relief to many people in the Grosse Pointe/Harper Woods areas when property values in the 1990s were increasing quickly. However, recently, property values in Grosse Pointe/Harper Woods have dropped approximately 30% over the past few years, meaning that the tax revenues now being generated are 30% less than before due to the sudden drop.

While property values may begin to rebound soon, Proposal A will limit the increase in a property's taxable value as the rebound occurs, thus slowing the corresponding tax revenue increase. For example, if property values miraculously rebound and return to 2007 levels next year (an immediate 30% gain), tax revenues will not magically return to 2007 levels. Proposal A prevents this because it limits any taxable value increase to 5% or the rate of inflation. Thus, even as property values rise in the coming years, the individual taxable values (and resulting tax revenues) are going to rise at a slower rate. If, hypothetically, inflation is 1%, it would take 30 years to recover from a 30% drop in value – even if property values returned to 2007 levels by 2012. Because no one expected property values to drop significantly, Proposal A contained no provision to slow the taxable value decrease or address a quicker return to previous levels.

Putting all of this together – significantly decreased property values, decreased millage due to Headlee, and slow projected recovery of tax revenues – the long-term outlook is that tax revenues are not going to suddenly revert to earlier levels. As to the drop in interest income from \$370,000 to \$7,000 in just two years, while this did increase to \$36,000 for 2010, the prospect of interest income returning to anything close to the 2008 level is doubtful. State and County aid has dropped dramatically, and due to their present financial conditions, it is unlikely that there will be an increase in current state aid – and the Library may well see a further decline.

Based on this examination, the current financial situation and the future prospects do not show a likelihood of a significant increase in revenues in the near future. Efforts over the past two years to cut costs have reached the limit even though tax revenues will likely continue to decline for another two years. As a result, this Committee recommends that the Library Board propose a millage increase, for a finite period of time, to address the bond debt obligation in order to avoid deep cuts in staffing and library services.

Issue 2: What Millage Proposal Does The Committee Recommend?

The Committee unanimously recommends the millage proposal be as follows:

- 1. The millage should be dedicated solely to paying the remaining debt owed on the 2003 and 2004 bonds which were issued to raise money to build the Ewald Branch and the Woods Branch libraries.**

The law allows the millage funds to be used for any general or specific use. However, if the millage proposal states a specific use, then those funds may only be used for that stated purpose. The Committee believes that the citizens need to be assured that this millage increase will not be used just to avoid tough budget cuts or to raise their taxes in perpetuity. Therefore, the Committee recommends the proposal be a specific one so that the funds raised may be only used for paying the bond debt obligation.

- 2. The millage increase should be finite and last only until the bonds have been retired.**

The law allows the Library to seek a millage for any length of time, including in perpetuity. This proposal is to pay off a specific debt, the bond obligation, which lasts until 2029. The Committee recommends the millage proposal be limited in time to expire in 2029 when the bond debt obligation is satisfied.

- 3. The Committee recommends a millage increase of 0.700 mils per year.**

The Committee spent a lot of time working through the numbers regarding what increase to recommend. It considered each year's debt obligation (a number that fluctuates each year), as well as the likelihood that property values are going to continue to decline.

Using the recently-reported decline for 2011 of 7 percent, the Committee then made various assumptions as to the future, producing the following numbers:

Difference (Using 2013-2014 Estimates)

Assumptions:		7% drop in 2011-12 5% drop in 2012-13 5% drop in 2013-14				Assumptions:		7% drop in 2011-12 10% drop in 2012-13 5% drop in 2013-14			
		0.550 Mills	0.600 Mills	0.650 Mills	0.700 Mills			0.550 Mills	0.600 Mills	0.650 Mills	0.700 Mills
Year(Ending)	0.550 Mills	0.600 Mills	0.650 Mills	0.700 Mills	Year (Ending)	0.550 Mills	0.600 Mills	0.650 Mills	0.700 Mills		
2012	\$230,494	\$359,978	\$489,461	\$618,945	2012	\$230,494	\$359,978	\$489,461	\$618,944		
2013	\$78,028	\$201,037	\$324,046	\$447,056	2013	\$6,812	\$123,347	\$239,882	\$356,417		
2014	\$1,570	\$118,429	\$235,288	\$352,147	2014	\$133,658	\$22,949	\$87,759	\$198,467		
2015	\$28,170	\$145,029	\$261,888	\$378,747	2015	\$105,658	\$5,051	\$115,759	\$226,467		
2016	\$54,770	\$171,629	\$288,488	\$405,347	2016	\$77,658	\$33,051	\$143,759	\$254,467		
2017	\$13,630	\$103,229	\$220,088	\$336,947	2017	\$149,658	\$38,949	\$71,759	\$182,467		
2018	\$16,770	\$133,629	\$250,488	\$367,347	2018	\$117,658	\$6,949	\$103,759	\$214,467		
2019	\$47,450	\$69,409	\$186,268	\$303,127	2019	\$185,258	\$74,549	\$36,159	\$146,867		
2020	\$12,015	\$104,844	\$221,703	\$338,562	2020	\$147,958	\$37,249	\$73,459	\$184,167		
2021	\$25,035	\$141,894	\$258,753	\$375,612	2021	\$108,958	\$1,751	\$112,459	\$223,167		
2022	\$32,678	\$84,181	\$201,040	\$317,899	2022	\$169,708	\$58,999	\$51,709	\$162,417		
2023	\$47,122	\$163,981	\$280,840	\$397,699	2023	\$85,708	\$25,001	\$135,709	\$246,417		
2024	\$43,650	\$73,209	\$190,068	\$306,927	2024	\$181,258	\$70,549	\$40,159	\$150,867		
2025	\$3,517	\$120,376	\$237,235	\$354,094	2025	\$131,608	\$20,899	\$89,809	\$200,517		
2026	\$28,597	\$145,456	\$262,315	\$379,174	2026	\$105,208	\$5,501	\$116,209	\$226,917		
2027	\$4,372	\$121,231	\$238,090	\$354,949	2027	\$130,708	\$19,999	\$90,709	\$201,417		
2028	\$38,140	\$78,719	\$195,578	\$312,437	2028	\$175,458	\$64,749	\$45,959	\$156,667		
2029	\$588,860	\$705,719	\$822,578	\$939,437	2029	\$484,542	\$595,251	\$705,959	\$816,667		

This chart shows the "difference" between the revenue generated by the millage at a given rate minus the debt obligation for that year. For example, looking to the left-hand chart, for 2012, at a rate of 0.550 mills, the tax revenues raised would exceed the amount required for the debt service by \$230,494. The red numbers represent years where the millage would not raise sufficient money to pay the debt obligations.

The overall strategy was to come up with a number that was sufficient to cover the amount owed, including scenarios with continued property value declines. At the same time, the Committee believes it is important to keep the maximum rate as low as possible so as not to ask for more than the Library needs.

Looking at the two scenarios, the Committee was concerned about the uncertain real estate market. While the predictions in the left-hand chart are likely the best estimates at this point, there is still much uncertainty. By using 0.700 mills, even the more dire prediction (the right-hand chart) shows a difference of at least 10% above the debt obligation in any given year. The more-conservative scenario provides a substantial cushion: if property values should drop an additional 10% beyond the additional 15% presented in this scenario, the rate should still be sufficient to pay the bond debt obligation. Thus, the amount recommended should be sufficiently-conservative.

For the property owners, a rate of 0.700 mills means that a person owning a house with a State Equalized Value of \$100,000 (i.e., a market value of \$200,000) would pay \$70.00 per year, at a maximum. But, as will be recommended below, the amount actually assessed will likely be much less than that.

- 4. The Board should reassess the millage annually to ensure that no more than the amount needed to pay the debt service is levied – that the millage rate be decreased if possible for a given year.**

The Committee recommends the millage proposal be worded such that the Library could levy an amount "up to 0.700 mills," allowing the Library to vary the rate levied each year.

The Committee believes strongly that the taxpayers must rest assured that they will be pay only the amount required to pay the debt service. Thus, as property values do begin to rise, the rate levied should be able to be decreased, ensuring the taxpayers pay no more than necessary to pay off the bond debt.

If there is the millage increase passes and is levied in 2012, then in order to raise the money to pay the debt service that year, the rate assessed may be less than 0.500 mills, meaning a person with a house with a \$200,000 market value may well pay less than \$50.

- 5. The proposal should be placed on the November, 2010 ballot as part of the general election that is currently scheduled.**

This recommendation is a complicated one.

The law provides that if the millage proposal is put on a ballot of a general election, then there is no cost to the Library. If the millage proposal is part of a special election, then the Library would need to pay all (if it was the only question on the ballot) or a share of the election expenses. Research with the various cities revealed that the election costs would total approximately \$50,000-\$60,000. This expense would come from the Library's budget.

There is also the issue of voter turn-out. The November elections generally have higher turn-out than the other elections, although primary elections in August for local races have good turn-out. February and May elections have low turn-out: 10-20% in the February 2011 election, for example.

The upcoming elections are as follows:

- August, 2011
- November, 2011
- February, 2012
- May, 2012

The November, 2011 election is a general election. Each of the municipalities will be electing a number of councilmembers and/or mayors. There would be no cost to putting the millage proposal on this ballot. Voter turn-out will be fairly high.

As for August, 2011, it would be a primary election for the November general election. The municipalities generally have a primary election only if there were more than twice the number

of candidates as council seats up for election. Thus, if a city had three council seats being decided, there would be a primary only if there were more than seven candidates running. If some or none of the municipalities had primaries, the Library would have to pay for all or its share of the costs for this election. In past years, a number of cities have not required primaries, thus the likelihood that the Library would have to bear the cost of the election in one or more of the cities is good.

The February 2012, election is tentatively scheduled as the presidential primary. During the last presidential campaign, Michigan's political parties decided to move the primary to January 15, 2008, from its usual end-of-February slot, in an effort to make its primary more relevant nationally. Whether the parties will again move the date up or leave it as it is presently-scheduled for the end of February is unknown. Because there would be the presidential primaries, the Library would not be required to pay for the election costs and voter turn-out would be fairly good.

The May, 2012 election would be a special election that the Library would have to pay all or a share of the election costs. Being tied to no other ballot issues, turn-out would be low.

Looking at these options, the Committee recommends the November, 2011 general election. As there are a number of municipal elections also on the ballot, turn-out should be good, offering a representative election result. There would be no cost to the Library. The November election would provide sufficient time for the millage campaign to get its message out to the voters to allow them to make an informed choice. If the millage is passed by the voters in November, it is likely that the increase could be included on the next property tax bill, allowing the Library to immediately begin paying off the debt obligation, whereas if the election is held in 2012, the millage would not be able to be applied until 2013.

The Committee was concerned about the uncertainty regarding whether there will be an August primary and when the 2012 presidential primary will be held. This presents logistical difficulties. Further, as with the May 2012 election, the Library would have to pay for all or a part of the election, which could exceed \$50,000.

Final Note

The Millage Committee did not investigate the Library's options in terms of refinancing the some or all of the bonds, nor the possibility of calling some of the bonds early in order to save money long-term. While those considerations could lead to cost-savings, such an investigation was beyond the scope of the Millage Committee's charge from the Board of Trustees.

Summary

In conclusion, the Committee looked carefully at whether the current financial situation compels the Library to propose a millage increase, and has concluded that it does. The Committee unanimously believes that a millage for a finite period, specifically directed to pay the bond debt obligation is the best option, along with a provision allowing the Library to adjust the millage

rate annually to ensure that the taxpayers pay only the amount needed to pay the bond debt obligation.



Brian Garves
Chair, GPPL Millage Committee

Date: 2/28/2011