

Silicon Valley Library System

Funding Implications for a Municipal Library to Join the Santa Clara County Library

January 2012

**Management
Partners**





January 31, 2012

Ms. Linda Crowe
Chief Executive Officer
Pacific Library Partnership
2471 Flores Street
San Mateo, CA 94403

Dear Ms. Crowe:

Management Partners is pleased to transmit this project report to you and members of the Silicon Valley Library System Steering Committee. The report answers the questions posed by the SVLS about the issues involved if a city library wants to join the Santa Clara County Library.

As the report shows, the issues are complex and some questions cannot be answered in the abstract. For example, although property tax distribution implications can be imagined and analyzed, negotiations with the Santa Clara County Library could result in various outcomes for services and costs that Management Partners cannot predict.

We would like to acknowledge the cooperation we received from the Santa Clara County Library as well as the Santa Clara County Controller-Treasurer's Office. We are grateful for their assistance. We also appreciate the guidance and advice from the Steering Committee members. Please do not hesitate to call on us if we can be helpful in the future.

Sincerely,

A handwritten signature in black ink, appearing to read "Gerald E. Newfarmer", is written over a light blue horizontal line.

Gerald E. Newfarmer
President and CEO

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Executive Summary

Management Partners was asked to provide information about the cost and process for a non-member, municipal library, to join the Santa Clara County Library (SCCL). The task was challenging for a number of reasons. First, while the Santa Clara County Library Joint Powers Authority (JPA) agreement provides a process for joining the system, it is not specific with respect to revenue allocation or property tax distribution that might accompany the process. (The JPA agreement is included as Appendix A.) Management Partners was unable to obtain a consensus or formal determination from Santa Clara County (County) regarding the exact process for joining the SCCL or the revenue or property tax implications that may accompany such an action. Further, there is no precedent for joining the SCCL by another non-member following the property tax distribution system established following Proposition 13 in 1978. The property tax distribution system in California has become so complex over the past decades due to a multitude of legislative actions applicable to local government entities that it is not possible to precisely answer the property tax redistribution question without the assistance of outside legal counsel and actually petitioning the SCCL to join in order to get a definitive determination of what would be required.

Nonetheless, Management Partners provides a framework in this report to try to address the following questions:

- What are the possible avenues to become a member of the JPA and/or join the SCCL?
- What are the revenues and expenditures, including property tax, for the different paths that might be chosen?

Our conclusion, albeit with a number of caveats, is that there may be two possible paths for a municipality to provide library service through the SCCL.

1. Filing an executed counterpart of the JPA agreement, and approval by 60% of the JPA governing board;

and

Executing a tax sharing agreement pursuant to Revenue and Tax Code 99.02 (if determined to be applicable) where the city would voluntarily agree to reallocate a portion of its existing property tax to the JPA (or Library District),

or

2. Contracting with the JPA for the provision of library services.

Using assessed valuation data and property tax allocation data provided by the Santa Clara County Controller-Treasurer's Office this report first discusses the property tax variables and implications that could result from a property tax reallocation negotiation between a city and the SCCL (County). Then based on municipal library and SCCL budget data, we developed three scenarios to illustrate the impact of different assumptions associated with both of the paths described above for a municipal library that may wish to join the SCCL. (Management Partners was not asked to evaluate the costs and benefits of providing library services through a municipality as compared to the SCCL. While some data points in this report provide comparison information, they should not be construed as an evaluation of service levels or costs to provide those services.)

The scenarios incorporate assumptions regarding how property taxes and other resources could shift as well as relative operating costs for the service as delivered by the SCCL. An unanswered question is whether the JPA would require a reallocation of property tax revenue as a condition of joining the JPA and whether such a reallocation would be subject to a change in the Educational Revenue Augmentation Fund (ERAF) applied to a city's property tax.

Lacking clear precedent for this kind of change and no formal determination from Santa Clara County representatives, our scenarios serve as templates to bridge the uncertainties while providing approximate measures of service and cost impacts. A summary of the scenarios and possible impacts follows.

Scenario 1 – City Joins SCCL / No Change in the ERAF Rate. This approach provides a baseline assuming that the ERAF tax shift does not increase from the existing 19% city rate to the 40% SCCL rate. Impacts range from an approximate decrease of 17 hours of service each week or an increase in required funding of \$2,048,252 per year to maintain hours of service.

Scenario 2 – City Joins SCCL / ERAF Rate Changes. This approach builds on Scenario 1 by including an increase in the ERAF rate from the existing 19% city rate to the 40% SCCL rate. Impacts range from an approximate decrease of 26 hours of service each week or an increase in required funding of over \$3 million per year to maintain hours of service.

Scenario 3 – City Contracts with SCCL for Service. This approach considers impacts from contracting for service based on costs associated with SCCL. Impacts range from an approximate decrease of 23 hours of service each week or an increase in required funding of \$2.7 million per year to maintain hours of service.

Ultimately, a definitive process determination from either the County or outside legal counsel will be required to assess the revenue implications of joining the SCCL. Following this, a municipality may then work with SCCL on service levels and costs and make an informed decision as to whether it is cost effective to join the system and the merits of doing so.

Background

The Pacific Library Partnership (PLP) is a Bay Area consortium of four regional library systems representing city and county libraries in Alameda, Contra Costa, Monterey, San Benito, San Francisco, San Mateo, Santa Clara and Santa Cruz counties. The Silicon Valley Library System (SVLS) is one of the four regional Joint Powers Agreement- based entities that make up the PLP JPA. All have the goal to maximize cooperation and boost economies of scale for municipal and county library systems in their membership.

The Santa Clara County Library (SCCL) was organized under the County Free Library Law in 1914. The SCCL has its own geographically defined tax district (the County and nine cities) originally established by the Board of Supervisors, with a dedicated tax rate. A joint powers authority (JPA) was formed in 1994 to share governance of the SCCL with the city members, among other reasons. The Santa Clara County Library serves the populations of the unincorporated areas of the county and the cities of Campbell, Cupertino, Gilroy, Los Altos, Los Altos Hills, Milpitas, Monte Sereno, Morgan Hill and Saratoga. While generally referred to as a JPA library system (a JPA was formed in 1994), SCCL staff also state they are a county library system as well.

In Santa Clara County, six municipalities provide their own library service to the community: Los Gatos, Mountain View, Palo Alto, San Jose, Santa Clara and Sunnyvale. The Santa Clara County Library and the municipal library systems are funded through a combination of general fund revenue resources, including property tax, voter-approved special taxes, library fees and fines, grants and contributions and donations. The Santa Clara County Library is supported about 80% from property tax and a special tax approved by the voters in 2005 through the establishment of a Community Facilities District. Municipal libraries are funded primarily through the general fund of the respective municipality, which represents a combination of revenue resources from property and sales tax as well as fines and fees for service.

The membership of the Santa Clara County Library has not changed since Gilroy joined the system in 1968. Following the passage of Proposition 13 in 1978, property tax allocation in California changed dramatically, which had a significant and negative impact on the funding of county libraries in particular, as they typically were a separate taxing entity within the county. As a result, county libraries have been particularly impacted by property tax reductions over the last 30 years.

Cities have also experienced property tax fluctuations due to the state's need for additional revenue through the years. Municipal libraries have suffered as well. Both systems, therefore, have pursued various but sometimes different paths for sustaining service levels to their communities. In addition to property tax and the voter-approved special tax, some cities within the SCCL have also chosen to allocate general fund revenue in support of additional service or longer hours within their library, while other municipal libraries have sought voter approved special fees or taxes to accomplish the same objective.

Project Approach

Management Partners researched the funding implications for a municipal library to join the Santa Clara County Library system by reviewing a range of documents and data, interviewing relevant local governmental agencies and employing various analytical techniques in order to present the information. These activities enabled Management Partners' project staff to gain an understanding of the major issues and critical revenue implications associated with alternatives for joining the SCCL.

The interviews, the data and written documents were important and helped shape the framework of this report. Each of these elements is described below.

Interviews

Management Partners began the project by gaining an understanding of the history of the Santa Clara County Library, its funding and revenue sources and current policies regarding the delivery of library services to its member cities. We also sought to understand the property tax allocation in Santa Clara County, the governmental structure of the county library system, as well as the library's various funding resources. Toward that end, we interviewed, electronically communicated or consulted with the following:

- Santa Clara County Librarian, Santa Clara County Deputy County Librarian for Community Libraries and Human Resources, the Deputy County Librarian for Information Technology and Collection, and Administrative Services Director
- Santa Clara County Local Agency Formation Commission (LAFCO) Executive Director
- Representatives of the Santa Clara County Controller-Treasurer's Department
- Santa Clara County Office of the County Counsel staff
- Outside legal counsel regarding California revenue and taxation government codes

- Deputy County Librarian, Information Technology and Collection

In addition, Management Partners worked with a steering committee of the Silicon Valley Library System, composed of Pacific Library Partnership staff and several municipal librarians from the Silicon Valley Library System (SVLS).

Document Review

Management Partners reviewed a variety of documents during the course of this engagement. These included:

- Amended and Restated Joint Exercise of Powers Agreement By and Between the County of Santa Clara and the cities of Campbell, Cupertino, Gilroy, Los Altos, Los Altos Hills, Milpitas, Monte Sereno, Morgan Hill and Saratoga, dated August 9, 2001
- Exhibit B, Santa Clara County Library District Joint Powers Authority, Community Facilities District No. 2005-1
- Feasibility Study for Creation of County Service Area for Library Services, Application to LAFCO, dated June 22, 1994
- California Public Library Organization, California Public Library Organization Project Advisory Group
- Funding Formula Allocation Methodology, Santa Clara County Library District, dated August 29, 2011 (Appendix B to this report)
- Library Study for the City of Milpitas, Ruth Metz Associates and Jeanne Goodrich Consulting, dated July 26, 2006
- “Demystifying the California Property Tax Apportionment System A Step-by-Step Guide through the AB 8 Process,” David Elledge, Controller-Treasurer, County of Santa Clara
- Final Service Review, Santa Clara County Local Agency Formation Commission, Santa Clara County Library Service Area, LSA Associates, Inc., dated August 2006
- “The Metamorphosis of Special Districts: Current Methods for Consolidation, Dissolution, Subsidiary District Formation and Merger,” California Association of Local Area Agency Formation Commission White Paper, August 2008
- Publicly available documents on SCCL policy, organization, funding, operations and results
- Publicly available documents on respective independent city library policy, organization, funding, operations and results
- Library survey data collected through the Public Libraries Survey by the Institute of Museum and Library Services (IMLS) incorporating FY 2009 information

- Library survey data collected through the *Library Journal's* Index of Public Library Service 2011 (also relies on IMLS data)

Analysis of Alternative Approaches

Management Partners began our analysis by trying to gain an understanding of the current governmental structure of the Santa Clara Library and different methods by which a municipal library might be able to join the system. This was done by reviewing relevant sections of the California State Government Code and other documents regarding California library systems, and interviewing the Santa Clara County Librarian and administrative staff, the Executive Director of the Santa Clara County Local Agency Formation Commission, Santa Clara County Controller-Treasurer's Department representatives. Management Partners also consulted with legal counsel experienced in revenue and taxation in California.

Analysis of Revenues and Budgets

Understanding how funds flow comprised a key component in assessing alternative approaches for library services. Management Partners developed information on the resources available to support respective library operations as well as on how those funds were used.

Revenue and expenditure data for SCCL were provided by management. As a matter of practice, the organization does not allocate costs to specific JPA participating libraries. For the purposes of this analysis and comparability with libraries operating outside the SCCL we have made general assumptions about the allocation of indirect and overhead costs to the participating community libraries.

Management Partners used publicly available information to develop revenue and expenditure data for library operations in Los Gatos, Mountain View, Palo Alto, San Jose, Santa Clara and Sunnyvale. For this analysis, the project team used the latest fiscal year actual data available. This contrasts with the comparison operations data developed from the Institute of Museum and Library Services that reported fiscal year 2009 information.

Santa Clara County Library System

This section of the report provides an overview of operations for the Santa Clara County Library and the municipal libraries in Santa Clara County as well as comparisons of selected services. This information is intended to provide context for the discussion of alternatives provided later in this report.

Overview of Santa Clara County Library Operations

While generally referred to as a JPA Library system, Santa Clara County Library staff also state that they are a county library system as well. In 1914, the Santa Clara County Library was established as a department of the County and was supported by a property tax levied by the Board of Supervisors. Following passage of Proposition 13 in 1978 and the resulting 50% decrease in Santa Clara County Library property tax revenues, the Board of Supervisors directed the County Librarian to work with the city managers of the member cities to develop a funding plan. This effort in 1980 resulted in a library funding formula that was based equally on assessed valuation, population and circulation.¹

In April, 1994, the nine member cities and Santa Clara County formed a joint powers authority (JPA) to manage the operation of the libraries.² The JPA for the SCCL establishes how the agency will be governed and its relationships to other units of government. Under the agreement, the County Librarian and all library personnel remain County employees subject to the County's labor agreements and personnel policies. The County Librarian is appointed and reports to the County Executive while also reporting to the JPA Board, which may make recommendations to the County Executive relating to the selection and performance of the

¹ Funding Formula Allocation Methodology," Santa Clara County Library District, August 29, 2011.

² Amended and Restated Joint Exercise of Powers Agreement By and Between the county of Santa Clara and the Cities of Campbell, Cupertino, Gilroy, Los Altos, Los Altos Hills, Milpitas, Monte Sereno, Morgan Hill and Saratoga, 2001.

County Librarian. The County also continues to provide legal, purchasing, payroll, budget, treasury and other services to the library system and is reimbursed for these services. The JPA also includes provisions for the withdrawal or addition of members.

Fiscal and policy decisions impacting the libraries were delegated by the Board of Supervisors to the JPA Board. The Board is comprised of voting representatives selected by the member cities (one per city) with the County designating two members of the Board of Supervisors as voting representatives. The 1994 JPA Agreement also incorporated generally the 1980 Library Funding formula.

The member cities and the County entered into an amended and restated JPA agreement on August 9, 2001. The restated agreement provides that funding of personnel and library materials at each library facility shall be the function of three equally weighted factors:

1. Circulation,
2. Assessed value component net of any redevelopment agency impact, and
3. Population of each library service area, adjusted so as to provide minimum service levels stipulated in the agreement.

The Library Joint Powers Board may change this formula, provided service levels are not adversely affected. The JPA also stipulates a minimum service level that will be provided at each library (also referred to as “the platform”). The minimum service levels include the following:

1. Thirty hours, five days per week at every community library,
2. Twenty hours per week at branches such as Woodland,
3. Bi-weekly bookmobile service, and
4. Administrative, collection and technical services, including support appropriate to public service hours.

In practice, the SCCL has provided a more robust minimum service level approximating 54 total hours of weekly service at the community libraries. Each member city also has some latitude to request additional services if it is willing to provide additional local funding. This is a subject of negotiation and the service enhancement requires approval by the JPA Governing Board. Milpitas, Cupertino and Los Altos/Los Altos Hills have each provided additional funding to increase the hours of weekly service at their respective community libraries to 66 hours per week.

The SCCL receives funding primarily through property taxes apportioned to the Library District and a special tax first approved by the voters in 2005 through the formation of a Community Facilities District (CFD). Other major sources of revenue include library fines and fees, contributions from cities; State Public Library Fund; State and Federal Library Services Act funds; state grants to the SCCL JPA; and, interest earnings.

Table 1 provides a summary of major revenue and expenditure categories supporting SCCL operations. Property taxes combined with the Special Tax (Community Facilities District) account for more than 81% of total revenues. Employee salaries and related personnel expenditures comprise approximately 60% of total annual expenditures.

Table 1. Santa Clara County Library Revenue and Expenditure Summary for FY 2009/10 and FY 2011/12

		FY 2009/10 Actual	FY 2010/11 Adopted	FY 2011/12 Adopted
Revenues				
	Property Taxes	\$22,289,962	\$23,700,900	\$23,607,300
	State Grants	1,349,168	1,076,000	0
	Special Tax	6,000,000	5,610,000	5,610,000
	City and County Contribution	1,184,181	1,217,170	1,275,393
	Fines and Fees	613,742	680,000	920,000
	Other	\$1,140,814	\$825,700	\$795,700
	Total	\$32,577,867	\$33,109,770	\$32,208,393
	Transfer from Reserves	\$2,694,333	\$1,819,625	\$3,684,840
	Total	\$35,272,200	\$34,929,395	\$35,893,233
Expenditures				
	Personnel	\$21,550,000	\$21,845,582	\$21,656,000
	Books and Materials	4,580,000	4,210,500	4,000,000
	Facilities	2,972,450	3,813,921	3,813,921
	Services and Supplies	6,089,950	4,561,839	6,052,259
	Fixed Assets and Vehicles	79,600	497,553	371,053
	Total	\$35,272,000	\$34,929,395	\$35,893,233

The Library administration develops an annual budget proposal for review and approval by the Library JPA Board. The approved budget is then forwarded to the County Board of Supervisors for adoption. The development of the annual budget begins with the development of the

“formula share” percentages for each library. As set forth in the JPA, funding of personnel and SCCL materials at each SCCL facility (allocation of the remaining operating budget revenue) is a function of three equally weighed factors:

1. Circulation total from the most recently completed calendar year.
2. Assessed valuation of properties in each community and the unincorporated area assigned to each SCCL.
3. Population according to the most recent available data from the California Department of Finance.

The JPA states

Additional assessment beyond those levied by the Agency (JPA) for enhanced services in a particular community library shall be appropriated by the Board and as approved by the Board member(s) representing the community library’s service area for direct services and materials. No more than 10% of such additional benefit assessment may be appropriated by the Governing Board for central staff support.

Community Facilities District revenues, though, are returned to the source, with each community receiving 100% of the property taxes assessed through the district. Any dedicated revenue from the individual member cities or other local governmental entities is assigned to the specific SCCL for which it was intended.

Table 2 displays the Santa Clara County Library funding formula for 2011/12 in summary form for the member cities. The formula share is the average of the respective percentage share in the three categories noted above (population, assessed valuation and circulation) for each of the communities.

Table 2. Santa Clara County Library Funding Formula Summary for FY 2011/12

Library	Population		Assessed Valuation		Circulation		Formula
	Total	Percent	Total	Percent	Total	Percent	Share
Campbell	49,728	13.43%	\$6,705,164,398	10.17%	937,596	7.79%	10.47%
Cupertino	60,629	16.38%	\$13,533,432,509	20.54%	3,358,180	27.91%	21.61%
Gilroy	60,055	16.22%	\$6,255,570,535	9.49%	497,577	4.14%	9.95%
Los Altos / Los Altos Hills	42,400	11.45%	\$14,641,940,541	22.22%	2,036,040	16.92%	16.86%
Milpitas	71,879	19.41%	\$7,996,361,373	12.13%	2,707,987	22.51%	18.02%
Morgan Hill	48,234	13.03%	\$5,119,397,438	7.77%	882,222	7.33%	9.38%
Saratoga/Monte Sereno	37,325	10.08%	\$11,651,141,474	17.68%	1,611,193	13.39%	13.72%
Total	370,250	100.00%	\$65,903,008,268	100.00%	12,030,795	100.00%	100.00%
Unassigned	56,266		\$9,863,051,991		149,166		
Total	426,516		\$75,766,060,259		12,179,961		

As the table shows, the formula share ranges from a high of almost 22% in Cupertino to a low of 9.38% in Morgan Hill. The formula share comprises a starting point to assure the member communities that they will receive annual operating resources in accordance with the agreed upon basic funding platform, including respective service populations and service demands.

The JPA agreement includes provisions for the withdrawal or addition of members. The applicant city must submit an executed counterpart to the JPA with a certified copy of the resolution of the City Council approving the JPA. In addition, the JPA Governing Board must adopt a resolution by not less than 60% of the voting members approving of the addition of the applicant city to the agreement.

Overview of Municipal Library Operations

The balance of Santa Clara County is served by municipal libraries in Los Gatos, Mountain View, Palo Alto, San Jose, Santa Clara, and Sunnyvale. These independent municipal libraries typically operate as departments of the respective cities they serve. A library board comprised of appointed volunteers may exist to provide additional guidance to the city council on library operations. The library director or city librarian typically reports to the city manager while receiving policy guidance from the library board, if one exists, or the city council.

The city enjoys direct control over the funding, operations and results associated with library services provided to the public. Municipal library operations typically receive operating support from city general fund resources. These resources are augmented by fees and fines related to services as well as grants. Library resource allocation decisions rest with the individual city and municipal libraries typically compete with other services/departments during the annual budget process. Some cities may have asked their residents to support special assessments to supplement existing revenue resources.

As separate departments of a city operation, each library is responsible for delivering a function which requires a full range of operational and administrative support. This may include finance and accounting, human resources, information technology, physical plant and custodial services. These services may be supplied directly by library staff or indirectly through by other city departments. A municipal library may be assessed indirect or overhead charges by the city to provide these support functions. Policies and applications of such charges vary from city to city.

Operating Comparisons

Tables 3 through 9 show comparison information for the SCCL and the independent library operations in the cities of Los Gatos, Mountain View, Palo Alto, San Jose, Santa Clara and Sunnyvale as developed by the Institute of Museum and Library Services (IMLS) through the annual Public Libraries Survey (FY 2009 data)³. Although Management Partners was not engaged to provide an analysis of municipal library services as compared to those provided by the Santa Clara County Library, we have included these basic service level comparisons as background for additional context to the overall discussion.

As displayed in Table 3, there is wide variability among the independent library operations in the County based on service populations, staffing and branches necessary to service the widely varying annual circulation in each operation.

³ Public Libraries in the United States: FY 2009 Survey, Institute of Museum and Library Services (IMLS), 2011.

Table 3. Operating Comparison of SCCL and Municipal Libraries

Public Library	Number of Central Libraries	Number of Outlets	Service Area Population	Total Staff	Total Circulation	Average Public Service Hours per Outlet
Santa Clara County	0	10*	424,918	260	11,319,133	42*
Los Gatos	1	1	30,497	15	458,877	54
Mountain View	1	2*	74,762	45	1,539,584	34*
Palo Alto	1	5	64,484	56	1,633,865	45
San Jose	1	21	1,006,892	372	15,320,909	42
Santa Clara	1	2	117,242	67	2,647,837	52
Sunnyvale	1	1	138,826	56	2,481,633	66

*The Institute of Museum and Library Service includes bookmobiles as branches, which decreases the average hours of branch service. The Santa Clara County Library has two bookmobiles and Mountain View has one. Actual branch operating hours were used in the analysis discussed later in this report.

Source: Public Libraries in the United States: FY 2009 Survey, Institute of Museum and Library Services, 2011.

As displayed in Table 4, most of the support for library operations is provided through revenues developed through local resources such as property taxes. Palo Alto allocates far more revenue per capita in its service area.

Table 4. Comparison of Local Library Revenue per Capita

Public Library	Local Revenue	Local Revenue per Capita	Total Revenue	Total Revenue per Capita
Santa Clara County	\$30,540,847	\$71.87	\$35,505,193	\$83.56
Los Gatos	\$2,111,060	\$69.22	\$2,176,060	\$71.35
Mountain View	\$4,933,917	\$65.99	\$5,217,457	\$69.79
Palo Alto	\$6,293,600	\$97.60	\$6,562,841	\$101.77
San Jose	\$39,059,892	\$38.79	\$41,065,857	\$40.78
Santa Clara	\$7,271,630	\$62.02	\$7,704,980	\$65.72
Sunnyvale	\$6,968,571	\$50.20	\$7,281,021	\$52.45

Source: Public Libraries in the United States: FY 2009 Survey, Institute of Museum and Library Services (IMLS), 2011.

As noted in Table 5, the total operating expenditures per capita in the independent libraries are clustered in the \$50 to \$65 range with the exception of San Jose and Palo Alto. Only Palo Alto spends more than SCCL per capita for library services in its service area.

Table 5. Total Library Operating Expenditures per Capita

Public Library	Collection Expenditures	Staff Expenditures	Other Operating Expenditures	Total Operating Expenditures	Total Operating Expenditures per Capita
Santa Clara County	\$4,476,773	\$20,842,546	\$8,681,877	\$34,001,196	\$80.02
Los Gatos	\$175,010	\$1,415,300	\$96,140	\$1,686,450	\$55.30
Mountain View	\$544,110	\$3,963,772	\$325,305	\$4,833,187	\$64.65
Palo Alto	\$757,972	\$5,017,323	\$616,448	\$6,391,743	\$99.12
San Jose	\$3,639,504	\$28,457,089	\$5,992,147	\$38,088,740	\$37.83
Santa Clara	\$765,062	\$5,496,324	\$901,088	\$7,162,474	\$61.09
Sunnyvale	\$712,932	\$4,720,211	\$1,535,428	\$6,968,571	\$50.20

Source: Public Libraries in the United States: FY 2009 Survey, Institute of Museum and Library Services (IMLS), 2011.

Table 6 provides a comparison of the circulation of children's material within the Santa Clara library systems, which in most cases comprises a large share of the total annual circulation.

Table 6. Comparison of Children's Materials Circulation

Public Library	Total Circulation	Total Circulation per Capita	Circulation of Children's Materials	Circulation of Children's Materials as Percent of Total Circulation
Santa Clara County	11,319,133	26.64	5,249,171	46.4%
Los Gatos	458,877	15.05	158,332	34.5%
Mountain View	1,539,584	20.59	679,422	44.1%
Palo Alto	1,633,865	25.34	667,463	40.9%
San Jose	15,320,909	15.22	6,295,709	41.1%
Santa Clara	2,647,837	22.58	1,414,204	53.4%
Sunnyvale	2,481,633	17.88	928,173	37.4%

Source: Public Libraries in the United States: FY 2009 Survey, Institute of Museum and Library Services (IMLS), 2011.

Table 7 indicates that attendance at children's programming comprises the bulk of total program attendance in all Santa Clara County library system operations. There is also wide variation in library visits per capita, indicating that some operations serve as magnets for visitation compared to other library operations.

Table 7. *Comparison of Library System Visits*

Public Library	Library Visits	Library Visits per Capita	Total Library Programs	Total Program Attendance	Children's Program Attendance
Santa Clara County	3,571,571	8.41	2,864	139,111	118,270
Los Gatos	267,672	8.78	421	13,048	12,239
Mountain View	857,197	11.47	567	36,868	23,530
Palo Alto	875,847	13.58	558	36,582	32,951
San Jose	8,126,461	8.07	11,710	340,173	246,752
Santa Clara	1,424,080	12.15	420	37,576	32,466
Sunnyvale	873,901	6.29	578	26,609	18,733

Source: Public Libraries in the United States: FY 2009 Survey, Institute of Museum and Library Services (IMLS), 2011.

As displayed in Table 8, there is wide variation in the use of reference collections and staff. The library operations in Los Gatos and San Jose request more materials than they provide through interlibrary loan programs.

Table 8. *Comparison of Reference Transactions and Interlibrary Loans*

Public Library	Reference Transactions	Reference Transactions per Capita	Interlibrary Loans Received	Interlibrary Loans Provided	Net Loan Rate
Santa Clara County	453,730	1.07	655	1,134	1.73
Los Gatos	20,075	0.66	237	197	0.83
Mountain View	117,519	1.57	14,883	20,217	1.36
Palo Alto	46,419	0.72	1,038	1,635	1.58
San Jose	680,468	0.68	28,074	20,833	0.74
Santa Clara	118,267	1.01	8,392	12,943	1.54
Sunnyvale	187,362	1.35	8,348	6,440	0.77

Source: Public Libraries in the United States: FY 2009 Survey, Institute of Museum and Library Services (IMLS), 2011.

Table 9 compares the widely varying use of electronic resources in the respective library systems. Palo Alto and San Jose serve far more users of electronic media per capita than the other library operations.

Table 9. Comparison of Public Access Computer Use in Santa Clara Library Systems

Public Library	Users of Public Internet Computers	Users of Electronic Resources per Capita	Number of Public Internet Terminals	Average Public Internet Terminals per Outlet
Santa Clara County	486,615	1.15	259	32
Los Gatos	23,297	0.76	14	14
Mountain View	127,523	1.71	49	49
Palo Alto	157,433	2.44	87	17
San Jose	2,338,057	2.32	1,053	50
Santa Clara	59,000	0.50	92	46
Sunnyvale	212,415	1.53	37	37

Source: Public Libraries in the United States: FY 2009 Survey, Institute of Museum and Library Services (IMLS), 2011.

While each library in Santa Clara County provides valued services to its direct clients and the community at-large, the comparison information highlights that these operations differ significantly from one another. It is not possible in the scope of this study to assess absolute service differences between respective library operations. However, it is important to recognize that any independent library joining the SCCL will, through organizational necessity, need to agree to the levels of service provided through SCCL. In some cases, it may involve changing levels of service that are familiar and expected by the individual community. If a library chose to join the SCCL, they would also cede local decision-making regarding library service levels. As evidenced by past practice, individual considerations can be accommodated to some degree through the SCCL governance structure using negotiation and additional funding provided by the local community.

Alternative Approaches to Joining the SCCL

The Santa Clara County Library was organized under the County Free Library Law in 1914. The SCCL has its own geographically defined tax district (the County and nine cities) originally established by the Board of Supervisors, with a dedicated tax rate. A joint powers authority was formed in 1994, among other reasons, to share governance of the SCCL with the city members. The member cities and the County entered into an amended and restated JPA agreement in August 2001.

Also, in 1994, Santa Clara Local Agency Formation Commission (LAFCO) approved the establishment of a County Service Area (CSA), a dependent special district, which was co-terminus with the SCCL geographic district. The voters of the CSA approved an advisory measure to levy a benefit assessment to provide additional funding for the SCCL. However, following approval of Proposition 218 by the voters, the benefit assessment ended in 2005 and LAFCO considers the CSA (a dependent special district) defunct with no purpose. LAFCO has not taken any action to eliminate the CSA formally and some County documents, e.g., the County of Santa Clara Government Handbook, still refer to the SCCL as a dependent special district. For purposes of property tax allocation under state law, the SCCL is considered a dependent special district.

While there have been discussions from time to time with non-member cities about joining the SCCL, no city has actually joined since the passage of Proposition 13 in 1978, which dramatically changed the method and allocation of property tax distribution in California. The City of Gilroy was the last jurisdiction to join the SCCL (which occurred in 1968).

Alternative approaches to joining the SCCL revolve around answering two questions:

1. What are the possible avenues to become a member of the JPA and/or join the SCCL?
2. What are the revenues and expenditures, including property tax, for the different paths that might be chosen?

This section of the report provides background and context for responding to Question 1. The next section of this report, Operational Budget implications for the Alternative Approaches, responds to the second question.

The Complexities of California Property Tax

When the voters passed Proposition 13 in 1978, California's property tax system changed substantially. To the average property owner, the change seemed straightforward and relatively clear: a property's assessed value was rolled back to the County Assessor's valuation as shown on the 1975/76 tax bill and the property tax rate for each individual piece of property was limited to one percent, exclusive of voter-approved bonded indebtedness.

In subsequent years, annual assessed value adjustments were limited to the lesser of the change in the California consumer price index or two percent. There were additional technical provisions such as an increase in the assessed valuation to fair market value upon a change in property ownership, but otherwise, property owners generally can predict the adjustment in their property tax from year to year.

Distribution of property tax to the taxing entities within a county in California in the ensuing 32 years since the passage of Proposition 13, on the other hand, is extremely complex and challenging to understand. As stated in *Demystifying the California Property Tax Apportionment System*⁴, "the complexities lie with the multifarious procedures and formulas and how each procedure and formula interrelates and affects the final outcome."

The California State Legislature has enacted numerous statutory provisions through the years designed to "bail out" local government to mitigate the effects of the reduction in property tax, "temporarily" transfer revenue to the state from time to time to help close the state budget deficit and to transfer property tax from local government revenue to the state to meet their own obligations with respect to school funding. The statutory methods for doing this were varied and strategic, and each piece of legislation became inextricably linked with the next.

⁴ *Demystifying the California Property Tax Apportionment System. A Step-by-Step Guide through the AB 8 Process. Prepared by David G. Elledge, Controller-Treasurer, County of Santa Clara, March 2006.*

County library systems have been impacted particularly severely as a result of these various provisions.

The major pieces of authorizing legislation setting forth ways that property tax is distributed to local governments are detailed below.

SB 154 (1978): This legislation apportioned the one percent property tax rate among all local governments, provided a formula for how much state assistance (bailout) would be given to counties, cities and special districts; decided how to fund schools, as well as set forth other technical provisions.

AB 8 (1979): This legislation established the “long term solution” for local governmental agencies by creating a new property tax base for each local agency, which generally resulted in a one-time shift or adjustment and increase in property tax revenue for most agencies. The schools’ share of the total property tax declined as a result and was replaced with state funding. AB 8 also included a stipulation (AB 8 deflator) which stated that the total costs of AB 8 could be reduced if insufficient state funds were available to meet state needs. Following Proposition 13, county libraries with a prior tax rate were recognized as special districts under the law.

Special District Augmentation Fund (SDAF): The Special District Augmentation Fund was originally established within the AB 8 legislation to find a way to allocate property tax to special districts within a local government boundary (either city or county). The SDAF was repealed in 1993/94, although its provisions were generally used when special districts shifted to the Educational Revenue Augmentation Fund in 1993/94. However, significant property tax revenue losses (up to 40% and more) were suffered by special districts, including the SCCL, as a result of this shift.

Tax Equity Allocation (TEA): At the time of the passage of Proposition 13, there were 31 “no property tax” cities and others who received “low property tax” or less than 10% of the property tax generated within their boundaries. Following several years of discussion and various pieces of legislation, counties were required in 1988 to make a payment out of the county share of property taxes to cities determined to be “no and low property tax cities.”

Educational Revenue Augmentation Fund (ERAF) (1992/93, 1993/94, 2004/05 and 2005/06 or ERAF I, II and III): Due to ongoing and serious state budget issues in FY 1992/93 and again in the following year, the state permanently shifted a significant portion of local property tax

revenues to the Educational Revenue Augmentation Fund. The original base amounts for ERAF I were computed in 1992/93 and for ERAF II in 1993/94.

In FY 2004/05 and 2005/06 additional, temporary shifts in property tax by local governments to ERAF occurred (ERAF III). California schools are guaranteed a minimum amount of funding by the state based on their average daily attendance (ADA). To the extent that property tax revenues do not meet this minimum requirement, the state is still required to make up the difference from its general fund revenues.

Triple Flip, VLF Swap and ERAF III (FY 2003/4 and FY 2004/05): Again, to meet ongoing state budget problems, the California State Legislature enacted a complex set of transactions involving sales tax allocated to local government, ERAF and the Vehicle In-Lieu License tax (historically a local government revenue resource). The results of this Triple Flip had an impact on ERAF and the method by which property tax distribution is calculated and distributed within each county.

As a result of these and other statutory actions by the State Legislature, as well as statewide initiatives passed by the voters to try to protect local revenues from being transferred to the state, the property tax distribution system remains extremely complex. Additionally, each of the 58 county auditors statewide may interpret and implement these statutes differently.

In Santa Clara County, the Office of the Assessor is responsible for assessing the value of each piece of real and personal property in accordance with Proposition 13 and other related legislation and collecting the property taxes due. The Controller-Treasurer Department is responsible for distributing the property taxes. In Santa Clara County, there are currently 101 taxing jurisdictions (not including redevelopment), including the Santa Clara County Library, which are part of the local property tax system.

Property Tax, ERAF, Special Districts and Cities

Following formation of the County Library in 1914, the Board of Supervisors established a tax rate to support the library services provided by the SCCL. However, the amount available and how property tax is allocated among all the taxing entities in the County changed significantly following Proposition 13 in 1978.

Table 10 shows how much property tax was allocated in accordance with the legislation described above (post ERAF) to the SCCL “special district” in FY 2010-11 from the member cities and unincorporated areas.

Table 10. Net AB 8 One Percent Library Tax by Region for FY 2010-11

City	Net AB 8 One Percent Library Tax by Region
Campbell	\$ 1,380,703
Cupertino	3,458,746
Gilroy	1,516,071
Los Altos	2,434,895
Los Altos Hills	1,271,403
Milpitas	1,533,794
Monte Sereno	381,212
Morgan Hill	801,242
Saratoga	2,591,322
Unincorporated	3,397,193
Total	\$18,766,581

Aside from the legal path for doing so, a significant question to be answered is whether the SCCL JPA would require a reallocation of property tax revenue as a condition of joining the JPA and whether such a reallocation would be subject to a change in the ERAF rate applied to the city’s property tax. The ERAF formulas are governed by Revenue and Taxation Code 97 and the formulas for cities, counties and special districts (or those considered special districts under the revenue codes, e.g., library systems with tax rates prior to Proposition 13) are different. The SCCL and non-member cities within Santa Clara County are subject to the following ERAF rates.

- **SCCL:** 40% to 43% (approximately)
- **Non-member cities:** 15% to 23%
- **Member cities:** 18% to 27%

In other words, up to 43% of the property tax revenue collected within the library district that might otherwise be allocated to the SCCL (after the AB 8, Triple Flip and VLF Swap elements are factored in) is now diverted to ERAF. Similarly, from 15% to 23% and 18% to 27% of the property tax revenue that might otherwise be allocated to the non-member and member cities, respectively, is now diverted to ERAF.

Tables 11 and 12 show the total assessed valuation and the AB 8 allocation of property after the application of ERAF.

Table 11. Santa Clara Library Cities Assessed Valuation and AB 8 Property Tax Allocation for FY 2011/12

City	Assessed Valuation	AB 8 Property Tax Allocation			
		AB 8 Allocation Before ERAF	Tax Equity Allocation Amount	Loss to ERAF	AB 8 Allocation After TEA and ERAF
Campbell	\$ 6,342,209,806	\$8,276,456		\$(1,901,119)	\$6,375,337
Cupertino	13,748,759,628	3,024,008	6,930,100	(2,299,279)	7,654,828
Gilroy	5,837,732,543	7,576,294		(1,893,817)	5,682,477
Los Altos	9,698,378,507	14,216,075		(3,216,591)	10,999,484
Los Altos Hills	5,074,444,520	2,333,465	1,295,564	(797,322)	2,831,707
Milpitas	11,498,965,669	22,243,364		(4,077,568)	18,165,795
Monte Sereno	1,471,478,990	126,053	945,763	(251,685)	820,131
Morgan Hill	6,202,031,394	8,490,730		(2,276,622)	6,214,108
Saratoga	10,158,712,129	3,423,033	3,818,397	(1,761,247)	5,480,183
Unincorporated	12,464,996,064	N/A		N/A	N/A
Total	\$82,497,709,250	\$69,709,476	\$12,989,824	\$(18,475,250)	\$64,224,051

Table 12. Santa Clara County Non-member Cities Assessed Valuation and AB8 Property Tax Allocation for FY 2011/12

City	Assessed Valuation	AB 8 Property Tax Allocation		
		Before ERAF	Loss to ERAF	ERAF
Los Gatos	\$ 8,369,756,750	\$ 10,117,868	\$ (2,288,889)	\$ 7,828,979
Mountain View	16,276,692,709	32,170,277	(6,055,789)	26,114,488
Palo Alto	22,486,707,664	26,960,896	(5,831,405)	21,129,491
San Jose	119,519,390,862	198,581,581	(38,596,743)	159,984,838
Santa Clara	23,830,460,753	28,347,308	(4,414,152)	23,933,156
Sunnyvale	25,928,853,836	42,501,852	(8,779,614)	33,722,237
Total	216,411,862,574	\$ 338,679,781	\$(65,966,592)	\$272,713,189

Clearly, the ERAF rate to be applied to a property tax reallocation is a major determination with respect to the merits of joining the SCCL should a non-member library wish to join the JPA and the JPA require a reallocation. It is likely, although not a documented formal policy or requirement, that the JPA would require a property tax reallocation should a non-member agency wish to join as a full voting member. However, the legal path for accomplishing this is not clear and it is not able to finally be determined.

Neither the SCCL nor a city can change ERAF rates. For a governmental reorganization (where a geographic area might be merged with another local governmental entity or district), the reallocation of the property tax would be determined through the State Revenue and Taxation Code 99 process. The ERAF rate then applied to that property tax (following the AB 8 formula, Triple Flip and VLF Swap allocations) would be determined in association with the filing of a LAFCO application as part of the tax sharing agreement negotiation.

Management Partners was unable to conclusively determine that joining the JPA would be subject to governmental reorganization procedures since it is unclear that the SCCL is actually a dependent special district outside the context of property tax distribution. Inquiries to various agencies in Santa Clara County were not conclusive on this point.

Revenue and Taxation Code Section 99.02 does provide for a voluntary agreement between agencies for the transfer of property tax not subject to LAFCO procedures. The code provides that:

Any local agency, may, by adoption a resolution of its governing body or governing board, determine to transfer any portion of its property tax revenues that is allocable to one or more tax rate areas within the local agency to one or more other local agencies having the same tax rate are or tax rate areas.

However, since the SCCL tax district has no tax rate areas within the non-member cities, it is again unclear whether this avenue is even possible. Interpretation of the California Revenue and Tax Code is beyond the scope of this engagement and Management Partners recommends that outside legal or revenue and taxation expertise be sought to answer this question.

If a voluntary property tax reallocation process was possible, it is also likely that it would be subject to a different and higher ERAF rate. In other words, any non-member city property tax that is reallocated may be subject to the higher ERAF rate than is currently in effect in the non-member city. As a result, there may be less property tax revenue available for services provided by SCCL than currently enjoyed by non-member cities at their current ERAF rate.

The Santa Clara County Controller-Treasurer Department was non-committal on this point as there is no precedent or policy for making this determination. Staff did comment that no existing taxing entities within the County could be negatively impacted by such a property tax exchange and such a transfer cannot result in a reduction of property tax

revenues to school entities. Management Partners recognized these parameters in modeling the possible impacts of a city joining the SCCL, as explained later in this report.

Alternative Approaches to Joining the Santa Clara County Library

Management Partners was unable to obtain a clear response from various departments of Santa Clara County as to the procedure for joining the SCCL. The JPA agreement contains a provision for non-member cities to join the SCCL (described in the previous section), but does not speak specifically to the question of property tax distribution or reallocation.

Recognizing these uncertainties, Management Partners has chosen to set forth the following two possible paths for joining the SCCL. Either:

- A. (1) Filing an executed counterpart of the JPA agreement, together with a copy of a resolution of the city council approving the agreement and approval by 60% of the JPA governing board; and

(2) Executing a tax sharing agreement pursuant to Revenue and Tax Code 99.02 (if determined to be applicable) where the city would voluntarily agree to reallocate a portion of its existing property tax to the JPA (or Library District), likely at a similar tax rate of the existing Library District (including the level of ERAF experienced by the District),

or

- B. Contracting with the JPA for the provision of library services. Mutual agreement as to a funding commitment for the operation of the city library as well as service levels, operations and asset management would also be required. The JPA may require a minimum level of service; maybe not commensurate, but close to other library members;

and

- C. Applying to LAFCO to amend the boundaries of the Community Facilities District (CFD) and seeking approval by the city's voters to join the CFD and authorize the special tax. This may or may not be required (the JPA Board does not have a specific policy), but could affect the level of service provided by the SCCL.

Actual procedural requirements may not finally be determined until a formal request to join the JPA is made and legal counsel or the County, or both, provide an opinion and process for doing so.

Operational Budget, Revenue and Service Costs and Benefits Comparisons

As discussed in the previous section of this report, an assessment of projected property tax or revenue changes associated with a non-member city library joining the SCCL is not able to be finally determined. Both the process and revenue implications remain unclear and there is no clear precedent. The only documented procedural step is that described in the SCCL JPA for a non-member city to join the JPA.

As a bridging step to provide approximate measures of service and cost impacts from this type of change, Management Partners developed a template that outlines an impact estimation approach. We present this template summarizing impacts from the following three possible scenarios.

Scenario 1 – City Joins SCCL / No ERAF Change. This approach provides a baseline assuming that the ERAF shift does not increase from the existing 19% city rate to the 40% SCCL rate.

Scenario 2 – City Joins SCCL / ERAF Changes. This approach builds on Scenario 1 by including an increase in the ERAF shift from the existing 19% city rate to the 40% SCCL rate.

Scenario 3 – City Contracts with SCCL for Service / No ERAF Change. This approach considers impacts from contracting for service at the higher relative costs associated with SCCL.

Comparison Assumptions

In the development of each scenario, Management Partners made some assumptions to serve as a basis and framework for the analysis. These include:

1. Use Mountain View as an example applicant city. Because of the difficulty in estimating tax shift changes, we have elected to present

scenarios framed from the perspective of a potential applicant. The demographics and scope of services provided by the Mountain View Public Library mirrors operations at the SCCL branches in Cupertino and Milpitas. This assumption applies to all three scenarios.

2. Adjust non-member city property tax ERAF rate with SCCL membership. An independent city library operating as a city department may be subject to a change in the ERAF applied to property tax reassigned to the SCCL. Since cities experience a lower ERAF rate than the SCCL taxing district, this could lead to a reduction in property tax revenues available to support library operations for the organization joining the SCCL, and, conversely an additional ERAF transfer to schools. Nonetheless, the basic parameters that no other tax district would be made worse off and the school transfer would be no less than before the change could be met. This assumption varies within the scenarios.
3. ERAF rate impacting SCCL is unchanged at 40%. This assumption applies to all three scenarios.
4. Community Facilities District produces revenue stream comparable to Cupertino experience. This assumption varies within the scenarios.
5. Assume other revenue sources continue to generate resources for the organization. This assumption applies to all three scenarios.
6. Use an average weekly “bundled” cost for services for Cupertino and Milpitas as estimate of service costs in SCCL branch operation. The average weekly cost of service is the estimated cost to provide a set number of service hours each week throughout the year. This is a fundamental assumption in the scenarios and forms the basis for determining both the necessary weekly service hour reductions to live within current revenues or the increases in total costs born to a city to maintain current service levels. This assumption applies to all three scenarios.

Alternative Scenarios

The three alternative scenarios are presented on the following pages. Each scenario lists important assumptions and identifies how these assumptions impact service hours provided each week (“hour impacts”) or the total annual cost to maintain existing hours of service (“cost impacts”).

The starting point in each scenario is an acknowledgement that a new member organization will receive a level of operating resources in balance with other members. These available resources are paired with

service levels and operating costs consistent with the SCCL experience. To estimate a typical cost of operation, we have derived the average “bundled” weekly service cost of approximately \$118,000 per week. This figure is an average based on estimates of both direct and indirect costs incurred to serve the public at the SCCL facilities in Cupertino and Milpitas.

Each scenario presents “hour impacts” and “cost impacts.” “Hour impacts” estimate the change in hours of service each week to live within total available resources at the relatively higher SCCL operating costs. “Cost impacts” estimate the additional funding that the community would need to provide to maintain current weekly hours of service at these higher operating costs. These respective “impacts” are presented as an “either/or” proposition in that either provides an adequate solution to bring services in line with available resources. In practice, the solution could also involve a range or mix of service hour reductions and cost increases.

Table 13 below provides a summary of the “service hour” and “total cost” impacts under the three scenarios.

Table 13. Summary of Scenario Impacts

	Hour Impacts		Cost Impacts
Scenario	Estimated Service Hour Reductions (per week)	or	Estimated Cost Increases (per year)
1. City Joins SCCL / No ERAF Change	(17)		\$ 2,048,252
2. City Joins SCCL / ERAF Changes	(26)		\$ 3,023,040
3. City Contracts with SCCL for Service / No ERAF Change	(23)		\$ 2,763,252

Scenario 1: City Joins SCCL / No ERAF Change

In this scenario, a candidate city similar to Mountain View joins the Santa Clara County Library. The candidate city provides general tax revenues through a tax shift. The ERAF percentage does not change in this scenario and reflects the current city experience of an approximate 19% shift to the state. In addition, the candidate city provides additional revenue by voting and agreeing to join the Community Facilities District. This scenario assumes that the CFD in the candidate city generates resources comparable to those provided by Cupertino. The scenario also

assumes that the candidate city continues to generate additional revenues associated with operations at current levels.

In the “Hour Impact” columns, total operating costs matching available revenues are distributed across categories of spending according to the current SCCL experience. The difference in per weekly hour cost is used to estimate the change in hours of service the facility can operate under the relatively higher per hour SCCL cost. In Scenario 1, we estimate that the candidate city facility would be open 17 fewer hours each week.

In the “Cost Impact” columns, total operating costs grow to match the relatively higher per hour weekly SCCL cost. The resulting imbalance between revenues and expenditures estimates the additional funding that the candidate city would need to provide to continue current levels of hours and service. In Scenario 1, we estimate that the candidate city would need to provide approximately \$2 million in additional funding to continue current weekly hours of service.

Table 14 presents a summary of Scenario 1 and resulting service hour and cost impacts.

Funding Implications for a Municipal Library to
Join the Santa Clara County Library
Operational Budget, Revenue and Service Costs and Benefits
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Table 14. Scenario 1—City Joins Santa Clara County Library/No ERAF Change

Assumptions						
A) Use Mountain View as example applicant city. B) ERAF rate remains the same as current city experience at approximately 19%. C) SCCL ERAF rate at approximately 40%. D) CFD revenue stream comparable to Cupertino. E) Continue other city library generated revenue sources. F) Use average per week hour cost for Cupertino and Milpitas.						
Approach Factors	Existing City Library	Applied ERAF Rate Impact	Hour Impacts		Cost Impacts	
			Current Rev Against SCCL Cost	Change from Existing	Current Rev Against SCCL Cost	Change from Existing
Service Population						
A) City (Mountain View)	74,723		74,723	-	74,723	-
ERAF						
B) Existing City Rate		18.8%				
Rate Adjustment		0.0%				
C) SCCL Rate		40.0%				
Revenue						
General Fund Allocation	\$4,603,303	\$ -	\$4,603,303	\$ -	\$ 4,603,303	\$ -
D) Special Tax	-	NA	715,000	715,000	715,000	715,000
E) State Grants	23,210	NA	23,210	-	23,210	-
E) Fines & Fees	155,430	NA	155,430	-	155,430	-
E) Other	500	NA	500	-	500	-
Total	\$4,782,443	\$ -	\$5,497,443	\$ 715,000	\$ 5,497,443	\$ 715,000
Expenditures						
Personnel	\$4,011,570		\$3,316,854	\$ (694,716)	\$ 4,552,657	\$ 541,087
Books and Materials	\$ 440,000		\$ 612,644	172,644	\$ 840,904	400,904
Facilities			\$ 584,144	584,144	\$ 801,786	801,786
Services and Supplies	310,373		\$ 926,970	616,597	\$ 1,272,343	961,970
Fixed Assets and Vehicles	10,000		\$ 56,831	46,831	\$ 78,005	68,005
Total	\$4,771,943		\$5,497,443	\$ 725,500	\$ 7,545,695	\$2,773,752
F) Per Weekly Hour Cost	\$ 74,562		\$ 117,901		\$ 117,901	
Cost Impact	\$ 10,500		\$ -		\$ (2,048,252)	
Service Profile						
Banches	1		1	-	1	-
Service Hour per Week Impact	64		47	(17)	64	-

The hour and cost impacts in this scenario are driven by the higher relative cost to provide an hour of service throughout the year under the

SCCL operation. While additional revenue provided by the Community Facilities District generated by the candidate city mitigates the funding shortfall, it is not enough. As a result, the candidate city must either reduce the hours of service or provide additional resources to “buy-up” the level of services to match current hours of weekly service.

Scenario 2: City Joins SCCL/ERAF Change

In this scenario, a candidate city similar to Mountain View joins the Santa Clara County Library. The candidate city provides general tax revenues through a tax shift. The ERAF percentage changes in this scenario and reflects an increase in the shift of funds from the current city experience (19%) to an estimate of the SCCL shift (40%) to the state. In addition, the candidate city provides resources through an approved Community Facilities District that generates resources comparable to those provided by Cupertino. The scenario also assumes that the candidate city continues to generate additional revenues associated with operations at current levels.

In the “Hour Impact” columns, total operating costs matching available revenues are distributed across categories of spending according to the current SCCL experience. The difference in per weekly hour cost is used to estimate the change in hours of service the facility can operate under the relatively higher per hour SCCL cost. In Scenario 2, we estimate that the candidate city facility would be open 26 fewer hours each week.

In the “Cost Impact” columns, total operating costs grow to match the relatively higher per hour weekly SCCL cost. The resulting imbalance between revenues and expenditures estimates the additional funding that the candidate city would need to provide to continue current levels of hours and service. In Scenario 2, we estimate that the candidate city would need to provide approximately \$3 million in additional funding to continue current weekly hours of service.

Table 15 presents a summary of Scenario 2 and resulting service hour and cost impacts.

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Join the Santa Clara County Library
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Management Partners

Table 15. Scenario 2 – City Joins Santa Clara Library /ERAF Changes

Assumptions						
A) Use Mountain View as example applicant city. B) ERAF rate changes to match SCCL at approximately 40%. C) SCCL ERAF rate at approximately 40%. D) CFD revenue stream comparable to Cupertino. E) Continue other city library generated revenue sources. F) Use average per week hour cost for Cupertino and Milpitas.						
Approach Factors	Existing City Library	Applied ERAF Rate Impact	Hour Impacts		Cost Impacts	
			Current Rev Against SCCL Cost	Change from Existing	Current Rev Against SCCL Cost	Change from Existing
Service Population						
A) City (Mountain View)	74,723		74,723	-	74,723	-
ERAF						
Existing City Rate		18.8%				
B) Rate Adjustment		21.2%				
C) SCCL Rate		40.0%				
Revenue						
General Fund Allocation	\$4,603,303	\$ (974,787)	\$3,628,516	\$ (974,787)	\$ 3,628,516	\$ (974,787)
D) Special Tax	-	NA	715,000	715,000	715,000	715,000
E) State Grants	23,210	NA	23,210	-	23,210	-
E) Fines & Fees	155,430	NA	155,430	-	155,430	-
E) Other	500	NA	500	-	500	-
Total	\$4,782,443	\$ (974,787)	\$4,522,656	\$ (259,787)	\$ 4,522,656	\$ (259,787)
Expenditures						
Personnel	\$4,011,570		\$2,728,721	\$ (1,282,849)	\$ 4,552,657	\$ 541,087
Books and Materials	\$ 440,000		\$ 504,012	64,012	\$ 840,904	400,904
Facilities			\$ 480,566	480,566	\$ 801,786	801,786
Services and Supplies	310,373		\$ 762,603	452,230	\$ 1,272,343	961,970
Fixed Assets and Vehicles	10,000		\$ 46,754	36,754	\$ 78,005	68,005
Total	\$4,771,943		\$4,522,656	\$ (249,287)	\$ 7,545,695	\$ 2,773,752
F) Per Weekly Hour Cost	\$ 74,562		\$ 117,901		\$ 117,901	
Cost Impact	\$ 10,500		\$ -		\$ (3,023,040)	
Service Profile						
Banches	1		1	-	1	-
Service Hour per Week Impact	64		38	(26)	64	-

The hour and cost impacts in this scenario are driven by both the impact to revenues from the ERAF shift as well as the higher relative cost to provide an hour of service throughout the year under SCCL operations. While additional revenue provided by the Community Facilities District generated by the candidate city mitigates the funding shortfall, it is not enough. As a result, the candidate city must either reduce the hours of service under SCCL or provide additional resources to “buy-up” the level of services to match current hours of weekly service.

Scenario 3: City Contracts with SCCL for Service/No ERAF Change

In this scenario, a candidate city similar to Mountain View enters an agreement to contract for services from the Santa Clara County Library. The contracting city provides general tax revenues through reimbursement for services. There is no ERAF impact in this scenario. There is no participation in an approved Community Facilities District or resulting revenues supporting operations in this scenario. This scenario assumes that the contracting city applies other revenues generated through operations to the contract operation at current levels.

In the “Hour Impact” columns, total operating costs matching available revenues are distributed across categories of spending according to the current SCCL experience. The relatively higher per weekly hour cost experienced by SCCL is applied to the total estimated cost to operate the community library to determine the total weekly hours of service available throughout the year under a contract with SCCL. In Scenario 3, we estimate that the contracting city facility would be open 23 fewer hours each week.

In the “Cost Impact” columns, total operating costs grow to match the relatively higher per hour weekly SCCL cost. The resulting imbalance between revenues and expenditures estimates the additional funding that the candidate city would need to provide to continue current levels of hours and service. In Scenario 3, we estimate that the contracting city would need to provide approximately \$2.8 million in additional funding to continue current weekly hours of service under a contract for services with SCCL.

Table 16 presents a summary of Scenario 3 and resulting service hour and cost impacts.

Funding Implications for a Municipal Library to
Join the Santa Clara County Library
Operational Budget, Revenue and Service Costs and Benefits
Comparisons

Management Partners

Table 16. Scenario 3—City Contracts with Santa Clara Library for Service/No ERAF Change

Assumptions						
A) Use Mountain View as example applicant city. B) ERAF rate remains the same as current city experience at approximately 19%. C) SCCL ERAF rate at approximately 40%. D) No CFD revenue stream. E) Continue other city library generated revenue sources. F) Use average per week hour cost for Cupertino and Milpitas.						
Approach Factors	Existing City Library	Applied ERAF Rate Impact	Hour Impacts		Cost Impacts	
			Current Rev Against SCCL Cost	Change from Existing	Current Rev Against SCCL Cost	Change from Existing
Service Population						
A) City (Mountain View)	74,723		74,723	-	74,723	-
ERAF						
B) Existing City Rate		18.8%				
B) Rate Adjustment		0.0%				
C) SCCL Rate		40.0%				
Revenue						
General Fund Allocation	\$4,603,303	\$ -	\$4,603,303	\$ -	\$ 4,603,303	\$ -
D) Special Tax	-	NA	-	-	-	-
E) State Grants	23,210	NA	23,210	-	23,210	-
E) Fines & Fees	155,430	NA	155,430	-	155,430	-
E) Other	500	NA	500	-	500	-
Total	\$4,782,443	\$ -	\$4,782,443	\$ -	\$ 4,782,443	\$ -
Expenditures						
Personnel	\$4,011,570		\$2,885,463	\$ (1,126,107)	\$ 4,552,657	\$ 541,087
Books and Materials	\$ 440,000		\$ 532,963	92,963	\$ 840,904	400,904
Facilities			\$ 508,170	508,170	\$ 801,786	801,786
Services and Supplies	310,373		\$ 806,408	496,035	\$ 1,272,343	961,970
Fixed Assets and Vehicles	10,000		\$ 49,439	39,439	\$ 78,005	68,005
Total	\$4,771,943		\$4,782,443	\$ 10,500	\$ 7,545,695	\$ 2,773,752
F) Per Weekly Hour Cost	\$ 74,562		\$ 117,901		\$ 117,901	
Cost Impact	\$ 10,500		\$ -		\$ (2,763,252)	
Service Profile						
Banches	1		1	-	1	-
Service Hour per Week Impact	64		41	(23)	64	-

The hour and cost impacts in this scenario are driven primarily by the higher relative cost to provide an hour of service throughout the year under a contract with the SCCL. With a contract for service, this scenario assumes no need for participation in a Community Facilities District. It also assumes no shift in property tax through an ERAF shift. As in the other scenarios, the candidate city must either reduce the hours of service under the SCCL contract or provide additional resources to “buy-up” the level of services to match current hours of weekly service.

Conclusion

While joining the County Library may have some merit for a municipality, the property tax implications should a reallocation of property tax be required, or the costs should a contract service be pursued may be too great to make doing so economically viable (Management Partners did not evaluate the costs and benefits of providing library services through a municipality as compared to the SCCL). Santa Clara County needs to provide a determination as to the process for joining the Santa Clara County Library JPA and the library tax district (if required) and whether it would be subject to a tax reallocation negotiation or other action.

Management Partners has provided a framework for considering the issues and parameters should a non-member agency choose to do so. Until a process determination is provided by either the County or perhaps outside legal counsel, a more precise assessment of the costs is not able to be obtained. Once a process is determined, a municipality will be able to make an informed decision about the costs and benefits.

Appendix 1 – Joint Powers Authority Agreement

**AMENDED AND RESTATED
JOINT EXERCISE OF POWERS AGREEMENT**

Copy

BY AND BETWEEN THE COUNTY OF SANTA CLARA

AND THE CITIES OF

CAMPBELL

CUPERTINO

GILROY

LOS ALTOS

LOS ALTOS HILLS

MILPITAS

MONTE SERENO

MORGAN HILL

SARATOGA

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This AMENDED AND RESTATED JOINT EXERCISE OF POWERS AGREEMENT, ("Agreement") is made in accordance with Chapter 5 of Division 7 of Title 1 of the Government Code of the State of California (commencing with Section 6500), as amended and supplemented from time to time, for convenience dated as of August 9, 2001, by and between the cities of CAMPBELL, CUPERTINO, GILROY, LOS ALTOS, LOS ALTOS HILLS, MILPITAS, MONTE SERENO, MORGAN HILL and SARATOGA bodies corporate and politic, and the COUNTY OF SANTA CLARA, a political subdivisions of the State of California (("County") (hereinafter collectively referred to as "Members");

W I T N E S S E T H:

WHEREAS, the Santa Clara County Free Library District is comprised of the unincorporated area of the County and the Cities ("Members") relating to the joint exercise of powers of library services and to receive revenue for the operation of libraries throughout the Santa Clara County Free Library District (hereinafter "District"); and

WHEREAS, the Members have independent authority to provide library services within their jurisdictions; and

WHEREAS, the Members agree that providing of library services to the residents of the unincorporated areas of the County and the Cities are enhanced, and made more efficient by a coordinated program among the public entities who comprise the District; and

WHEREAS, each respective Member adopted a Resolution in 1994 consenting to the inclusion of its territory in the formation of a County Library Service Area, pursuant to section 25210.10(a) of the Government Code, and received approval from Local Agency Formation Commission therefore; and

WHEREAS, the Joint Powers Law (Government Code §6500, et seq.) permits public entities, after receiving the prior consent of their respective legislative bodies, to jointly exercise powers common to the contracting parties, including the power to provide for library services, and the Members did create a Joint Powers Authority in 1994 for library services; and

WHEREAS, the Members desire to continue to collect the benefit assessment which expires June 30, 2005, and to revise their contractual relationship by enactment of this Joint Powers Agreement of 2001 to restate and clarify its powers and to explore other funding options, such as a Mello- Roos Community Facilities District or other funding which may replace the current benefit assessment revenues; and

WHEREAS, pursuant to Government Code § 6500 et seq., the agency created under this Agreement (as defined herein) shall possess such common powers of the Members as specifically delegated in this Agreement, and may exercise such powers, as specified in this Agreement, and may exercise any additional powers granted to it pursuant to State law; and

WHEREAS, by this Agreement, the Members desires to amend and restate their intentions concerning the Library Joint Powers Authority for the purposes set forth in accordance with Government Code §6500, and all other relevant State and federal laws to exercise the powers provided herein.

NOW, THEREFORE, the Members, for and in consideration of the mutual agreements and covenants herein contained, do agree as follows:

AGREEMENT

SECTION 1. Definitions.

Unless the context otherwise requires, the terms defined in this section and initially capitalized in the text shall for all purposes of this Agreement have the meanings herein specified. Unless the context otherwise indicates, words expressed in the singular shall include the plural and vice versa, and the use of the neuter, masculine, or feminine gender is for convenience only and shall be deemed to mean and include the neuter, masculine or feminine gender, as appropriate.

"Agency" shall mean the Library Joint Powers Authority (Library JPA), a joint exercise of powers agency created by the Members hereunder.

"Agreement" shall mean this Joint Exercise of Powers Agreement as it may from time to time be amended by all supplemental agreements entered into pursuant to the terms of this Agreement.

"Brown Act" shall mean the Ralph M. Brown Act (Chapter 9 of Part 1 of Division 2 of Title 5 of the Government Code of the State of California (Sections 54950 to 54961)), and any subsequent legislation hereinafter enacted.

"Governing Board" shall mean the group of individuals, each of whom has been appointed by the respective Member jurisdictions, and which has the collective authority to exercise jointly the powers of the Agency .

"Member" shall mean each of the cities of Campbell, Cupertino, Gilroy, Los Altos, Los Altos Hills, Milpitas, Monte Sereno, Morgan Hill and Saratoga, and the County of Santa Clara, of which there are ten, together with any additional Member executing this Agreement, and shall include any alternate appointed by the Member, except those that have withdrawn in accordance with the terms of this Agreement.

"Population" shall mean the count based upon the State of California, Department of Finance, annual population estimate as of January 1.

"State" shall mean the State of California.

"Voting Representative" shall mean the elected official who has been designated by each Member to represent the Member.

SECTION 2. Purpose and Method.

SECTION 2.1 Purpose of Agreement. The Members of this Agreement, with the consent of their respective legislative bodies, hereby join together for the purpose of providing library services within their communities by establishing a Library Joint Powers Authority to

exercise the powers described herein. In accordance with Section 6503 of the Government Code, the purpose of this Agreement is to create a separate public agency that will be responsible for the development, administration and operation of an integrated public library system.

SECTION 2.2 Administering Agency as a Separate Public Entity. Pursuant to Government Code § 6500 et seq., the Agency was hereby created and is hereby affirmed, known as the "Library Joint Powers Authority of Santa Clara County" ("Library JPA") As provided in Section 6507 of the Government Code, the Agency is a public entity separate from each of the Members.

SECTION 2.3 Filing of Notice of Agreement. The Agency shall, within 30 days after the effective date hereof, cause a notice of this Agreement in the form attached hereto as Exhibit A, to be prepared and filed with the office of the Secretary of State, as required by Section 6503.5 of the Government Code.

SECTION 3. Powers.

SECTION 3.1 Powers to be Exercised. In furtherance of its purpose as stated above, the Agency shall possess the common powers of the Members, in accordance with Section 6508 of the Government Code, and is authorized, in its own name, to do all acts necessary or convenient for the exercise of such powers, and all other acts authorized by State Law, including but not limited to any or all of the following: to make and enter contracts, to employ agents, or to acquire, construct, manage, maintain or operate any building, works or improvements, or to acquire, hold or dispose of property, including real property, to incur liabilities or obligations, and to sue and be sued in its own name.

SECTION 3.2 Manner of Exercise. The Agency shall exercise such powers authorized in Section 3.1 hereof, in a manner consistent with the purposes in Section 2.1 hereof, all in accordance with Section 6508 of the Government Code.

SECTION 3.3 Restrictions on Agency Power. As required by Section 6509 of the Government Code, the Agreement requires that the exercise of powers provided in Section 3.1 hereof are subject to the restrictions upon the manner of exercising the power of one of the contracting parties hereto which shall be the County of Santa Clara as it is a Member with flexibility in the exercise of its powers.

SECTION 3.4 Term and Termination of Powers. The Agency shall continue to exercise the powers herein conferred upon it until the termination of the Agreement. This Agreement shall become effective as of the date hereof, and shall remain in full force and effect unless and until 60% of all Members (as distinguished from 60% of all Voting Representatives) thereof approve to terminate the Agreement. All participating Members will be notified in writing thirty (30) days prior to the termination of the Agency. The termination of the Agency shall include a termination plan for the disposition of Agency assets as set forth in section 4.2 below, consistent with Section 6511 for the Disposition of Property and 6511 pertaining to the Disposition of Money, however, the Agency may alter the disposition plan set out in Section 4.2

to reflect changes in the Agency and its sources of funding, if prior to termination, the Agency amends Section 4.2 by enacting an amendment to this Agreement.

SECTION 3.5 Joint Funding Authority. The Agency shall have the authority to make any enactment for the collection of revenue to finance the activities of the Agency, including but not limited to a Mello-Roos Community Facilities District, and to levy and collect a special tax.

SECTION 3.6 Withdrawal and Addition of Members.

A) A Member may withdraw from this Agreement upon written notice to the Governing Board. If any Member wishes to terminate their participation in this Agreement, notice of termination must be sent no later than August 1 of any year of its intent to withdraw from the Agency effective on July 1 of the following year. A Member which withdraws shall be subject to all procedural and substantive requirements of law applicable to withdrawal from a joint powers agreement. Any such withdrawal shall be effective only upon receipt of the notice of withdrawal by the Governing Board, which shall acknowledge receipt of such notice of withdrawal in writing and shall file such notice as an amendment to this Agreement effective upon filing notice with the office of the Secretary of State of the State, in accordance with the terms of this Agreement.

B) A city may be added as a Member to this Agreement upon: (i) the filing, by such city, of an executed counterpart of this Agreement, together with a certified copy of the resolution of the City Council of such city approving this Agreement and the execution and delivery hereof; and (ii) the adoption of a resolution of the Governing Board by not less than 60 % of all Members thereof approving the addition of such city as a Member. Upon satisfaction of such conditions, the Governing Board shall file such executed counterpart of this Agreement as an amendment hereto, effective upon filing with the office of the Secretary of State of California in accordance with the terms of this Agreement.

SECTION 4. Financing and Property of the Agency.

SECTION 4.1 Obligations of the Agency. The debts, liabilities and obligations of the Agency, shall not constitute debts, liabilities or obligations of any of the Members, as provided for by Section 6508.1 of the Government Code.

SECTION 4.2 Property. Library building leases and other agreements relating to library buildings shall remain in full force and effect. Consistent with applicable law, existing library property and library property acquired solely with library district Revenue (as specified in Section 4.3 below) remains the Agency property of the Agency. Property acquired from benefit assessment revenues and proceeds of Mello-Roos or other special tax shall be the property of the Agency, subject to distribution in the Governing Board's discretion to any member city which withdraws from this agreement.

SECTION 4.3 Revenue. The parties to this agreement hereby reconfirm existing revenue sources and commit to their continuance at their current proportion to the extent permitted by law. These revenue sources are:

- a. Property Tax apportioned to the County Library District
- b. Motor Vehicle in-Lieu Tax,
(3.9% of that amount distributed to the County of Santa Clara pursuant to Revenue and Taxation Code Section 11005(B)(2) or its successor provisions)
- c. County retirement levy for county library employees
- d. State Public Library Fund
- e. State and Federal Library Services Act funds
- f. State Grants to the Library JPA
- g. Interest Earnings

SECTION 4.4 Funding Formula. Parties to this agreement hereby reconfirm the "funding formula" for libraries as follows:

Funding of personnel and library materials at each library facility shall be a function of three equally weighted factors: circulation, assessed value component net of any redevelopment agency impact, and population of each library service area, adjusted so as to provide minimum service levels set forth below.

The Library Joint Powers Board may change the foregoing formula, provided minimum service levels are not adversely affected.

SECTION 4.5 Minimum Service Levels. The parties to this agreement agree to minimum service levels as follows, providing revenues are maintained at the 1993-94 fiscal year level and a benefit assessment or succeeding revenue source, including but not limited to a Mello-Roos Community Facilities District special tax which is levied and collected:

- 1. 30 hours, 5 days per week at every community library;
- 2. 20 hours per week at branches such as Woodland;
- 3. bi-weekly bookmobile service;
- 4. administrative, collection and technical services, including support appropriate to public service hours listed above.

SECTION 4.6 System Support. The parties agree that financial support of the library system equipment, acquisitions, administration and central staff support is essential. To that end, the following shall be provided:

- 1. A minimum materials budget proportionately adjusted to the equivalent of a \$1.1 million budget in fiscal year 1995-96.

2. Additional assessments beyond those levied by the Agency levied for enhanced services in a particular community library shall be appropriated by the Board and as approved by the Board member(s) representing the community library's service area for direct services and materials. No more than 10% of such an additional benefit assessment may be appropriated by the Governing Board for central staff support.

SECTION 4.7 Investment of Surplus Funds. As provided in Section 6509.5 of the Government Code, the Agency shall have power to invest in the treasury any money that is not required for the immediate necessities of the Agency, as the Agency determines is advisable, in the same manner and upon the same conditions as local agencies, pursuant to Section 53601 of the Government Code, as amended or supplemented from time to time, for moneys covered thereby.

SECTION 4.8 Fiscal Year. Unless and until changed by a resolution of the Agency, the fiscal year of the Agency shall commence July 1st and terminate June 30th of each year.

SECTION 4.9 Contributions and Advances. Any Member may contract with the Agency for additional services and may contribute or advance public funds, personnel, equipment or property in addition to and those specified in Section 4.3, for any of the purposes of the Agreement. Any such advance may be made subject to repayment, and in such case shall be repaid in the manner agreed upon by the Member making such advance and the Agency, as permitted by Section 6512.1 of the Government Code. The Members may allow the use of personnel, equipment or other items in lieu of other contributions or advances to the Agency.

SECTION 4.10 Disposition of Money. In accordance with Section 6512 of the Government Code, upon the termination of this Agreement, any surplus money in possession of the Agency or on deposit in any fund or account of the Agency shall be returned in proportion to the contributions made under 4.9, as required by Section 6512 of the Law, and any other property of the Agency shall be divided among the Members in such manner as shall be determined by the Agency in accordance with the Law.

SECTION 4.11 Indemnification. Notwithstanding Section 4.1 hereof, and State Law, (Government Code section 895.2) to the extent that liability is imposed or a claim is made on a Member, for any reason whatsoever, directly or indirectly arising out of the activities of a Member (the "Indemnifying Member") to the full extent permitted by law, the Indemnifying Member shall indemnify, defend and hold harmless each of the other Members and their respective officers, directors, employees, and agents against any and all costs, expenses, losses, claims, damages, and liabilities arising out of or in connection with the Indemnifying Member's actions. Notwithstanding the provisions of Section 895.6 of the Government Code of the State of California, no Indemnifying Member shall have any right to contribution from any other Member.

SECTION 4.12 Annual Operating Budget. The Governing Board of the Agency shall consider and adopt the annual operating and capital improvements budgets for the library system.

SECTION 5. Governing Board

SECTION 5.1 Membership. The Agency shall be administered by the Governing Board ("Governing Board"), whose Voting Representatives shall be, at all times, designees of the Members. Each Member shall designate one council member and the County Member shall designate two members of the Board of Supervisors as the Voting Representatives. Each City Member may designate one alternate Voting Representative and the County may designate two alternate Voting Representatives. The selection process for each Voting Representatives and Voting Representative alternate shall be determined by the governing body of the Members.

SECTION 5.2 Term of Service. Each Voting Representative and alternate Voting Representative of the Governing Board shall serve at the pleasure of the Member City or County designating such Voting Representatives and alternate Voting Representatives.

SECTION 5.3 Reimbursement of Expenses. Voting Representatives, and their alternates, may receive compensation if the Agency so provides by Agency action and shall be entitled to reimbursement for any reasonable expenses actually incurred in connection with serving as a Voting Representative or alternate, if the Governing Board shall so determine and there are unencumbered funds appropriated by the Governing Board for such purpose.

SECTION 6. Meetings of the Governing Board.

SECTION 6.1 Regular Meetings. The Governing Board shall hold at least four regular meetings each year, and, by resolution, may provide for the holding of regular meetings at more frequent intervals. The date upon which, and the hour and place at which, each such regular meeting shall be held shall be fixed by resolution of the Governing Board. To the extent permitted by the Brown Act, such meetings may be held by teleconference.

SECTION 6.2 Special Meetings. Special meetings of the Governing Board may be called in accordance with the provisions of Section 54956 of the Brown Act, as amended or supplemented from time to time. To the extent permitted by the Brown Act, such meetings may be held by teleconference.

SECTION 6.3 Notice. All meetings of the Governing Board shall be called, noticed, held and conducted subject to the provisions of the Brown Act.

SECTION 6.4 Minutes. The Secretary of the Governing Board shall cause minutes of all meetings of the Governing Board to be kept and shall, as soon as possible after each meeting, cause a copy of the minutes to be forwarded to each Voting Representative of the Governing Board.

SECTION 6.5 Quorum. A majority of the Voting Representatives, including the alternate of a Voting Representative in his/her absence, shall constitute a quorum for the transaction of business, except that less than a quorum may adjourn from time to time.

SECTION 6.6 Actions by Governing Board The Governing Board shall take no action except upon the affirmative vote of the majority of the Voting Representatives of the Governing Board present, except that a majority of the Governing Board, not of the quorum, shall be required for the levy of any tax.

SECTION 7. Officers.

SECTION 7.1 President, Vice President and Secretary. The Governing Board shall annually elect a President and Vice-President of the Agency from among its Voting Representative and shall appoint a Secretary of the Agency, who need not be a Voting Representative of the Governing Board. In furtherance of its purpose as provided for herein, the Voting Representatives of the Governing Board shall have the power to determine the number such other officers as it may deem necessary.

SECTION 7.2 Fiscal Agent. The Governing Board shall establish a Finance Committee which shall oversee all matters pertaining to the financial structure of the Agency, subject to change as agreed to by the Voting Representatives of the Agency. The Finance Director of the County of Santa Clara shall be the Fiscal Agent who shall be the depository for the Agency. The Fiscal Agent shall have custody of all money of the Agency, from whatever source, in accordance with Section 6506 of the Government Code. The duties of the Fiscal Agent are to:

A) Receive and account for all money of the Agency and place it in the treasury designated to the credit of the Agency.

B) Be responsible, upon his or her official bond, for the safekeeping and disbursement of all money of the Agency, so held by the Fiscal Agent.

C) Pay, when due, all sums payable to the Agency, out of money of the Agency held by Fiscal Agent.

D) Pay any other sums due from the Agency, from agency or entity money, or any portion thereof, only upon warrants of the public officer performing the functions of auditor or controller who has been designated by the Agreement.

E) The Fiscal Agent is responsible for obtaining an Auditor/Controller for the Agency in accordance with Section 6505.5 of the Government Code.

F) Verify and report in writing to the Agency and to the Members on the first day of July, October, January, and April of each year, by the Fiscal Agent for the Agency, all account activity

of the Agency since Fiscal Agent's last report.

G) The Fiscal Agent shall provide for strict accountability of all funds, and report of all receipts and disbursements as required under Section 6505 of the Law. The Fiscal Agent shall provide an audit, or pursuant to Government Code § 6505, contract with a certified public accountant to make an annual audit. An annual audit of the accounts and records of the Agency, as required by Section 6505 of the Law shall be provided in a timely manner. In each case the minimum requirements of the audit shall be those prescribed by the State Controller for special districts under Section 26909 of the Government Code of the State of California and shall conform to generally accepted auditing standards. When such an audit of accounts and records is made by a certified public accountant, a report thereof shall be filed with each Member. Such report shall be filed within nine (9) months of the end of the fiscal year under examination. Any costs of the audit, including contracts with, or employment of, certified public accountants in making an audit pursuant to this section, shall be specified in the Contract with the Fiscal Agent and shall be borne by the Agency. The Governing Board may, by unanimous consent of the Governing Board Voting Representative, replace the annual audit with other acceptable audit practices.

SECTION 7.3 Officers Having Access to Property. The County Librarian is reaffirmed and designated to have charge of, handle, or have access to any property of the Agency, and he or she shall file an official bond with the Secretary of the Agency in the amount fixed by the Governing Board, all as required by Section 6505.1 of the Government Code. If and to the extent permitted by law, any such officer may satisfy this requirement by filing an official bond obtained in connection with another public office.

SECTION 7.4 Employees. The Governing Board shall have the power to determine the number such other library staff positions as it may deem necessary, and to retain independent accountants, legal, computer systems advisors, and other consultants. The County Librarian, and all library personnel, shall be employees of the County of Santa Clara and subject to the County's labor agreements and personnel rules and merit system rules. The County Librarian is appointed by and reports to the County Executive. Pursuant to this agreement, the County Librarian also reports to the Governing Board which may make recommendations to the County Executive relating to the selection and performance of the County Librarian.

SECTION 7.5 Administrative Staffing. The County of Santa Clara will continue to provide legal, purchasing, payroll, budget, treasury and other services to the library system and shall be reimbursed for the reasonable cost of these services. The Agency may also contract with individual cities or other entities for library services, facilities, and/or administrative support (such as, but not limited to, counsel, purchasing, payroll, budget, etc.).

SECTION 7.6 Immunities. All of the privileges and immunities from liability, exemptions from laws, ordinances and rules, all pension, relief, disability, worker's compensation and other benefits that apply to the activities of the officers, agents or employees of the Voting Representative when performing their respective functions within the territorial limits of their respective jurisdictions, shall apply to them to the same degree and extent while

engaged in the performance of any of their functions and duties extraterritorially under the provisions of this Agreement.

SECTION 8. Executive Director

The County Librarian is the Executive Director. The duties of the Executive Director are to:

(A) Work as staff to the Governing Board to coordinate the ongoing operations and to develop and implement standards, policies and procedures consistent with the direction of the Governing Board.

(B) Develop meeting agendas, meeting minutes, and publishing notices of meetings.

(C) Provide reports, as requested by the Governing Board, in a timely manner.

(D) Cause to have publicly posted the notices of meetings of the Agency in order to conform to the Brown Act.

(E) Other duties as assigned by the Governing Board.

SECTION 9. General Responsibilities of the Voting Representatives

SECTION 9.1 Voting Representative is required to:

(A) Adhere to standards, policies, and procedures developed by the Governing Board.

(B) Participate in ad hoc advisory committees that assist the Governing Board in the development of ongoing standards, policies and procedures.

(C) Attend meetings of the Library JPA.

SECTION 10. Accounts and Reports.

SECTION 10.1 Accountability. The Agency shall provide for strict accountability of all funds and report of all receipts and disbursements, in accordance with Section 6505 of the Government Code, and shall establish and maintain such funds and accounts as may be required by good accounting practice and by any provision of any resolution of the Agency. The books and records of the Agency shall be open to inspection at all reasonable times by the Members, and their designated representatives.

The Agency shall maintain during the term of the Agreement appropriate books, records, accounts and files relating to the revenues of, and expenses of maintenance and operation of, the

Agency, all of which shall be open to inspection at all reasonable times by the Members and their designated representatives.

SECTION 11. Library Policies

All policies relating to the provision of library services, including operation hours, organization, staffing levels and type, and other services, shall be determined by the Governing Board. Current policies with respect to the library shall continue in full force and effect until changed by the Board. In addition, libraries are subject to general State laws with respect to libraries, including the provisions of Education Code section 19146 which vests power to select materials in the County Librarian.

SECTION 12. Default

If default shall be made by any Member in any covenant contained in this Agreement, such default shall not excuse any other Member from fulfilling its obligations under this Agreement, and the other Members shall continue to be liable for the payment of all

contributions and the performance of all obligations contained herein. The Members hereby declare that the Agreement is entered into for the benefit of the Agency created hereby, and the Members hereby grant to the Agency the right to enforce, by all lawful means, all of the obligations that the Agency deems appropriate for each Member hereunder. Each and all of the remedies given to the Agency hereunder or by any law, now or hereafter enacted, are cumulative and the exercise of any one right or remedy shall not impair the right of the Agency to any or all other remedies.

SECTION 13. Third Party Beneficiary.

It is expressly understood and agreed that the enforcement of the terms and conditions of this Agreement, and all rights of action relating to such enforcement, shall be strictly reserved to the Members. Nothing contained in this Agreement shall give or allow any claim of right of action whatsoever by any other third person. It is the express intention of the Members that any such person or entity receiving services or benefits under this Agreement shall be deemed an incidental beneficiary only.

SECTION 14. Severability.

Should any part, term or provision of this Agreement be decided by a court of competent jurisdiction to be illegal or in conflict with any law of the State, or otherwise be rendered unenforceable or ineffectual, the validity of the remaining parts, terms or provisions hereof shall not be affected thereby.

SECTION 15. Successors; Assignment.

This Agreement shall be binding upon and shall inure to the benefit of the successors of each of the Members. Except to the extent expressly provided herein, no party may assign any right or obligation hereunder without the written consent of the all other Members.

SECTION 16. Amendment of the Agreement.

This Agreement may be amended by a supplemental agreement executed by all of the Members at any time; provided, however that this Agreement may terminate only in accordance with Section 3.4 hereof.

SECTION 17. Waiver of Personal Liability.

No Voting Representative, agent, officer or employee of the Agency or any of the Members shall be individually or personally liable for any claims, losses, damages, costs, injury and liability of every kind, nature and description arising from the actions of the Agency or the actions undertaken pursuant to this Agreement. To the full extent permitted by law, the Governing Board may authorize indemnification by the Agency, or by reservation of rights, of any person who is or was a Voting Representative of the Governing Board, or an officer, employee or other agent of the Agency or of a Member, and who was or is a party or is threatened to be made a party to a proceeding by reason of the fact that such person is or was such a Voting Representative, against expenses, judgments, fines, settlements, costs and other amounts actually and reasonably incurred in connection with such proceeding, if such person acted in good faith and in a manner such person reasonably believed to be in the best interests of the Agency and, in the case of a criminal proceeding, had no reasonable cause to believe the conduct of such person was unlawful and, in the case of an action by or in the right of the Agency, acted with such care, including reasonable inquiry, as an ordinarily prudent person in a like position would use under similar circumstances.

SECTION 18. Conflict of Interests Code.

The Agency shall adopt a Conflict of Interests Code to the extent required by law.

SECTION 19. Captions.

References to sections shall be to Sections herein. All section headings contained herein are for convenience of reference only and are not intended to define or limit the scope of any provision of this Agreement.

SECTION 20. Counterparts.

This Agreement may be executed simultaneously in any number of counterparts, each of which shall be deemed an original but all of which together shall constitute one and the same instrument.

SECTION 21. Governing Law.

This Agreement should be construed in accordance with and governed by the laws of the State.

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Appendix 2 – Funding Formula

Funding Formula Allocation Methodology, Santa Clara County Library District August 29, 2011

Introduction

The Santa Clara County Library was established as a department of the County of Santa Clara, supported by a property tax levied by the Board of Supervisors, in 1914.

As a result of the passage of Proposition 13 in 1978, Santa Clara County Library's revenues dropped by half. At that time, cities with libraries that were members of the Santa Clara County Library took particular interest in the allocation methodology used to distribute revenues to each library. The Board of Supervisors directed the County Executive and the County Librarian to meet with city managers to develop a funding plan. The result was the Library Funding Formula, based equally on assessed valuation, population, and circulation, in 1980. More detail about the Formula will follow.

On April 18, 1994, nine member cities entered into an agreement with the County to form a Joint Powers Authority (JPA) to manage the libraries. The agreement states: "The County Librarian, and all library personnel, shall continue to be employed by the County of Santa Clara and subject to the County's labor agreements and personnel rules." In addition, the Board of Supervisors delegated the authority for fiscal and policy decisions regarding the libraries to the JPA Board. The 1994 JPA Agreement also incorporated the 1980 Funding Formula. The member cities and the County entered into an amended and restated JPA agreement on August 9, 2001.

The following steps describe the process used by Library Administration in developing the annual budget proposal for the Library JPA Board's review at their April meeting.

Personnel Budget

Step 1: The total available revenue from all sources for the upcoming year is identified by Library Administration.

Step 2: The overall personnel budget allocation for the upcoming fiscal year is developed by Library Administration.

Step 3: The funds required for central services to support all Santa Clara County Library District locations are allocated.

Step 4: Per section 4.5 of the 2001 Amended and Restated JPA Agreement, which is attached to this document as Appendix A, the staffing allocations for minimum service levels for each library, commonly referred to as "the platform," are assigned. *See Page 4, Personnel Budget FY2011-2012, green column*

Step 5: Any dedicated revenue from city governments or other local entities is assigned to the specific library for which it was intended. *See Page 4, Personnel Budget FY2011-2012, yellow column*

Step 6: Community Facilities District revenues are returned to source, with each library receiving 100% of the special taxes paid by residents of the corresponding city or cities. For example, the Los Altos Library receives revenues from both Los Altos and Los Altos Hills, and the Saratoga Library receives revenues from both Saratoga and Monte Sereno. *See Page 4, Personnel Budget FY2011-2012, pink column*

Step 7: Unincorporated Community Facilities District revenues are distributed according to the funding formula described in Step 8. *See Page 4, Personnel Budget FY2011-2012, orange column*

Step 8: Per Section 4.4 of the 2001 Amended and Restated JPA Agreement, which is attached to this document as Appendix A, the “formula share” percentages for each library are developed by calculating the values of three equally weighted factors for each community:

1. **Circulation** total from the most recently completed calendar year.
2. **Assessed valuation** of properties in each community and the unincorporated area assigned to each library.
3. **Population** according to the most recent available data from the California Department of Finance.

See Page 6, Santa Clara County Library Formula 2011-2012 for the current year’s formula distribution.

Step 9: Any remaining revenues for personnel are distributed according to the funding formula. *See Page 4, Personnel Budget FY2011-2012, blue column*

Books and Materials Budget

Step 1: The overall books and materials budget allocation for the upcoming fiscal year is developed by Library Administration.

Step 2: The funds required for books and materials to support the entire Santa Clara County Library District service area (including the Bookmobile, the Reading Program, and Headquarters) are allocated.

Step 3: Any dedicated revenue from city governments or other local entities is assigned to the specific library for which it was intended. *See Page 5, Books and Materials Budget FY2011-2012, yellow column*

Step 4: Community Facilities District revenues are returned to source, with each community receiving 100% of the special taxes that its residents paid. *See Page 5, Books and Materials Budget FY2011-2012, pink column*

Step 5: Unincorporated Community Facilities District revenues are distributed according to the funding formula described above. *See Page 5, Books and Materials Budget FY2011-2012, orange column*

Step 6: Any remaining revenues for books and materials are distributed according to the funding formula. *See Page 5, Books and Materials Budget FY2011-2012, blue column*

Personnel Budget FY 2011-12

Expenditure & Revenue Recap

2011-12	Traditional	CFD	Local/Gifts	Transfer	TOTAL
REVENUES					
	\$25,374,000	\$5,610,000	\$1,224,393	\$3,684,840	\$35,893,233
EXPENDITURES					
Operating	\$9,866,180				\$9,866,180
Capital				\$371,053	\$371,053
Books, Etc.	\$2,813,000	\$1,122,000	\$65,000		\$4,000,000
Personnel	\$16,008,607	\$4,488,000	\$1,159,393		\$21,656,000
TOTAL	\$28,687,787	\$5,610,000	\$1,224,393	\$371,053	\$35,893,233

Community Facilities District Recap

CFD REVENUES		Personnel	Books	FORMULA share
Campbell	\$527,340	\$369,138	\$105,468	10.47%
Cupertino	\$715,836	\$501,085	\$143,167	21.61%
Gilroy	\$617,100	\$431,970	\$123,420	9.95%
Los Altos/Wo	\$468,435	\$327,905	\$93,687	16.87%
Milpitas	\$962,676	\$673,873	\$192,535	18.02%
Morgan Hill	\$512,754	\$358,928	\$102,551	9.38%
Saratoga/MS	\$421,872	\$295,310	\$84,374	13.72%
Subtotal	\$4,226,013	\$2,958,209	\$845,203	
Unassigned	\$1,383,987	\$968,791	\$276,797	
Total	\$5,610,000	\$3,927,000	\$1,122,000	100%

Salary and Benefit Recap

PERSONNEL	Traditional by Platform	Remainder by Formula	100% CFD Return	Unincorp CFD by formula	Specific Place \$ (City/NCLA)	FY12 TOTAL	FY11 Budgeted	Change from FY11
Campbell	\$1,067,419	\$194,725	\$369,138	\$101,400		\$1,732,682	\$1,768,278	(\$35,596)
Cupertino	\$1,708,271	\$402,038	\$501,085	\$209,356	\$246,513	\$3,067,263	\$3,086,156	(\$18,893)
Gilroy	\$905,381	\$185,106	\$431,970	\$96,391		\$1,618,849	\$1,622,593	(\$3,744)
Los Altos/Woodland	\$1,460,968	\$313,774	\$327,905	\$163,393	\$484,979	\$2,751,018	\$2,768,036	(\$17,018)
Milpitas	\$1,398,884	\$335,262	\$673,873	\$174,583	\$427,901	\$3,010,503	\$3,038,967	(\$28,464)
Morgan Hill	\$920,139	\$174,446	\$358,928	\$90,840		\$1,544,354	\$1,592,579	(\$48,225)
Saratoga	\$1,191,850	\$255,226	\$295,310	\$132,905		\$1,875,292	\$1,900,058	(\$24,766)
Sub-Total Libraries	\$8,652,913	\$1,860,577	\$2,958,209	\$968,868	\$1,159,393	\$15,599,960	\$15,776,667	(\$176,707)
Headquarters	\$4,982,512			\$560,774		\$5,543,286	\$5,559,290	(\$16,004)
The Reading Program	\$227,213					\$227,213	\$221,262	\$5,951
Bookmobile	\$285,541					\$285,541	\$288,362	(\$2,821)
GRAND TOTAL	\$14,148,179	\$1,860,577	\$2,958,209	\$1,529,642	\$1,159,393	\$21,656,000	\$21,845,581	(\$189,581)

Books and Materials Budget FY 2011-12

Expenditure & Revenue Recap

2011-12	Traditional	CFD	Local/Gifts	Transfer	TOTAL
REVENUES					
	\$25,374,000	\$5,610,000	\$1,224,393	\$3,684,840	\$35,893,233
EXPENDITURES					
Operating	\$9,866,180				\$9,866,180
Capital				\$371,053	\$371,053
Books, Etc.	\$2,778,000	\$1,122,000	\$100,000		\$4,000,000
Personnel	\$16,008,607	\$4,488,000	\$1,159,393		\$21,656,000
TOTAL	\$28,652,787	\$5,610,000	\$1,259,393	\$371,053	\$35,893,233

Community Facilities District Recap

CFD REVENUES		Personnel	Books	FORMULA Share
Campbell	\$527,340	\$369,138	\$105,468	10.47%
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Milpitas	\$962,676	\$673,873	\$192,535	18.02%
Morgan Hill	\$512,754	\$358,928	\$102,551	9.38%
Saratoga/MS	\$421,872	\$295,310	\$84,374	13.72%
Subtotal	\$4,226,013	\$2,958,209	\$845,203	
Unassigned	\$1,383,987	\$968,791	\$276,797	
Total	\$5,610,000	\$3,927,000	\$1,122,000	100%

Books and Materials Recap

	Traditional by Formula		CFD Return	Unincorp CFD by formula	Specific Place \$ (City/NCLA)	FY12 TOTAL	FY11 Budgeted	Growth
MATERIALS								
Campbell	\$266,871		\$105,468	\$28,951	\$0	\$401,290	\$440,165	(\$38,875)
Cupertino	\$551,025		\$143,167	\$59,815	\$0	\$754,007	\$785,795	(\$31,788)
Gilroy	\$253,688		\$123,420	\$27,540	\$0	\$404,649	\$450,591	(\$45,942)
Los Altos/Woodland	\$430,045		\$93,687	\$46,684	\$65,000	\$635,416	\$614,079	\$21,337
Milpitas	\$459,497		\$192,535	\$49,881	\$0	\$701,913	\$746,652	(\$44,739)
Morgan Hill	\$239,076		\$102,551	\$25,954	\$0	\$367,581	\$409,075	(\$41,494)
Saratoga	\$349,797		\$84,374	\$37,973	\$0	\$472,144	\$501,143	(\$28,998)
Sub-Total Libraries	\$2,550,000		\$845,203	\$276,798	\$65,000	\$3,737,000	\$3,947,500	(\$210,500)
Gifts					\$35,000	\$35,000	\$35,000	\$0
Headquarters*	\$228,000					\$228,000	\$228,000	\$0
GRAND TOTAL	\$2,778,000		\$845,203	\$276,798	\$100,000	\$4,000,000	\$4,210,500	(\$210,500)

*includes Bookmobile, Literacy, Tech

**Santa Clara County Library Formula
2011-12**

Library	Population 1-1-10	Percent	Assessed Valuation	Percent	Circulation	Percent	Formula Share	FY 10- 11
Campbell	40,860		6,333,260,302					
Unincorporated	8,868		617,700,441					
Redevelopment			-665,308,540					
RDA Pass-thru			<u>419,512,195</u>					
	49,728	13.431%	6,705,164,398	10.174%	937,596	7.795%	10.47%	10.49%
Cupertino	56,431		13,495,632,397					
Unincorporated	4,198		181,695,417					
Redevelopment			-200,979,920					
RDA Pass-thru			<u>57,084,615</u>					
	60,629	16.375%	13,533,432,509	20.535%	3,358,180	27.920%	21.61%	20.07%
Gilroy	52,027		5,829,162,100					
Unincorporated	8,028		<u>426,408,435</u>					
	60,055	16.220%	6,255,570,535	9.492%	497,577	4.137%	9.95%	9.82%
Los Altos	28,863		9,361,963,881					
Los Altos Hills	9,042		4,888,435,832					
Unincorporated	4,495		<u>391,540,828</u>					
	42,400	11.452%	14,641,940,541	22.217%	2,036,040	16.928%	16.87%	16.11%
Milpitas	71,552		11,912,075,436					
Unincorporated	327		25,271,018					
Redevelopment			-4,304,766,162					
RDA Pass-thru			<u>363,781,081</u>					
	71,879	19.414%	7,996,361,373	12.134%	2,707,987	22.514%	18.02%	17.16%
Morgan Hill	40,246		6,153,692,749					
Unincorporated	7,988		674,960,088					
Redevelopment			-1,934,391,113					
RDA Pass-thru			<u>225,135,714</u>					
	48,234	13.027%	5,119,397,438	7.768%	882,222	7.335%	9.38%	9.64%
Saratoga	31,997		9,963,412,097					
Monte Sereno	3,666		1,465,728,287					
Unincorporated	1,662		<u>222,001,090</u>					
	37,325	10.081%	11,651,141,474	17.679%	1,611,193	13.396%	13.72%	13.07%
Percentages are based on assigned								
	Population		Assessed Valuation		Circulation			
Total	426,516		82,465,278,047		12,176,961			
Assigned	370,250		65,903,008,267		12,027,795			
Cities	334,684		69,403,363,081					
Unincorporated	35,566		3,198,862,975					
Unassigned	56,266		9,863,051,991		149,166	(Bookmobile, HQ)		
Redevelopment			-6,039,932,130					

		59,270,731,270
Total Unincorp	91,832	13,061,914,966