

Sustaining
our future

Libraries *for* LIFE

Carnegie Library of Pittsburgh

A Composite Report

2010-2014: Funding Outlook & Implications

This document includes information developed in 2009 by
Carnegie Library of Pittsburgh on the subject of its annual operating budget.



Summary

Based upon reasonable assumptions and current data, the Library is projecting a \$6 million shortfall – or structural gap – between operating revenue and operating expense by 2014.

This report provides a basic overview of the Library's financial situation as it begins to create a public conversation about the importance of public libraries and specifically, Carnegie Library of Pittsburgh.

The Library's system of neighborhood libraries, programs, professional staff and services are subject to reduction if funding sources cannot support annual operating costs. This information is being presented to the community now as the Library's management and Board of Trustees evaluate every option to close the gap and live within the organization's means.

Equally important, Carnegie Library of Pittsburgh continues to advocate – and seek public support – for increased funding to not only sustain the robust library system, programs and services that exist today, but to enhance and improve upon this system for the benefit of future generations.

The “free to the people” emblazoned on our Main Library building reminds us of the opportunity Andrew Carnegie envisioned in 1895. But “free to the people” does not mean without cost. Andrew Carnegie provided funding for the initial buildings, but did not endow their ongoing operations or maintenance. He believed the community should take care of sustaining such a great resource.

— *Dr. Barbara K. Mistick*
President and Director, Carnegie Library of Pittsburgh

Introduction: The Problem

By Dr. Barbara K. Mistick, President and Director, Carnegie Library of Pittsburgh

Carnegie Library of Pittsburgh is busier than ever, welcoming 2.6 million visitors in 2008. The Library continues to keep pace with changing customer needs, providing robust programs, skilled staff, extensive collections, computers and Internet access.

We understand how important our neighborhood libraries are to this city. We see the critical link between the Library and education. We know our libraries are true community assets.

We also understand the economic realities.

For many years, we have faced the annual challenge of increasing costs and decreasing revenues. And for many years, we have managed this challenge by cutting our expenses and realizing operating efficiencies – all the while maintaining the leadership role and exemplary service that befits the nation's first public library.

The cost of operating such a dynamic system continues to outpace the revenues our Library receives. Our city is smaller today than it was when our system was built, yet we continue to support 19 locations, many of which are falling into disrepair. Our capacity to raise both capital and operating dollars has diminished. We find ourselves facing a financial situation that threatens our current system.

This threat is heightened – but not caused by – our country's current economic climate. The poor economic climate reduces sales tax revenue and sources of funding; yet even during an anticipated economic recovery period beginning in 2012, the accumulation of expenses outweighs projected revenue levels.

In order to preserve the quality of library services that the citizens of Allegheny County come to expect, we must address the funding and expense issue now. We must stay ahead of the problem. We must plan ahead to avoid a future over which we have no control. Over the summer, we'll be addressing this challenge through community town hall meetings.

We are exploring every option to avoid closures of community libraries, certainly an undesirable action of last resort.

Public support is vital to our success. We look for you to be ambassadors for the Library and to share with others what Carnegie Library of Pittsburgh means to you and to the region.

I know that together, we can continue to build communities and enrich lives through our Libraries.

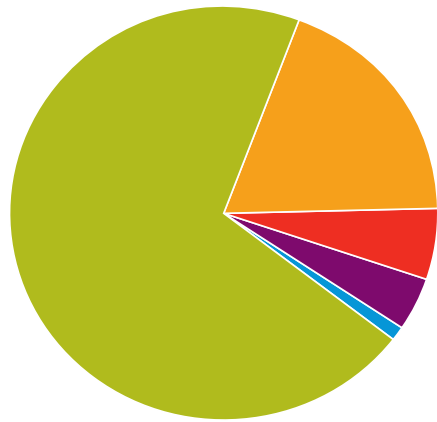
Carnegie Library of Pittsburgh (CLP) System Map



Lack of library funding is threatening the CLP System

- Andrew Carnegie DID NOT ENDOW Carnegie Library of Pittsburgh.
- 70% of CLP operational funding comes from sales tax revenue via the Allegheny Regional Asset District (RAD). RAD funding is predicted to be flat for several years; a 10% withholding remains a potential in 2009.
- State budget cuts are likely.
- City funding remains at \$40,000.
- Recent capital campaign has provided enough money for ten projects. Capacity to raise additional funds is limited.
- Foundation and individual giving is expected to decline.

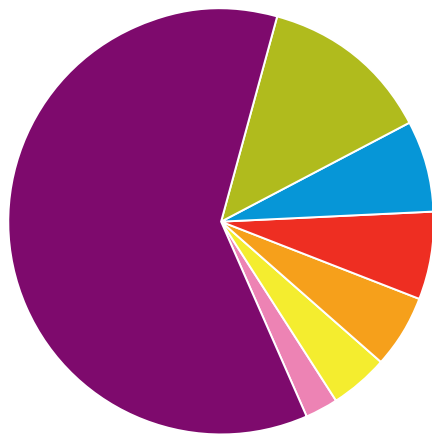
Carnegie Library of Pittsburgh's 2009 Operating Budget



Revenues

| | | |
|--------------|---------------------------|--------------|
| 71.8% | ■ Regional Asset District | \$16,770,000 |
| 20.5% | ■ Commonwealth of PA | \$4,782,662 |
| 4.3% | ■ Earned Income | \$1,000,000 |
| 3.2% | ■ Fundraising | \$750,000 |
| .2% | ■ City of Pittsburgh | \$40,000 |

| | |
|-----------------------|---------------------|
| Total Revenues | \$23,342,662 |
|-----------------------|---------------------|



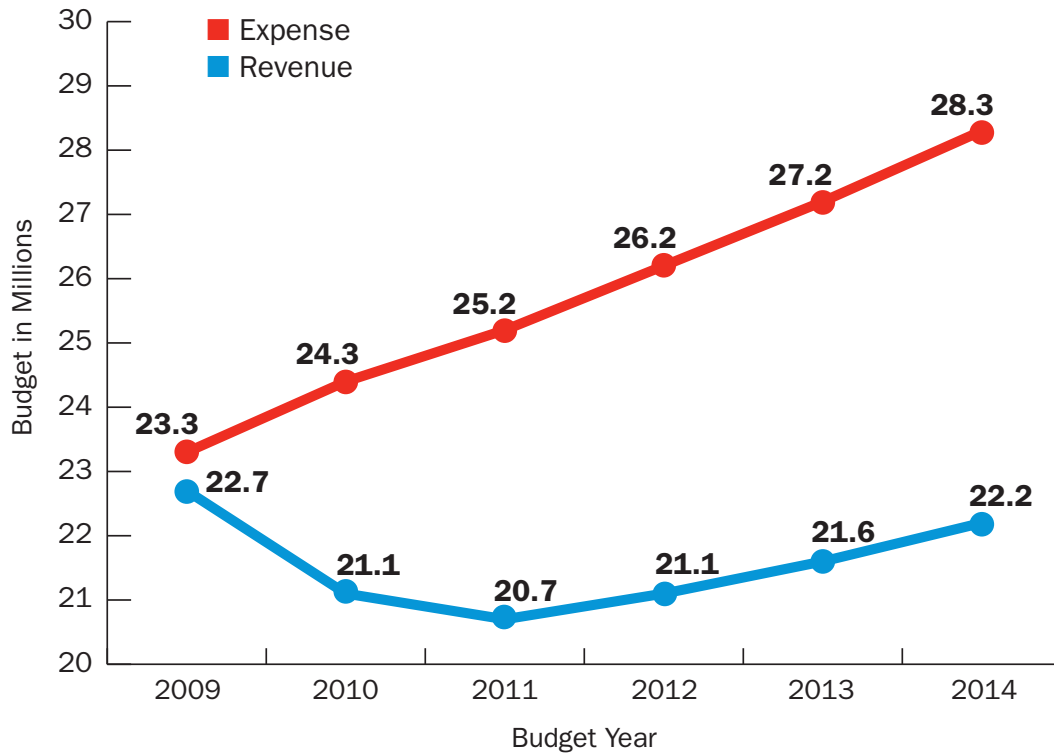
Expenses

| | | |
|-------------|-------------------------|--------------|
| 61% | ■ Salaries & Benefits | \$14,341,514 |
| 13% | ■ Library Materials | \$2,917,833 |
| 7% | ■ Facility-Related | \$1,602,265 |
| 6.5% | ■ Program-Related | \$1,527,363 |
| 5.8% | ■ Utilities | \$1,383,050 |
| 4.3% | ■ Debt Service | \$1,000,000 |
| 2.5% | ■ Computers & Equipment | \$570,637 |

| | |
|---------------------------|---------------------|
| Total Expenditures | \$23,342,662 |
|---------------------------|---------------------|

Structural Gap Projected

Several financial projection scenarios have been considered by Carnegie Library of Pittsburgh's staff and the Finance Committee of its Board of Trustees. The outlook below is neither the best-case nor the worst-case scenario. Given the uncertainties in revenue, this outlook is a reasonable one to use for prudent financial planning. Assumptions used to make the projections follow.



Five Year Expense Projection

| | 2009 Approved Budget | 2010 Estimate | 2011 Estimate | 2012 Estimate | 2013 Estimate | 2014 Estimate |
|------------------------------|----------------------|----------------------|----------------------|----------------------|----------------------|----------------------|
| | | Year 1 | Year 2 | Year 3 | Year 4 | Year 5 |
| EXPENSE | | | | | | |
| Salaries - Full Time | 9,752,884 | 10,225,250 | 10,532,006 | 10,847,968 | 11,173,408 | 11,508,609 |
| Salaries - Part Time | 1,614,328 | 1,517,896 | 1,563,433 | 1,610,336 | 1,658,647 | 1,708,405 |
| Fringe Benefits (incl taxes) | 2,974,302 | 3,212,246 | 3,469,226 | 3,746,765 | 4,046,506 | 4,370,226 |
| Library Materials | 2,917,833 | 3,063,724 | 3,216,911 | 3,377,756 | 3,546,644 | 3,723,976 |
| Other | 2,800,639 | 2,876,652 | 2,954,785 | 3,035,098 | 3,117,656 | 3,202,519 |
| Capital maintenance | 250,000 | 300,000 | 350,000 | 400,000 | 450,000 | 500,000 |
| Rent | 281,454 | 267,568 | 267,568 | 267,568 | 267,568 | 267,568 |
| Utilities | 1,275,000 | 1,313,250 | 1,352,648 | 1,393,227 | 1,435,024 | 1,478,074 |
| Insurance | 228,570 | 239,999 | 251,998 | 264,598 | 277,828 | 291,720 |
| Telephone | 108,050 | 110,211 | 112,415 | 114,664 | 116,957 | 119,296 |
| Legal | 68,000 | 71,400 | 74,970 | 78,719 | 82,654 | 86,787 |
| Audit | 30,000 | 30,000 | 33,000 | 33,000 | 35,000 | 35,000 |
| Debt Service | 1,000,000 | 1,000,000 | 1,000,000 | 1,000,000 | 1,000,000 | 1,000,000 |
| Vehicle leases | 41,602 | 35,000 | 35,000 | 35,000 | 40,000 | 40,000 |
| TOTAL EXPENSE | \$23,342,662 | \$24,263,196 | \$25,213,960 | \$26,204,698 | \$27,247,891 | \$28,332,180 |
| Estimated Revenue | \$22,742,662 | \$21,142,662 | \$20,719,809 | \$21,134,205 | \$21,556,889 | \$22,203,596 |
| Structural gap | (\$600,000) | (\$3,120,534) | (\$4,494,151) | (\$5,070,493) | (\$5,691,002) | (\$6,128,584) |
| | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 |
| % of gap to total expense | -3% | -13% | -18% | -19% | -21% | -22% |

Assumptions for structural gap calculation

The following budget assumptions have been factored into the structural gap calculation. These assumptions represent the current profile of the library system's people, places and programs.

Revenues:

- 2010 assumes a revenue decrease of \$1,600,000, including lower contributions from RAD and State revenue due to lower sales tax revenue and State budget cuts.
- 2011 assumes a revenue decrease of approximately \$425,000. The assumption is that funding reductions will continue in either RAD or State funding.
- 2012 assumes a recovery in sales tax or State budget dollars, with a potential revenue increase of approximately \$415,000.
- 2013 assumes a revenue increase of approximately \$425,000. The assumption is that the recovery begun in 2012 will continue slowly in sales tax or State budget dollars.
- 2014 assumes a revenue increase of approximately \$650,000. The assumption is that the recovery begun in 2012 will continue slowly in sales tax or State budget dollars.

Expenses:

- Modest (3%) increases are anticipated each year through 2014 for salaries, supplies, leases and equipment; Library materials are calculated at a 5% average increase.
- Benefits and health care coverage increases are calculated at a conservative 8% average increase through 2014.
- The cost of utility and energy services and capital maintenance expenses are calculated at a 3% average increase through 2014.
- Fees for insurance, legal, audit and professional services fees are expected to rise each year.
- Rent, debt service and vehicles are based on long-term commitments and not readily changeable.

Addressing the Structural Gap

This structural gap is not a new issue, nor is it a temporary issue. The gap between funding/revenue and operating costs is widening to the point of jeopardizing the library system's ability to sustain operations in their current form. For many years, the Library has been making numerous changes within its system to decrease expenses, increase revenues and optimize efficiencies. Highlights of these changes include:

- Streamlined organizational structure and realigned staff at neighborhood locations, as well as CLP – Main
- Changed hours of operation to optimize access and usage patterns
- Brought outsourced services in-house (Finance/Human Resources)
- Strengthened ongoing collaboration with the Allegheny County Library Association to provide seamless service to users throughout the county, including a shared Catalog
- Raised \$55 million to renovate/upgrade/build nearly one-half of library facilities within the City
- Increased the level of private financial support from 1% to 4%
- Reduced salary budget by attrition and reassignment; Instituted a salary and hiring freeze; Capped materials budget at 12.5%; Capped 403B match; Reduced operating budgets in administrative areas.

Next Steps

The Library is engaging the community via three town hall meetings. The goal is to share the Library's situation and get the community's input on criteria to be used for making decisions about the future of the Carnegie Library of Pittsburgh system.

Meeting dates, times and locations will be announced soon.

Meanwhile, advocacy on behalf of the Library is strongly encouraged. The Library's funders should hear from the public about how important libraries are to our community and how important steady funding is to the Library.

Links to funders and more details about Sustaining Our Future can be found on the Library's Web site: www.carnegielibrary.org