TO: HONORABLE CITY COUNCIL

FROM: CITY MANAGER
DEPARTMENT: COMMUNITY SERVICES

DATE: JUNE 10, 2002
CMR: 270:02

SUBJECT: APPLICATION FOR CALIFORNIA READING AND LITERACY IMPROVEMENT AND PUBLIC LIBRARY CONSTRUCTION AND RENOVATION BOND ACT OF 2000 FUNDS FOR THE MITCHELL PARK SOUTH RESOURCE LIBRARY PROJECT

REPORT IN BRIEF

The California Reading and Literacy Improvement and Public Library Construction and Renovation Bond Act (Bond Act) of 2000 makes $350 million of State bond funds available for public libraries. Applications for the first round of funding, in which $150 million will be released, are due June 14, 2002. This staff report recommends that the City submit a grant application for the library portion of the proposed new Mitchell Park South Resource Library and Community Center, and that the proposal be for a reduced library building of 47,000 square feet instead of a full program of 54,000 square feet. If successful, this $29 million project would receive $19 million in state funds (65 percent match) with a $10 million City contribution (35 percent).

Information is included presenting the financial impact to the City depending on whether the project is funded through a combination of State grant and bond proceeds, State grant and other City resources, bond proceeds alone or other City resources. Also described is a projected annual operating budget ($2.6 million) for the library and options for funding new expenses ($1.7 million).

The Bond Act application requires an agreement certifying the project budget ($29 million), the provision of local matching funds ($10 million) and supplemental funds to complete the project ($1.6 million, Library and $8.6 million, Community Center), and a forty-year commitment to operate the completed facility for direct public library service.

RECOMMENDATION
Staff recommends that the City Council:
1. Approve a resolution certifying a project budget for the Mitchell Park South Resource Library (reduced library program) of $29,268,821 million, the commitment of a 35 percent local funding match of $10,244,087 million for the project and approval of a proposed annual operating budget of $2.6 million upon successful award by the State Bond Act Board and opening of the new library.

2. Authorize the mayor to sign the Bond Act application.

BACKGROUND
The California Reading and Literacy Improvement and Public Library Construction and Renovation Bond Act (Bond Act) of 2000 makes $350 million of State bond funds available for construction and renovation of California public libraries. The Bond Act provides 65 percent of eligible project costs up to a maximum of $20 million, with a local match of 35 percent. The Mitchell Park South Resource Library project was determined to be the most competitive Palo Alto library project for a Bond Act application. Only the library portion and a percent of common areas of the joint library/community center project are eligible for this State bond-funded program. Council reviewed two options for the library, the full program of 54,000 square feet and a reduced program at 47,000 square feet.

DISCUSSION
Staff recommends submitting an application for the reduced program to be eligible for the first round of Bond Act funding, which is due in Sacramento on June 14, 2002. Attachment 1 is a list of all the documents prepared or soon to be completed in compliance with the application regulations. Attachment 2 is the draft grant application provided for Council. The public may review copies at the City Clerk’s Office, Main Library or Mitchell Park Library.

The cost estimate projected (following the Bond Act application instructions) for the Mitchell Park South Resource Library and Community Center is $39.5 million. The reduced option application prepared for the library portion includes eligible costs of $29 million. If successful, the grant will provide 65 percent or $19 million of State funds with a 35% match of $10 million in Palo Alto funds. This option was chosen, as opposed to the full library program with eligible project expense of nearly $33 million, to reduce project size and risk to the Infrastructure Reserve, which would be the source of the City matching funds commitment should a bond election not occur or be unsuccessful. The chart below describes the financial impact to the City for the complete library project and community center whether it is funded through: 1) a combination of a State grant and bond proceeds, 2) State grant and other City resources, 3) bond proceeds alone or, 4) other City resources.
The Bond Act regulations include some peculiarities regarding eligible costs; consequently, the total application project budget is different from figures in previous and current staff reports related to project costs. For example, construction expenses are calculated based on a professional estimate and a specific escalation formula for Santa Clara County that is designated by the application requirements. Also, some expenses already incurred by the City (architectural fees for programming and conceptual plans, traffic and parking consultant, etc.) are eligible as a portion of the City’s 35 percent matching funds commitment. Approximately $265,000 of such expenses are included in the project budget. Fortuitously, furniture and equipment expenses, estimated at $2.9 million, are eligible for match by the Bond Act and have been included in the project budget. In summary, staff has prepared an application providing the opportunity to capture the maximum amount of State funds and credit for expenditures to date.

The major components of the library-related eligible expenses are:
$12,690,600 Construction
$ 1,269,060 Contingency
$ 6,220,506 Site development
$ 3,030,428 Furniture & equipment
$ 4,257,618 Architectural fees
$ 1,016,388 Construction/Project management

Further details on the Project Budget are included in Attachment 3.
Attachment 4 is a projected operating budget for the Mitchell Park South Resource Library upon completion. It is important to note that, while the application will obligate the City to provide matching project funding if the proposal is successful whether or not there is a successful local bond measure in November, the application does not obligate the City to the proposed annual operating budget. The budget incorporates $921,000 currently allocated for this branch in the Library Services and Public Works operating budgets and new expenses of $1.7 million proposed upon completion of the new facility, which together total $2.6 million for annual operations. The expense is projected based on the Library’s new status as a Resource Library and maintenance expense given the building size. The budget also incorporates expense for the Everyone’s Homework and Enrichment Center, the joint venture with Palo Alto Unified School District. Staffing is projected to increase by 16.85 FTE from the current 9.73 FTE to a total of 25.88 FTE for the new facility. This projection is based on increasing service hours to be similar to the current ones at Main Library (64 hours/week compared with current 56 hours/week). Neither the Finance Committee nor the Library Advisory Commission has had the opportunity to complete review of the staffing plan to determine the short and long-term staffing levels prior to the submission deadline for the grant application.

Palo Alto’s application requires Council approval of the conceptual designs of the Mitchell Park South Resource Library and Community Center; the appropriate environmental review, i.e. the Mitigated Negative Declaration; and a resolution certifying the project construction budget, the commitment of local funding match (35 percent) for the library component and supplemental funds needed to complete the library and community center project; and approval of a proposed operating budget for the expanded Mitchell Park Library.

**ALTERNATIVES TO STAFF RECOMMENDATION**
Council could decide to apply for the full program (54,000 square feet) instead of the proposed reduced program (47,000 square feet).

**RESOURCE IMPACT**
The City faces two potential resource impacts if the grant application is successful. First, the City is obligated to provide matching project funding of an estimated $10 million under the recommended reduced Mitchell Park library program ($13 million if Council selects the full Mitchell Park library program). The second impact would result from additional staffing, materials, supplies and other non-capital resources needed for operating an expanded facility. The City would also face impacts from construction of the community center and they are discussed below.

Should a bond measure be approved, the City would have a new revenue source to pay its share of capital costs as required by the grant as well as the costs for the Mitchell Park community center. If a bond measure does not pass, the City would be required to use
available reserves, shift existing resources, or seek a new revenue source to meet the matching requirement and to fund an estimated $8.6 million for the community center. Without a successful vote, the City faces $20.5 million in costs for the overall project. Given the current economic climate, weak revenues, and the commitment to rehabilitate existing infrastructure, staff does not recommend the use of $20.5 million from reserves. Consistent with recommendations in the City’s Long Range Financial Plan, new revenue sources should be identified for new infrastructure projects. Beyond General Obligation bonds, the City could propose a higher Transient Occupancy Tax or a new Business License Tax to repay debt as well as use available library development fee revenue (only for library work) toward construction.

As stated, the City is not obligated to the proposed operating budget for the reduced Mitchell Park library plan shown in Attachment 4. This proposal results in $1.7 million in incremental operating expenses for the library (community center would add $30,000 per CMR 291:02) for which funding has not been identified. The new revenue sources cited above also could act as a funding vehicle for additional operating expenses. It is important to note that neither the Finance Committee nor the Library Advisory Commission has reviewed the staffing plan.

While commitments are required to apply for the Bond Act, the City is not required to have secured the matching funds at the time of application submittal. The City must, however, make local funds available when the project begins. Although the application requires submittal of an operating budget, it can be amended. The purpose is to show the City’s understanding of the requirements and preliminary commitment to operation of the library as proposed in the grant.

POLICY IMPLICATIONS
By adopting the attached resolution, Council is establishing a policy committing City funds to the construction and operation of the new Mitchell Park South Resource Library.

TIMELINE
To submit an application for the first round of Bond Act funding, Council must pass the supporting resolution on June 10, 2002. The second round of funding is in March 2003.

ENVIRONMENTAL REVIEW
In accordance with Bond Act guidelines, this project has been reviewed per the California Environmental Quality Act. Staff has prepared a MND for the Mitchell Park Library and Community Center project, which will be reviewed by Council on June 10, 2002.

ATTACHMENTS
Attachment 1: List of documents prepared for Palo Alto’s Library Bond Act Application.
Attachment 2: Draft grant application form (provided for Council members only).
Attachment 3: Library Project Budget
Attachment 4: Proposed Operating Budget for Mitchell Park South Resource Library
Attachment 5: Resolution of Local Commitments and Certifications

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