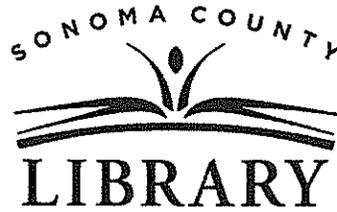


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LIBRARY COMMISSION

Helena Whistler - <i>Chair</i>	Paul Grill
Hilary C. Smith - <i>Vice-Chair</i>	Tom Haeuser
David Ebright	Paul Heavenridge
Reece Foxen	Barbara Mackenzie
Linda Garcia	Tim May
	Randall Neff

MEMORANDUM

*read 9.30.16
Ballinger*

FILED
SUPERIOR COURT OF CALIFORNIA
COUNTY OF SONOMA

OCT - 4 2016

BY *RL*
Deputy Clerk

DATE: September 26, 2016

TO: Honorable Raima H. Ballinger, Presiding Superior Court Judge

FROM: Helena Whistler, Chair, Sonoma County Library Commission

SUBJECT: Library Commission Response to the Grand Jury Report 2016

The Sonoma County Library Commission's response to the 2016 Grand Jury Report is attached.

cc: Foreperson, Grand Jury

Sonoma County Library Commission

Response to the 2015-16 Grand Jury Report dated June 29, 2016

Introduction

This response is on behalf of the Sonoma County Library Commission (Commission). The Commission appreciates the public's passion and Grand Jury's continued interest in the health and welfare of our public library system.

Comments on Report

Before responding to the Grand Jury's findings and recommendations, we would like to respond to some of the assertions in the discussion portion of the report.

Excerpt from the report: Finally the Library Commission is in the process of forming a Revenue Generation Committee.

Library Response: The Commission formed the Revenue Enhancement Committee to investigate alternative funding mechanisms for the Library system.

Excerpt from the report: In 2014, an effort was made through an election to ask voters for a quarter-cent increase in the sales tax.

Library Response: The sales tax increase that was on the ballot in 2014 was for a 1/8 cent.

Excerpt from the report: Simply put, pay your expenses as they are incurred.

Library Response: The Library pays all of the costs of current benefits when due and has no outstanding obligations for current benefit costs.

Grand Jury Findings

1. The Library's pension fund appears to be stabilized and the Library is making current payments. However, the unfunded liability is still excessive in relation to the Library's total revenue.
2. The Library's OPEB (health and absences) obligation is seriously underfunded. The Library fails to completely fund its cost for current benefits as well as costs for its future unfunded liabilities.
3. The \$1.1 million fund for the future OPEB costs, invested with CALPERS, does not appear in the Library's financial reports.
4. New management is aware of the Library's financial difficulties and is developing new programs for revenue building. However, revenue for these programs will compete with Library operating needs as well as paying down unfunded liabilities.

Library's Response to the Grand Jury's Findings

1. The Library agrees with this finding.
2. The Library partially agrees with this finding. The Library disagrees with the portion of the finding regarding funding its current costs for benefits. The Library pays all of the costs of current benefits when due and has no outstanding obligations for current benefit costs.
3. The Library agrees with this finding. The Library is handling this correctly; the balance of the trust fund should not be included on the Library's balance sheet. It is treated as an expense when payment is made into the fund. The balance of the trust fund is taken into consideration when preparing the actuarial report for the OPEB plan.
4. The Library agrees with this finding. One of the objectives in the Library's strategic plan is to create a diversified funding strategy. Competing objectives are challenging in all organizations. The Library works through these challenges each year during its budget process and understands that these decisions are important in managing an efficient business.

Grand Jury Recommendations

1. Library Management draft a business plan that projects future revenues and expenses and provides for liability reduction.
2. The Library Commission review the current financial status at least quarterly to verify that the unfunded liability is decreasing and annually report to the public on the progress being made towards solvency.
3. The Library fund its current OPEB costs and not allow its unfunded liability to increase. Monies set aside for these benefits should be placed in a non-revocable trust fund similar to the one created for pension benefits.
4. The Library allocate any new revenue to ensure that all the Library's current expenses are paid as they are incurred and that its pension and OPEB liabilities are not allowed to grow.
5. The Library include a summary of its pension reform progress in the Management and Discussion Analysis section of its annual financial report. This summary should discuss the identification of the OPEB, past and future contributions to the Health and Compensated Absences trust funds, and their status and change in value.

Library's Response to the Grand Jury's Recommendations

1. The Library agrees with the recommendation. The Library management currently produces a business plan that projects revenues and expenses. Management will need to modify the plan to include a summary of the unfunded portion of the retiree benefits and make every effort to reduce the liability within the limits of its operating budget. This change will be implemented into the business plan by December 1st, 2016.

2. The Library agrees with this recommendation. Library staff will provide an estimate of the accrued liability, based on information from the actuarial report, to the Library Commission on a quarterly basis. The Commission will report annually to the public on its long-term obligations based on the information received in the annual audit. The quarterly reports will begin in February of 2017 with the annual report being made in approximately December of 2017 when the final audit is received.
3. The Library agrees with this recommendation. Through its budget cycle each year the Library will evaluate the annual OPEB costs, its operating expenditures and determine the amount that can be paid toward the unfunded liability. The expected revenues and operating expenses will be a determining factor in deciding what amount to deposit into the OPEB trust that was set up in 2014.
4. The Library partially agrees with the recommendation. The Library cannot commit to allocating any new revenue source to the pension and OPEB liabilities. New revenues may be designated for specific purposes and therefore would not be allowed to be used for the pension and OPEB liabilities. The Library will continue to use the increase in property tax revenue, if any, for current operating expenses of the system and to keep the growth of the liabilities to a minimum. The Library reviews the operating expenses for the system and its contribution to the OPEB trust during the annual budget cycle.
5. The Library agrees with the recommendation. The Library will implement the recommendation and include this summary in the Management and Discussion Analysis section of the annual audit every year. This will be implemented beginning with the audit for the year ending June 30, 2016.