

BACKGROUND

“A strong library is fundamental to a great city.”

Mayor David Cicilline

“The Providence Public Library is a private, non profit corporation providing library services to the City of Providence and the State of Rhode Island.”

Mission of the Providence Public Library

The Providence Public Library has presented a proposal to close six branches to sustain a balanced budget in FY '07. The City Council has presented a proposal to change governance by mandating additional public representation on the Providence Public Library Board.

As Special Fiscal Year 2007 Advisor for Providence Public Library Branches created by Executive Order Number 2006 – 01 on April 20, 2006, I have been commissioned to undertake a review of the financial management, revenue allocation and operations of the Providence Public Library and produce recommendations to the City of Providence and Providence Public Library regarding the operation of library branches in fiscal year 2007. In order to accomplish this, the Special Advisor had numerous meetings with various individuals including representatives of the PPL, the Mayor’s Office, the City Council Office, trustees of the Library, and the lead consultant preparing the Strategic Plan (detailed in Appendix 1).

As part of the review process, information was also independently obtained. In addition, a significant amount of information was provided by the PPL (see Appendix 2). Included were detailed audited financial statements for the fiscal years 2001- 2005, tax returns (990s) for the years 2001 - 2004, and

internally prepared budgets and actual financial statements for 2004 - 2006 and FY '07 projections. It is evident that the financial statements provided by the PPL are accurate and fairly represent operations of the library. However, further analysis and review of expenses and breakout of branch operations will enhance the ability to make reasonable decisions going forward.

It should be noted that the public/private partnership between the PPL and the City has survived many years and remains a viable operating model going forward. However, issues of funding, branch expenses, administrative overhead, and use of endowment have been ongoing sources of contention for many years. A successful public/private partnership should be built on a mutual agreement of objectivity, respect, transparency, trust, two-way communication, and a viable financial model.

I do believe that there is a genuine commitment to excellence by all constituencies. Providing excellent library services to the City is a priority for library leadership and the City Council. However, the leadership of the library and the Board has continuously taken their agenda forward separately from important stakeholders and most recently out of sync with the strategic plan process. More importantly, they have done it without advance communication or partnership with their largest supporter, the City. As any nonprofit would, the library and all representatives need to better steward the relationship with the City. This is not conceding control, but smart business. The overlay of mistrust and apprehension has definitely been a deterrent to resolving the strained relationship over several years. Whoever represents the PPL and the City needs to approach the next phase of this relationship with a willingness to look at compromise solutions.

Based on my assessment of the current situation and recent history, library leadership has apparently not managed to communicate clearly with the City Council and the community. Respect and full disclosure do not seem to be a priority. It is difficult for the true value of the PPL to be recognized and

appreciated when ineffective communication strategies are employed and an impression of defensiveness is portrayed. In the interest of providing a balanced objective report, the City Council should be more engaged in requesting and reviewing financial reporting.

ANALYSIS OF THE FY'07 PROJECTIONS

Providence Public Library has provided two financial projections for FY '07. The balance budget version assumes branch closings in order to balance the budget. The level service budget assumes business as usual and results in an operating deficit significantly higher than the prior year. The projections and internal budgets used for FY '06 and FY '07 are on a cash basis compared to the audited financial statement, which are on an accrual basis as required. The internal budgets and projections do represent the operations of the library for the purpose of this analysis and corresponding recommendations.

	FY '06 (projected)	FY '07 (projected)
Total Income	\$7,997,841	\$7,848,534
Total Personnel Expense	\$5,625,084	\$6,007,132
Operating Costs	\$1,700,258	\$2,063,684
Library materials	\$670,800	\$665,713
Total Expense	\$7,995,342	\$8,736,529
Surplus/Deficit	\$2,499	<\$887,996>

Highlights of Significant Income and Expense

Income

- \$2,014,553 Endowment Income in FY '06
- \$2,172,433 Endowment Income in FY '07

- \$200,000 Annual Appeal Revenue in FY '06
- \$0 Annual Appeal Revenue in FY '07
- \$120,000 Budget Surplus Carry Over in FY '06
- \$0 Budget Surplus Carry Over in FY '07

Personnel Expense

- Total Salaries relatively flat
- \$411,478 Health Insurance Increase in FY '06
- \$502,504 Health Insurance Increase in FY '07
- \$96,011 Pension Expense in FY '06
- \$347,585 Pension Expense in FY '07

Operating Costs

- \$154,500 Capital Repairs in FY '06
- \$300,000 Capital Repairs in FY '07
- \$245,000 Electricity and Fuel in FY '06
- \$383,000 Electricity and Fuel in FY '07

Opportunities to Reduce FY '07 Operating Deficit

- Approximately \$140,000 budget surplus is now being projected by Director of Finance, Doreen Burgers, for FY '06 subsequent to the figure provided above. This would be additional revenue for FY '07.
- Pension expense in FY '07 could be reduced to the FY '06 level for one year resulting in an expense reduction of \$240,000.
- Capital repairs (different than building maintenance) could be reduced to FY '06 levels acknowledging that this is a very short term recommendation and not reflective of the

significant need for major capital repairs within the library system.

- Fundraising appears to be significantly diminished and the annual appeal should be resurrected very quickly for FY '07.

Therefore, the following adjustments could be made, reflecting the urgent and serious nature of the short term situation, in an attempt to maintain existing service levels.

Projected FY '07 deficit	<\$887,996>
+ FY '06 Budget Surplus	\$140,000
Carryover	
+ Savings by reducing pension expense to FY '06 level	\$ 240,000
+ Savings by reducing capital repairs to FY '06 level	\$140,000
Revised FY '07 deficit	<\$367,996>

I recommend the steps outlined in the analysis above be taken to maintain current levels of branch and central library services, acknowledging that this still results in a projected operating deficit. These steps are recommended only for a one year period contingent on a formal agreement between the PPL and the City, and a best efforts commitment to work out a viable longer term agreement. I recommend that the City commit to increasing operating support up to \$250,000 and the PPL commit to using investment assets of up to \$250,000 to increase operating support. The total \$500,000 commitment allows for a contingency cushion (increased energy expenses, emergency repairs, etc.) but should be monitored through receipt and review of monthly financial information. I would also recommend some accountability for annual fundraising that would reduce the required operating support on a pro rata basis.

RECOMMENDATIONS

With the goal of maintaining current library services for the City of Providence, my recommendations are designed to very quickly bridge a short term crisis which reflects long term (historical and forth coming) issues and challenges. Unto itself, these will not remove the cloud of poor communications, lack of transparency, and lack of trust among various stakeholders. An underlying major commitment to proceed honestly and cooperatively is imperative. The opportunity to take the time, build the bridges, and utilize the new Strategic Plan as a starting point to frame a longer term solution should not be missed. In order to build public trust and get to a long term solution, I recommend a formal short term agreement/memorandum of understanding between the PPL and the City recognizing that this would lead to a longer term, formal written agreement between the PPL and the City. Without a formal agreement there is the potential for continued tension and stress in the relationship between the City and the PPL and a possibility that these same issues will arise every year. Informal arrangements have not served any of the constituents well in the past.

The recommendations are detailed as follows:

1. PPL will commit to make adjustments to income and expenses to reduce the deficit for FY '07 as outlined in this report on page 6.
2. The City will commit to provide up to \$250,000 to fund FY '07 library operations (above the current \$3,000,000 level).
3. PPL will commit to provide up to \$250,000 utilizing investment assets to fund FY '07 library operations (there is precedent for one time utilization of investment assets).

4. Detailed monthly reporting and meetings will be required to track the operating results of the library and to document the need for the additional support noted above. Both the PPL and the City will need to actively participate in these reviews.
5. Funding will be on a pro-rata basis i.e. if operations actually require \$400,000 of additional support, PPL would provide \$200,000 and the City would provide \$200,000. These funds would be provided at the time a FY'07 deficit is actually realized not at the beginning of the year.
6. The PPL will make a best effort attempt to resurrect annual fundraising to reduce the deficit and corresponding need for additional funding.
7. The City Council would not require specific public board representation during FY '07, but instead have direct representation on a representative group described below and commit to monthly financial review meetings with the PPL.
8. A representative group should be commissioned to review recommendations of the Strategic Plan; evaluate alternatives for scope and delivery of library services; and make recommendation on board governance with a goal of developing a 3 – 5 year plan/formal agreement between the City and the PPL. This representative group should be separate from current PPL leadership (and represent future leadership). New, more politically savvy and neutral representatives of the board need to take key roles in this effort. The team should not exceed 10 members, should include direct City/City Council representation and reflect the changing makeup of the PPL board. PPL personnel should staff this team, but not necessarily be a formal part of the team. The charge of this group should be to review by March 31, 2007 the recommendations of the Strategic Plan, as well as review and conclude on the open issues

that have been consistently raised and not “resolved.” These include management salary levels, the specific nature and options for use of investments (true endowment or not), accurate analysis of branch expenses, central library expenses, program support; fundraising and revenue opportunities and challenges, number of branches absolutely essential to city library services and opportunities for alternative delivery models. Also, a complete review of operating principles and efficiencies would be beneficial with this time frame to explore areas such as book purchasing, innovative financing options, etc.

9. The PPL Foundation should review actual investments, policies, and investment results with the working team.
10. Since public relations have been challenging for the PPL to the point of affecting fundraising, alienating constituencies including their largest financial supporter, it is imperative that the PPL develop a communications plan to remedy this.
11. I believe that the deteriorating relationship between PPL leadership, the City and various community advocacy groups has been negatively impacted by the approach taken by the PPL leadership. As the attempt to establish a long term solution continues, it is evident that change in the PPL leadership and board leadership should be considered.
12. In order to reinvigorate fundraising to supplement resources, the role of the board needs to more prominently include fundraising and access to sources beyond the scope of PPL staff.

The need to clear the air and establish an environment of communication and trust among all the stakeholders is as important as any financial and operating change. This agreement and plan to move forward should be announced jointly and

publicly among the PPL, Mayor's Office, and City Council, as well as community advocacy groups. It is an agreement borne of future opportunity to deliver innovative and adequate library services to all residents of the City (in addition to central library services supporting the entire state.) A practical action plan should be developed that can be agreed upon during the last three months of FY '07 and result in a formal agreement between the City and the PPL for 3 – 5 years mapping out the direction of the library, governance and a sound financial operating model.

OBSERVATIONS

Investments

There has been much discussion and debate about the approximately \$35 million in investment assets held by the PPL. Additionally, during FY '05 these assets were spun out to a new Foundation. While the communication of this fact could have been better, the establishment of an affiliated, supporting Foundation is not unusual. To add further support, the bylaws of the Foundation state:

“The only purpose or purposes for which the corporation is organized are: to operate, be supervised and controlled by and operate for the benefit of the Providence Public Library, a Rhode Island nonprofit corporation (the “Library”) exclusively for library, charitable, scientific, literary, or educational purposes as the board of directors may from time to time determine, including, but not limited to, (i) providing direct financial support to the Library; (ii) making payments to, or providing services or facilities for the Library; (iii) receiving, purchasing, selling, leasing, transferring, holding, collecting, borrowing, managing, investing and reinvesting real and tangible and intangible personal property including, without limitation, existing and future bequests and donations, all for the benefit of the Library and any projects or activities sponsored by the Library; and (iv) engaging in fundraising or other solicitation and development activities on behalf of the Library.”

Consideration should be given to utilizing a prudent portion of the investment balance for a one time expenditure to repair critical facilities and/or invest in new capabilities that may be presented in the Strategic Plan. If successful, renewed fundraising would replenish these funds.

Whether the entire \$35 million of investments are truly endowment with a requirement that principal not be spent at all has remained a question. While the 6% spending formula appears reasonable and prudent, my research, including a discussion with the audit partner from Kahn, Litwin, Renza indicates that there is a distinction between donor designated endowment (\$15 million) and board designated funds/restricted funds (\$20 million). There is inherent flexibility based on the judgment of the board for the board designated funds. It is certainly recognized that any significant reduction in the investments impacts the investment income available to support operations and eventually jeopardizes long term sustainability.

It is not reasonable to consider separation of the responsibility for branch operations from the central library services since investment income is now used to support the entire combined operation.

Historical Financial Review

The priority for this assignment is the analysis of FY '07 projections. A detailed review was performed, however, of audited financial statements, tax returns (990's) and internal budgets and financials for the past five fiscal years. There are many parts to the library operations and consistently of presentation was no always evident. It is also not clear whether library and board leadership truly understand the financial/business aspects as well as they could. Doreen Burgers, Director of Finance, has been the key financial contact during this analysis with significant insight. Unfortunately as of 6/30/06 she will be leaving which does create a concern should a very competent replacement not be found quickly.

Another significant point is that the financial reporting has always been done as a single entity; and that is total library operations including the branches and central library services. It has been a challenge to determine the exact cost of operating each individual branch. This has not been done historically by the PPL and attempts were made in this process to establish and refine true branch operating expenses. This should continue as part of the agreement going forward.

Based on the internal cash based operating budgets provided by PPL, expenses since FY 04 have trended down as follows:

	'04	'05	'06
Total			
Expense	\$9,019,133	\$7,858,526	\$7,995,342

It is noted that although this decline was partly attributed to a reduction in personnel and other operating expenses, the support from the City has remained at \$3,000,000.

Fundraising

A \$30 million Capital Campaign was proposed and begun in 2004. The goal was to raise \$30 million: \$15 M for renovations, construction and other building costs; \$10 M for endowment and \$5M for operations. This was not completed successfully with slightly over 50% raised. The past two years, dollars raised have been steadily declining and now responsibility for fundraising resides in the PPL Foundation. More research needs to be done on future expenses and expectations for fundraising. At this time fundraising expenses seem to be inordinately high compared to dollars actually raised.

The concern expressed by PPL, is that soliciting support during this time of turmoil and poor public relations in the press, is a barrier to garnering support. This absolutely must change. A coordinated, cooperative transparent joint effort to go forward and plan between PPL and the City Council sets the stage. A commitment to a larger team plan that can be marketed to potential supporters/donors is necessary. The Boards (PPL and Foundation) need to make a commitment to fundraise, above and beyond grants, as one of their responsibilities. When the community hears threats of branch closings by an organization that has \$35 million in investments it does not create an environment for support among individual corporate or foundation donors.

The offset to this is a universal belief in the power of a strong library system in the personal experiences, past and present, of potential donors when they think of libraries.

Overall the public library remains worthy of support for the simple reason that people continue to use it and when the local branches are threatened they have rallied to its defense!

Regarding the ability to generate financial support as services, hours and branches are reduced, the library takes a progressively weaker case to the public to seek funding. Seeking private philanthropic support to partner with City and State support, strengthens the public/private partnership. Increasingly,

donors invest in an organization rather than simply giving to it.
The board should take responsibility to leverage financial support
in areas beyond the staff's network.

Central Library Service
Statewide Reference Resource Center

This is not the focus of my report however it is a key responsibility of the PPL. Programs and services that are provided statewide are supported by the state. They include:

1. Provide direct access for all Rhode Island residents to collections and services at the Providence Public Library's central facility a minimum of 48 hours per week including two evenings and Saturdays. (The Providence Public Library system will continue to comply with the *Minimum Standards for Rhode Island Public Libraries*.)
2. Answer reference questions received from all Rhode Island residents by telephone, in person, by e-mail, and through real-time online services; in person access will be available a minimum of 48 hours per week; telephone and electronic access will be available a minimum of 56 hours per week.
3. Answer reference questions received through the state government portal, RI.gov, by e-mail and through real-time online services.
4. Answer reference questions directly by telephone, e-mail, and fax or through interlibrary delivery.
5. Make all PPL professional staff available to librarians for consultation, upon request, including development and public relations staff, reference librarians, children's services librarians, the interlibrary loan librarian, the Special Collections Librarian, and the Electronic Information Services Coordinator.

6. Publicize activities and services of the Statewide Reference Resource Center in conjunction with the Office of Library and Information Services as expositions and through the library's web site.
7. Provide access to the digitized RI Collection photographs through the World Wide Web.
8. Provide external access to the Worldbook database for all CLAN cardholders through the World Wide Web.
9. Work with the Office of Library and Information Services to review and revise SRRC contractual arrangements between the Office of Library and Information Services and the Providence Public Library at least annually, or more frequently as needed.

Governance

Existing and future governance was not within the scope of this short term assignment. However, in my conversations with many, it clearly has become a major issue. My opinion is that leadership, more than strict structure, is an issue. Poor communication among constituencies is an issue more than governance. I do not believe that a rush to change governance is a solution. A thoughtful plan to make the public/private partnership work should lead to a logical structure, and if necessary, a compromise relating to governance.

Appendix 1

Between April 26, 2006 and June 30, 2006, the Special Advisor had numerous meetings and conversations with the following individuals who provided information, analysis, and input representing various constituencies impacted by this review:

City of Providence

Mayor David Cicilline

John Simmons, Director of Administration

Carol Grant, Director of Operations

Joseph Fernandez, City Solicitor

Gary Bliss, Director of Policy and Legislative Affairs

Christopher Bizzacco, Mayor's Chief of Staff

Providence Public Library

Dale Thompson, Providence Public Library Director

Daniel Austin, Associate Director Administrative Services

Doreen Burgers, Director of Finance

Maureen Sheriden, Director of Institutional Advancement

Maureen Krasnows, Director of Development

R. Daniel Prentiss, Attorney representing Providence Public Library

Providence Public Library Board of Directors

Mary Olen, Chairwoman

Executive Committee of Providence Public Library

Providence City Council

John Lombardi, President

David Segal, Councilman

David Dillon, representing Providence City Council

Additional Individuals

Samuel Frank, Synthesis Partnership (Strategic Plan)

Ellen Schwartz, CPA (Community Advocate)

Toured several PPL branches and the central library and was introduced to many library personnel.

Appendix 2

Information and Data Reviewed

- Strategic Plan 2005 – 2006 Constituency Input
- Strategic Plan 1999 – 2001 (dated October 1, 1998)
- Strategic Plan 2001 – 2005 (dated September 18, 2000)
- Strategic Plan 2002 – 2006 (dated September 24, 2001)
- Strategic Plan 2003 – 2007 (dated September 23, 2002)
- Financial Statements 2005 – 2001
- 990 Tax Returns 2004 – 2001
- Annual Reports 2005 – 2001
- Collection Development Policies
- Employee Manual
- Employee Benefits Price Proposals
- Labor Agreement
- Retirement Plan Actuarial Valuation
- Foundation Certificate of Incorporation & Articles of Incorporation
- PPL Corporate Filings
- Foundation Bylaws
- Foundation Members
- Foundation Officers
- Library Governance and Structure
- Committee Chairs
- City Council Finance Committee Reports FY 2005 – 2006
- Technology Plans
- Standards Certification
- Program of Service, Contracts and Final Report
- Branch Ownership/Rental
- Branch Services
- LORI Requests

- Public Library Association Statistical Report 2004
- “Saving America’s Libraries: Changing the Model for Public Library Funds Development” (Library Systems and Services, LLC)
- Governance & Revenue Structures: New Field Data on Metropolitan Public Libraries (Urban Libraries Council)

Information by Branch

- I. Fox Point
 - a. Branch Demographics, Usage stats, Neighborhood demographics
 - b. Indoor Air Quality Test Results 12/05
 - c. Needs Assessment

- II. Knight Memorial
 - a. Branch Demographics, Usage stats, Neighborhood demographics
 - b. Branch Deferred Maintenance
 - c. Needs Assessment and Library Building Program

- III. Mt. Pleasant
 - a. Branch Demographics, Usage stats, Neighborhood demographics
 - b. Branch Deferred Maintenance
 - c. Needs Assessment and Building Program
 - d. Branch Patron Survey

- IV. Olneyville
 - a. Branch Demographics, Usage stats, Neighborhood demographics
 - b. Branch Deferred Maintenance
 - c. Needs Assessment

- V. Rochambeau
 - a. Branch Demographics, Usage stats, Neighborhood demographics
 - b. Construction Agreements for Rochambeau and South Providence

- VI. Smith Hill
 - a. Branch Demographics, Usage stats, Neighborhood demographics
 - b. Branch Deferred Maintenance
 - c. Needs Assessment

- VIII. South Providence
 - a. Branch Demographics, Usage stats, Neighborhood demographics
 - b. Construction Agreements for Rochambeau and South Providence (see Rochambeau)

- IX. Wanskuck
 - a. Branch Demographics, Usage stats, Neighborhood demographics
 - b. Branch Deferred Maintenance
 - c. Needs Assessment

- X. Washington Park
 - a. Branch Demographics, Usage stats, Neighborhood demographics
 - b. Branch Deferred Maintenance
 - c. Needs Assessment and Building Program