Case Study: The Pacific Grove Library Tax

By

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Abstract

What happens when a budget-stressed municipality reduces support to a popular public service and an energized constituency of citizens proposes to tax themselves and their neighbors to restore service levels? This is a short and deceptively simple-looking case about a proposed tax increase to support the city’s public library. Underlying it, however, is a complex set of policy issues in public budgeting, taxation, economics, and citizen engagement. How should decisions be made about what city services to fund and with how much money? What is the proper role of citizen engagement in budgetary matters? What are the potential benefits and consequences of a la carte funding of public services? This case was written primarily for use in a public budgeting course but can easily be used in political science, public administration and economics courses.
Case Study: The Pacific Grove Library Tax

The City of Pacific Grove, California (PG) is a residential and tourist community located on the tip of the Monterey Peninsula. It has a population of approximately 15,000 and a general fund budget of approximately $17 million. Beginning with its 2007-2008 budget, PG embarked on a cost cutting and revenue raising program to address serious temporal and structural issues in the city’s finances. The FY 2007-2008 budget proposed spending reductions totaling $391,000 including eliminating the fire division chief position and de-funding two authorized police officer positions, one (of two) full-time museum staff and the office assistant position in the recreation department.¹ In June, 2008, Pacific Grove voters approved a new local sales tax after previously rejecting a package on increased business, property and sales taxes. The sales tax measure was expected to generate an additional $850,000 in FY 2008-2009 and at least $1.1 million annually.

The city’s next budget, for FY 2008-2009 included general fund cost reductions totaling $2.2 million and elimination of 30 full time equivalent (FTE) positions. The cuts were applied to all major municipal functions. “For example, the Fire Department will have 20% fewer firefighters to respond to major emergencies. The Police Department will no longer have resources for crime prevention programs in schools or dedicated traffic enforcement. Maintenance of streets, parks, and public buildings will be further curtailed, leaving enough resources only for infrastructure safety repairs, not aesthetic improvements or maintenance.”² Included in this cost reduction package was a 50% cut to general fund support of the library and elimination of 6.75 FTE library positions.³

¹ Pacific Grove budgets can be accessed at http://www.ci.pg.ca.us/index.aspx?page=46
² City of Pacific Grove, FY 2008/9 Budget, p.5
³ A summary chart of the general fund budgets from actual 2007/8 to projected 2013/14 can be found at http://www.ci.pg.ca.us/modules/showdocument.aspx?documentid=2407
The Library
Pacific Grove operates an historic Carnegie library. It was established in 1886 and boasts a collection of over 90,000 volumes, 23,000 books, and about 5500 reference titles. Prior to budget reductions the library was open seven days each week for a total of fifty-four hours. In 2007, the library averaged 488 visitors daily, items checked out totaled 256,561 and there were a total of 8,784 library internet users.

Library Budget
Funding sources for the library include the city’s general fund (61%), bequests (15%), program revenues (7%), book fund (5%) and other (5%). General fund support of the library is shown below.

<table>
<thead>
<tr>
<th></th>
<th>FY 05/06</th>
<th>FY 06/07</th>
<th>FY 07/08</th>
<th>FY 08/09</th>
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<tbody>
<tr>
<td>actual</td>
<td>$852,831</td>
<td>$806,245</td>
<td>$914,350</td>
<td>$452,560</td>
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The deep reduction in 2008-2009 library general fund support resulted in a corresponding reduction in library services. According to the city’s budget proposal “the Library will remain open for 30 hours per week, but on a ‘barebones’ basis with very limited services. For example, the reduced budget will enable basic functions to continue, including circulation, materials management, and administration. To the extent possible, the program emphasis will be on programs for children. Reference services, periodicals management, and other library programs would be scaled back. This model would rely on a small number of part-time staff and a strong cadre of volunteers to perform shelving and book covering duties. The strategy reduces funding for contracts, materials, and supplies to a minimal level […].”

Measure J – Library Tax Round One
Supporters of the library responded to the cutbacks in library services by proposing a special tax to support the library. The city is authorized by state law to impose qualified special taxes on property (called parcel taxes) upon approval by two-thirds of the voters. The tax must apply to all property owners and is not an ad valorem tax. Funds collected must be deposited in a special limited use fund. The city council approved putting Measure J on the ballot for November 3, 2009. Measure J would impose a $96 tax on each residential and commercial parcel in Pacific Grove and $75 for each unit of a multi-family residential building. There are approximately 6,000 taxable parcels in the city and it was estimated the new tax would generated about $630,000 in new taxes every year for the library until the tax expires ten years later.

The campaign for and against Measure J was vigorous. Supporters argued that the library was a valuable community asset: “A great library is a city’s treasure, provides education and services to all […].” Opponents argued that the library funding issue was part of a larger fiscal crisis for the city: “When profligate government spending forces a realistic possibility of bankruptcy,
citizens have to settle for essential government services. A library is not one of them.”
Supporters argued that the tax impact was minimal compared to the benefits: “Is our library worth $1.85 a week […] Communities with strong libraries benefit from better educated citizens, less crime and higher property values.” Opponents countered with: “Do you value the library at $96 per year? If you do, shouldn’t you pay a fee rather than voting for your fellow citizens to subsidize you?” Supporters claimed that the additional tax revenues would “ensure a library that’s open at least five days a week and has the money to pay professional librarians.”
Opponents pointed out that there was no guarantee of future general fund support and that revenues from the library tax might simply allow the city to reduce general fund support even further.

The question on the November 3, 2009 ballot was:

Measure J: Shall the City of Pacific Grove Library Funding Measure be approved to enact an ordinance to create a Special Parcel Tax and limit that revenue to the sole purpose of maintaining and improving services at the Pacific Grove Public Library?

The vote was close and the outcome would not be known with certainty until the Monterey County Elections Office certified the results on November 23rd. Measure J had failed to garner the required two-thirds vote by the narrowest of margins.

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<thead>
<tr>
<th></th>
<th>Votes</th>
<th>Percentage</th>
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<tr>
<td>Yes</td>
<td>2,747</td>
<td>65.91%</td>
</tr>
<tr>
<td>No</td>
<td>1,421</td>
<td>34.04%</td>
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</table>

Measure Q – Library Tax Round Two

The 2009/10 city budget continued the austerity program. Reductions in personnel costs included deferral of a 9.25% negotiated pay increase for sworn police department personnel, a 5% furlough reduction for all non-sworn city employees and a $30,000 reduction in part-time personnel at the library with the result that the library hours would be reduced from thirty-one to twenty-four hours per week. The budget also proposed increases in library-generated revenue: “Increasing the cost of inter-library loan services from $1.00 to 3.00 could generate approximately $10,000 in additional revenue. Increasing late-fee fines could generate another $5,000, for a total budget estimate of $15,000 for library services.”

Historical library use, however, was increasing except for a slight reduction in average daily visitors – not unexpected given the reduced hours.

<table>
<thead>
<tr>
<th></th>
<th>2005</th>
<th>2006</th>
<th>2007</th>
<th>2008</th>
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<tbody>
<tr>
<td>Average daily visitors:</td>
<td>483</td>
<td>484</td>
<td>488</td>
<td>470</td>
</tr>
<tr>
<td>Items checked out:</td>
<td>239,698</td>
<td>245,213</td>
<td>248,137</td>
<td>252,268</td>
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</tbody>
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5 All quotes in this paragraph are from the official voter information package available from the League of Women Voters of California Education Fund at [http://www.smartvoter.org/2009/11/03/ca/mnt/meas/j/](http://www.smartvoter.org/2009/11/03/ca/mnt/meas/j/).
Again, supporters of the library organized to address funding for the library. A “library summit” was held in February 2010 attended by over 100 citizens and forming an all-volunteer Library Steering Committee. The main result of this citizens’ effort was a revised proposal (Measure Q) for a special library tax. Measure Q provided for a parcel tax of $90 for each land parcel and $45 for each rental unit in an apartment building. The tax would add an estimated $600,000 to the library's annual operating budget. This proposal addressed some of the difficult issues associated with the previous Measure J. Measure Q required that all revenues from the parcel tax must legally go to the library and are not available for other city purposes. It also included a commitment from city government to continue to fund the library at 2.83 percent of the general fund for the duration of the tax measure. A citizen’s oversight committee was included to address accountability issues and cost-of-living increases. Like Measure J, Measure Q contains a relief provision for low-income taxpayers. The city council voted to place the issue on the November ballot. Arguments for and against the tax were largely the same as before with the added argument by supporters that Measure Q strengthened the proposal by addressing the shortcomings in Measure J.

The question on the November 2, 2010 ballot was:

*Measure Q:* "Shall a new Chapter 6.70 be added to the Pacific Grove Municipal Code to impose a tax at the rate of $90.00 per year for all Owners of Parcels in the City of Pacific Grove as well as $45.00 per year per unit for multi-Common Household units, in order to create a dedicated and restricted revenue source solely to provide, maintain, and improve core library services for the Pacific Grove Public Library in the City of Pacific Grove?"

The vote was again close but Measure Q had failed to garner the required two-thirds vote.

<table>
<thead>
<tr>
<th></th>
<th>Votes</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Yes</td>
<td>3,984</td>
<td>61.69%</td>
</tr>
<tr>
<td>No</td>
<td>2,474</td>
<td>38.31%</td>
</tr>
</tbody>
</table>

**Conclusion**

After the failure of Measure Q no more attempts were made to impose a special tax for the library. Over the ensuing few years the library operated at reduced hours depending heavily on volunteers. The city’s 2012-2013 budget cautiously says

The library is currently open for 24 hours per week. A committee of library supporters […] is working with staff to analyze library funding and recommend funding options. The committee recommended that the library could be open for an additional 10 hours per week with the addition of 112 part-time employee hours per week, costing approximately $100,000 per year. This amount is reflected in the recommended budget plan. It is important that the wrong message not be received by Pacific Grove citizens, given that neither Measure J in 2009 nor Measure Q in 2010 were ultimately successful,

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7 City of Pacific Grove, FY 2009/10 Budget, p. 100-101.
even though both received over 62% affirmative votes. This $100,000 will not restore the Library to full service; in addition, it is a commitment for only one year.\textsuperscript{8}

\textsuperscript{8} City Of Pacific Grove, FY 2012/13 Budget, p. 9.