The Board of Directors met at 10:00am Tuesday, March 30, 2010 at the Regional Enterprise Tower in the 31st floor Conference Room. Present were Board members: Mr. Rob Jones, Chair, Ms. Dusty Kirk, Mr. Dan Griffin, Dr. Herman Jones, Jr., Mr. Rick Pierchalski, Ms. Connie Yarris and Chief Counsel Jim Norris. Executive Director, David Donahoe, staff and members of the public were also present. Mr. Jones announced that Mr. Stanley Parker would join the meeting via telephone, which he did during the public comment period. Notice of the meeting was published in accordance with the Act and By-laws and posted on the District Website.

Public Hearing and Comment Period

As required by law, the Chair opened the meeting for public comment prior to proceeding with the agenda.

Mr. Glenn Walsh of Mt. Lebanon recommended that the Board ask its Counsel to rule on whether additional funds from the Carnegie Library bond refinancing could be used to sustain operations rather than be devoted to capital projects and, if permitted, require Carnegie Library to use the proceeds from the bond issue accordingly.

Request of the Carnegie Library to Authorize a Refinancing of the 2002 Bond Issue

The Chair called on Mr. Donahoe to present the request of the Carnegie Library for approval of the plan to refinance its 2002 bond issue. Mr. Donahoe noted that the proposal was fully outlined at the prior board meeting and that since that meeting Carnegie Library had received proposals from underwriters, bond counsel and other service providers. The results of these submissions were outlined in the letter from Carnegie Library and included designating PNC Capital Markets as the underwriter and Pepper Hamilton as Bond Counsel.

Mr. Griffin then moved adoption of the following resolution, seconded by Ms. Yarris:

Resolved, that in accordance with the provision of the existing cooperation and support agreement, the District approves the plan submitted by Carnegie Library of Pittsburgh to undertake a refinancing of the 2002 RAD Revenue Bonds under the conditions that there will be no extension of the term or increase in the grant amount.
Resolved, further, that the Executive Director, with the approval of Chief Counsel, is authorized to execute agreements and or amendments to agreements to implement this approval.

Ms. Kirk advised that inasmuch as her law firm had been selected as Bond Counsel, she would not vote on this matter. All other members, including Mr. Parker via phone connection, voted to approve and the resolution was adopted.

Note: Mr. Parker left the meeting at this time.

Report of the Audit Committee and presentation of the Carnegie Library of Pittsburgh Special Audit by Parente Beard.

The Chair called for the presentation of the report on the Carnegie Library of Pittsburgh. Last year the Audit Committee was asked to undertake a special audit related to the Library. The work is completed and the committee and consultants have a report for us this evening.

Mr. Jones asked Ms. Yarris to submit the committee report first.

Board Members:

Following release of RAD’s 2010 preliminary budget in October of last year, the District received an “Action Plan” from the Carnegie Library of Pittsburgh. The Plan stated that the Library would undertake a series of cost reduction and revenue enhancement measures in order to deal with projected operating losses. The changes would significantly alter the Library’s plan of operations submitted with its 2010 District funding request.

Upon receiving the Action Plan and supporting information as well as considerable public comment, the District Board approved a special audit of the Library’s Action Plan. The purpose was to validate the financial projections, evaluate the method for determining the cost reduction plan and to review certain other areas of the Library’s operations. The firm Parente Beard was engaged and asked to examine nine specific areas and to provide any recommendations resulting from their work. The report has been completed and reviewed by the committee. The Library was given an executive summary presentation last week.

Prior to hearing from the consultants, we should note that there have been important developments since the Action Plan was submitted and the audit ordered:
The City of Pittsburgh authorized a special grant of $600,000 for this year while efforts are made to address the long term funding needs.

The Legislature has directed that the share of table games fee revenue that would otherwise go directly to the City be directed instead to the Carnegie Library contingent on the current branch structure remaining largely in place.

As a result of these revenue enhancements, Carnegie Library’s Trustees delayed the implementation of most of its Action Plan until at least the end of 2010. An early retirement plan and library fine increases have been implemented.

The proposed state budget for 2010-2011 further reduces funding in various library categories and there is no projection of increased state support in the near future.

Carnegie Library has formed a public/private Task Force on Sustainable Library Funding to examine approaches to meet its long term operating and capital needs.

Parente Beard has been kept informed of these developments and has incorporated assumptions about them into their analysis of the financial projections where appropriate.

The Committee believes that the report responds to the questions posed by the District and that the information contained in the report will be helpful to the Board, the Library and its Trustees, the Task Force and the public. Based on the review, it appears that the Trustees approached the operations, finances and planning for the future in a reasonable manner based on the facts available to them at the time. Since the Library has decided to maintain its organizational structure for 2010, the plan of operations submitted with its 2010 application remains in good order.

Recommendations are made by the consultants for improvements to the Library’s budget process which we know the Library will consider. The main point we take from the report, however, is that even under the most optimistic projections, maintaining the current cost structure at Carnegie Library will require additional resources for operations and to meet the capital needs. This conclusion makes the work of the Task Force timely and critical.

Finally, it is important to remember that projections are not predictions. Projections are based on reasonable assumptions, often based on historic trends, that may turn out better or worse than assumed. While the projections in the report differ from those submitted by the Library, Parente Beard concludes that the Library’s work in developing the Action Plan was based on
reasonable assumptions. Adjustments have been made due to changes in circumstances as well as differing future expectations.

We recommend that the Board accept the report and that copies be sent to the Library Board of Trustees, the Citizens Committee and made available to the public via web posting and other means.

Submitted by the Audit Committee
Herman Jones, Stan Parker and Connie Yarris

The Chair then called on representatives of the consulting firm to present the executive summary of their report. Mr. David Duffus and Mr. Sam Stephenson provided the presentation. (Note: The full report is on file at the District office and also available through the District’s web site.)

Following the presentation, the chair opened the floor to questions from the Board.

Mr. Pierchalski asked what assumptions had been made on personnel complement increases over time given that the Library may need to replace key individuals who took early retirement. Mr. Duffus said that the report assumes that the 2010 complement will be the new level for operations and that the projections provide only for salary increases.

Mr. Pierchalski asked whether the increase in endowment draw indicated in the report was sustainable. Mr. Duffus said that the Library had reduced its draw based on increased city support and that it was legal to increase the amount to a level more in keeping with the historic draws.

Ms. Kirk asked for an explanation of the gaming revenue assumptions and the connection of the revenue to branch closings. Mr. Stephenson said that there were differing interpretations among library trustees and staff about conditions associated with the new revenue. Under one interpretation, the Library could not close branches if it accepts the revenue. Under a more literal interpretation, the Library would have until June 30, 2011 to close branches.

Ms. Kirk asked the consultants to clarify their assumptions on RAD funding. Mr. Stephenson said that the projection was based on historical trends (about 3% a year) but they had delayed any growth until 2012 in recognition of current economic circumstances.

Mr. Griffin asked the consultant to explain how they selected the 22 comparable libraries in the report. The consultant said that they used a list compiled by the RAND Corporation in previous work for the library and added to it based on their own research.

Mr. Griffin asked if the consultants looked at branch closing processes in other libraries and the consultants indicated that they had not.
Mr. Griffin pointed out that the suggestion that the Library would save $11 million in capital costs by closing branches assumed they would have invested those amounts in the first place. Mr. Duffus said that while it could be looked at in this way, the capital needs involve items such as accessibility improvements and other changes that would need to be addressed at some time.

Mr. Griffin asked if table games revenue was a set amount or a percentage of some other number. Mr. Duffus said they had used an estimate for the revenue provided by State Senator Costa’s office. Mr. Donahoe added that, under the law, the amount is a percentage of the gross revenue at the casino located in Pittsburgh only.

Mr. Griffin asked if the consultants had determined when the Library first began considering branch closings. Mr. Duffus said that they had found references to closings going back several years. He said he would have to research a specific date.

The Chair asked if the consultants had found the branch closing process to be well documented, based on clear criteria and objective. Mr. Duffus said the answer was yes to all three. He explained that they arrived at the conclusion by looking at multiple meeting minutes and other documents. He noted that the criteria were outlined in his report.

The Chair also asked if the consultants had found effective fund raising efforts in other libraries, noting that this was not part of the scope. Mr. Stephenson cautioned that libraries are structured and organized so differently that such efforts are not immediately transferrable.

Mr. Pierchalski asked if the suggested decrease in materials spending was a significant savings. Mr. Duffus said that it was only about a 1 to 1.5% decrease and that the Library was required to meet state standards in this area.

Mr. Pierchalski asked why the consultants assumed that the state would continue to waive standards for operating hours. Mr. Duffus said that they found these waivers to be regular events but did include an estimate that, if the state stopped providing waivers, the deficit in operations would increase by $430,000 a year.

Ms. Kirk thanked the consultants for their work. She also said that her understanding is that even with gaming revenue and other changes, the capital needs of the library are not addressed in the projections. Mr. Stephenson confirmed this and said that the capital needs were placed below the line in the projection models since they may be deferred but could not be permanently ignored.

The Chair thanked the consultants and directed that the report be distributed in accordance with the recommendations of the Audit Committee.
Committee Appointments

The Chair announced that, after discussions with the members, he was proposing the following changes to the committee assignments for this year:

a. Mr. Parker to replace Mr. Pierchalski on the Allocations Committee

b. The continuation of an Executive Committee with the board officers as its members.

The members ratified the decision unanimously.

Executive Director’s Report

Mr. Donahoe announced that staff would soon begin the process of seeking nominations for the at large seat on the board. The term of the incumbent ends June 30, 2010.

Adjournment

The Chair announced that the next regular meeting of the Board is scheduled for Tuesday, April 27th beginning at 3:30 PM. This will be the Spring Meeting with the Advisory Board members and will be held at the August Wilson Center for African American Culture.

The meeting was adjourned at 11:00 AM.