

DATE: November 3, 2009

TO: Mayor and City Council

FROM: Acting Library Director

SUBJECT: Approval of Fees to be Charged for Costs Incurred for Administering the “Fines-Free” Library Loan Program

RECOMMENDATION

That the City Council approves the attached resolution amending the Master Fee Schedule to establish “Fines-Free” Library Loan Program membership fees.

BACKGROUND

Access to Library Materials: The Library’s primary mission is to provide public access to books, media, and information that meet the needs of Hayward residents. The circulation model traditionally used by the Library in support of that mission is the same model used by the vast majority of other public libraries nationwide. This traditional model relies upon due dates and late fines to encourage the timely return of borrowed materials.

In Hayward, registered library cardholders can borrow up to 75 items at any one time; items borrowed are due back in one or three weeks depending on item format; and cardholders are subject to overdue fines if items are returned or renewed late, from \$0.25 to \$1.00 per day depending on item format. The main purpose of due dates and overdue fines is to encourage library users to return borrowed materials in a timely fashion. This is consistent with the Library’s mission and its responsibility to take reasonable steps to ensure equal access to these shared community resources for all.

Library cardholders who accrue fines on their accounts in excess of \$20 are blocked from further borrowing until their balance is paid down below that threshold. Library records show that over 20% of Hayward Public Library cardholders – more than 20,000 people – are currently blocked from further checkouts of library materials due to the overdue fines they have accrued on their accounts.

There are any number of reasons why people accrue overdue fines to the point of losing their borrowing privileges. One common reason is that people today are busy and don’t have time to keep track of yet one more thing (i.e., library due dates) in their schedules. Another significant reason is that people’s customer service expectations have changed.

Changing Customer Expectations: Several for-profit enterprises in the media rental business (e.g., Netflix, Blockbuster) have thrown out the concept of late fines and due dates entirely, which has dramatically altered customer expectations for what a loan/rental service should offer. The overwhelming success of these services shows that today's customers favor a "fines-free" model in which they can borrow materials for as long as they wish, with no due dates or overdue fees.

Customers are willing to pay a modest subscription fee for this kind of convenience, and are further willing to authorize recurring payments on their credit card or debit account through an e-commerce system to subscribe. Netflix, whose subscription rates range from \$8.99 to \$16.99 per month, has over 10 million subscribers; 90% of their subscribers say they would recommend the service to a friend. All of the systems and technology needed to implement this model in the Library (not including the home delivery of items by mail) are currently in operation, or can be readily obtained at little or no cost.

DISCUSSION

Program Operations: The "Fines-Free" Library Loan Program will offer Hayward Public Library users more convenience, choice, and control over how they borrow library materials. The program will present library cardholders two options from which to choose:

- **The Traditional Plan** is the standard circulation plan used by the vast majority of public libraries nationwide in which up to 75 items can be borrowed at a time with no up-front charges. Due dates and overdue fines apply to all items borrowed.
- **The "Fines-Free" Plan** is new, and offers cardholders the ability to borrow up to three, five, or ten library items at a time, to be returned whenever the cardholder wishes, with no due dates and no late fines, in exchange for a small monthly subscription fee.

Library cardholders will be given free choice of which plan they prefer. Cardholders will be able to switch plans at any time. Membership in either plan will be completely voluntary. All cardholders will remain subject to all library card eligibility requirements and library use policies, regardless of which plan they select. All materials borrowed in either plan must be returned to a Hayward Public Library facility or returns bin.

The "Fines-Free" Alternative: The "Fines-Free" Plan will offer participating cardholders three subscription tiers from which to choose. The first tier will allow cardholders to borrow up to three items at a time for \$2.99 per month; the second tier, up to five items at a time for \$4.99 per month; the third tier, up to ten items at a time for \$8.99 per month.

The monthly subscription fees will be collected electronically each month from the customer's credit or debit account through an online recurring payment service. The subscription payments will be fully automated – the customer signs up once, authorizes the recurring monthly payments, and then the payments are collected each month with no further action required on the part of the

customer or the library. A more detailed description of this process and the systems behind it can be found in the Fiscal and Economic Impact section of this report.

Cardholders may cancel their membership in the "Fines-Free" Plan at any time. In the event of cancellation, or failure to pay the monthly subscription fee, the cardholder will be moved back to the traditional circulation plan. Any items currently on loan at that time would then be assigned the standard due dates, and overdue fines would apply if the items were returned late. The cardholder would be given ample notification of these changes.

In the traditional circulation plan, materials that are lost by the borrower or become more than 45 days overdue are subject to replacement fees equal to the cost of the item(s) plus a non-refundable \$6 processing fee per item. Delinquent accounts may also be referred to a collection agency. In the "Fines-Free" plan, materials do not become overdue as long as the cardholder maintains their subscription status. However, lost materials are subject to the same replacement and processing fees as in the traditional plan, and delinquent accounts may be referred to a collection agency.

Equal Access to Library Materials: To ensure equal access to Library materials for customers of both the traditional and "Fines-Free" plans, the Library will adapt its materials acquisition policies to suit. For example, if an item goes out to a "Fines-Free" cardholder for an extended period of time, and a cardholder on the traditional plan seeks access to the item, the Library will simply purchase another copy. The Library's existing systems have the capacity to track this data, to notify staff when additional copies are needed, and to maintain a queue of cardholders who wish to receive the next available copy of any given item.

The Library's current materials acquisition policy, like many other public libraries, already emphasizes the purchase of multiple copies of popular materials to meet community demand. A further extension of this principle to balance the needs of customers in both circulation plans and ensure equal access is a relatively simple matter.

The California State Library has provided a written letter of opinion to Hayward Public Library stating that the "Fines-Free" plan "is consistent with current California library laws regarding public libraries... [and] the provisions of the California Library Services Act regarding equal access."

FISCAL AND ECONOMIC IMPACT

Library Systems and Operations: There are no direct costs involved to adapt the Library's existing systems and operations to accommodate the "Fines-Free" plan. The integrated library system now in place, Millennium, has the capacity to handle multiple circulation plans, including plans that do not charge overdue fines. Millennium already has in place the necessary data tracking and inventory management functions to manage both plans efficiently and effectively.

There are some indirect costs associated with administrating and operating the "Fines-Free" plan including salaries, overhead, supplies, etc., that roll into the Library operating budget. These indirect costs are analyzed in further detail in a Fee Study for Membership prepared by the City Finance Department, which is provided here as Attachment 1.

E-Commerce Service: There are a number of secure e-commerce services available which can process and automate electronic subscription payments. It is a competitive business; all of the top e-commerce service providers offer secure hosted systems with no start up or installation fees. These providers only collect service fees on a per-transaction basis once transactions begin flowing through their systems. A typical e-commerce service collects a flat fee of \$0.24 per transaction, plus a percentage of the amount of each transaction in the amount of 2.15%. In the “Fines-Free” Plan outlined here, the transaction fees are factored into cardholders’ subscription rates and do not present as additional charges. A breakdown of the per-transaction fees collected by a typical hosted e-commerce service follows in Table 1.

Table 1. “Fines-Free” subscription rates, transaction fees, and projected net revenue to the General Fund per subscriber.

“Fines-Free” subscription rates	Flat service fee per transaction	2.15% service fee per transaction	Total service fees per transaction	Net revenue to General Fund (per month)	Net revenue to General Fund (annual)
\$2.99 / month	\$0.24	\$0.06	\$0.30	\$2.69	\$32.28
\$4.99 / month	\$0.24	\$0.11	\$0.35	\$4.69	\$56.28
\$8.99 / month	\$0.24	\$0.19	\$0.43	\$8.56	\$102.72

The first column shows the monthly “Fines-Free” subscription rates to be paid (transacted) by participating cardholders. The second column shows the flat per-transaction fees charged by a typical e-commerce service. The third column shows the corresponding percentage-based transaction fees. The fourth column provides a total of the two preceding service fees. The fifth column shows the net revenue to the General Fund per month per subscriber. The final column shows the annual net revenue to the General Fund per subscriber.

There are several benefits of utilizing an automated payment service for the collection of the monthly subscription fees as opposed to utilizing library staff. The main benefit is a far lower operating cost. The cost to the City for using an automated e-commerce service to process one monthly payment is \$0.30-\$0.43, as noted in the above table. The estimated cost to the City in staff time to process one monthly payment directly is \$4.66. Another benefit of the fully automated payment system is the greater convenience to the customer – the customer signs up once, authorizes the recurring monthly payments, and then the payments are collected each month with no further action required on the part of the customer or the library.

Projected Revenue: The “Fines-Free” Library Loan Program at Hayward Public Library presents the opportunity for a true service innovation. It will be the first public library service of its kind in California; possibly the nation. Though this is an exciting prospect for Hayward, it means that equivalent subscriber data from other libraries is not yet available to form a projection of the number of potential “Fines-Free” subscribers.

However, there is one other fee-based library loan service nearby which can provide some indication of the potential number of “Fines-Free” subscribers. San Leandro Library has for the past several years charged all non-residents of that city \$50 per year to borrow materials from its collection. Though the San Leandro program is fundamentally different in concept and application than the “Fines-Free” program described in this report, it is mentioned here to illustrate in a general

way the level of interest and acceptance of library membership fees among the local populace. San Leandro Library reports that it currently has over 2,000 paying non-resident cardholders.

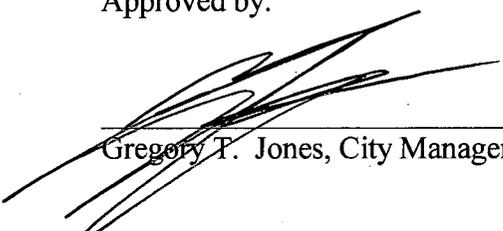
Total revenue to the City of Hayward General Fund from traditional library fines and fees totaled \$94,000 in FY 2009. If 2% of the total number of Hayward cardholders – 2,000 cardholders in all – switch to the “Fines-Free” plan, the net annual revenue to the General Fund from “Fines-Free” subscription fees alone would be approximately \$112,000. This would be in addition to the revenue from traditional library fines and fees paid by the remaining 98% of cardholders on the traditional plan (approximately \$90,000).

PUBLIC CONTACT

At its public meeting of September 21, 2009, the Hayward Library Commission reviewed, discussed, and approved the “Fines-Free” Library Loan Program and related fees by unanimous vote, with one Commissioner absent.

Recommended by:
Sean Reinhart, Acting Library Director

Approved by:



Gregory T. Jones, City Manager

Attachments:

Resolution
Attachment 1: Fee Study for Subscription Loan Program Membership

HAYWARD CITY COUNCIL

RESOLUTION NO. _____

Introduced by Council Member _____

RESOLUTION AMENDING THE MASTER FEE SCHEDULE FOR FISCAL YEAR 2010, RELATING TO THE LIBRARY AND NEIGHBORHOOD SERVICES DEPARTMENT, ESTABLISHING "FINES-FREE" LIBRARY LOAN PROGRAM MEMBERSHIP FEES

BE IT RESOLVED by the City Council of the City of Hayward that the Master Fee Schedule, relating to the General Schedule of Charges for the Library Services Division of the Library and Neighborhood Services Department of the City of Hayward, is hereby amended to include the following:

11. "Fines-Free" Library Loan Program Membership Fees:

- a. Extended loan of up to 3 items at-a-time \$2.99/month
- b. Extended loan of up to 5 items at-a-time \$4.99/month
- c. Extended loan of up to 10 items at-a-time \$8.99/month

IN COUNCIL, HAYWARD, CALIFORNIA _____, 2009

ADOPTED BY THE FOLLOWING VOTE:

AYES: COUNCIL MEMBER:
MAYOR:

NOES: COUNCIL MEMBERS:

ABSTAIN: COUNCIL MEMBERS:

ABSENT: COUNCIL MEMBERS:

ATTEST: _____
City Clerk of the City of Hayward

APPROVED AS TO FORM:

City Attorney of the City of Hayward



CITY OF
HAYWARD
HEART OF THE BAY

September 21, 2009

TO: Sean Reinhart, Acting Library Director
FROM: Henry Gudino, Accounting Manager
Re: Fee Study for Membership

The purpose of this memo is to calculate a brief summary of the costs relative to a revolving membership for checking out library materials. The method used follows a similar format used by the City when it developed a city-wide study in FY08-09. A principal approach was to establish a fee based on "full cost recovery" where the true costs of library operations are included in a fee to the public. Those costs would include salaries, overhead, supplies, etc. that roll into the Library budget.

Using FY08-09 data, the Library has approx. 35 full time equivalent positions with an annual budget of \$4.9M. Using that information the following key elements were used:

- Estimated staff time of Library Assistant Rate needed to register/ unregister each new "fines-free" patron using hourly rate including overhead: \$56 \$4.66
- Estimated time of Librarian Rate needed to buy additional copies of high-demand item as result of "fines-free" patron using hourly rate including overhead: \$75 \$10.00
- Average cost of a Library item to replace inventory used: \$19.00
- Cost for electronic processing of credit cards 2.14% plus \$0.24 average \$1.09

Total cost per transaction using *full cost recovery* \$34.75

Proposed Fees for entry level rate at Library:

3-item rate \$2.99; 5-item rate \$4.99; 10-item rate \$8.99 (\$2.99 - \$8.99)

Subsidy from City to launch program as public benefit: \$31.76-\$37.76

It is understood that not all costs are to be recovered through fees, both from a practical standpoint and considering the public benefits to the community generated with the Fines-Free Program.

Department of Finance
Accounting Division

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