

Trends in Private Libraries – Lessons from Other Jurisdictions: Corporate Profile – Library Systems & Services

The following is a ‘first-cut’ examination of Library Systems and Services and a glimpse into the private U.S. library market.

Library Systems & Services, LLC¹ - Introduction

This private library company, also known as LSSI, has been the company named in the press as one of the forces in the privatized library market. Established in 1981 and headquartered in Maryland, LSSI contends to leverage a national network to create an “innovative” and “customer focused” approach to library systems. LSSI offers a continuum of library and information services including, staffing, collection analysis/development, database services, cataloguing, processing and planning. The company makes very specific claims, such as, their branches are open longer; have better customer service; operate more effectively and cheaper and provide more books and materials. The company’s business model is based on public private partnership (P3) principles, where a public body or board retains ownership and policy responsibilities, while LSSI takes over various operations.

The company is privately held and was founded by former “library professionals” Frank Pezzanite (now Executive Chair) and Judy Pezzanite (now Executive Vice Chair). Day to day, LSSI is run by Chief Executive (CEO) Brad King, with former library executive Ron Dubberly in the Presidents role. The company has a separate U.K. division, with additional management. In addition to executive leadership, the company has an Advisory Council made up of library professionals, consultants and editors. In total, LSSI employs a reported 650-750 people.

As with many private companies, especially those who have significant amounts ‘public’ work, LSSI has community and charity initiatives they support. Two, which are featured on the company website are, LITA/LSSI Minority Scholarship Award and the Endowed Scholarship Award; the former is available to both U.S. and Canadian citizens and the second is featured at the University of Maryland, College Park. The company also highlights it’s awards, commendations and grants it has received in the Riverside County, California library system.

Customers include:

- U.S. Departments of Energy and Veterans Affairs
- U.S. Federal Trade Commission
- U.S. Geological Survey
- U.S. Export-Import Bank of America
- (U.S.) Library of Congress
- (U.S.) National Agricultural Library
- Overseas Private Investment Corp.
- Smithsonian Institution
- (U.S.) Social Security Administration
- Camarillo Public Library, California
- Moorpark City Library, California
- Redding/Shasta County Public Libraries in California (3 branches)
- Riverside County Library System in California (35 branches)
- City of Santa Clarita Library system in California (3 branches)
- Finney County Public Library, Kansas
- Jackson County Library system in Oregon (15 branches)

- Various branches (8) in Tennessee
- Four branches in Farmers Branch, Leander, Red Oak and San Juan Texas

The scope of the U.K. branch's business is unclear. There are no locations/customers listed and the company's U.K. narrative reads more like a business solicitation than a going concern. The full menu of LSSI's services does appear to be available in the U.K. The company appears to be in early stages in the country(s) development and trying to take advantage of new opportunities, given Conservative Prime Minister David Cameron's privatization and public service sell offs.

History & Business Model

The company was started the early eighties to take advantage of a 'Regan-era' climate of deregulation and privatization. The entry point for the young company was some of the U.S. federal agencies noted above. Throughout the years, the company has taken a variety of directions to build the business, including:

- In 1996, wanting to expand and needing capital, they partnered with the Follett Corporation, a college store business. This partnership met opportunity in 1997, when the Riverside County (California) Library System (RCLS) was outsourced, with the operator being LSSI. This arrangement is still in place and is one-third of the company's revenue (or about \$7 million); total revenue is rumoured to be around \$20 million per year. Frank Pezzanite recognized the RCLS as the U.S.'s first fully outsourced system, where all workers were employed by LSSI, except a chief librarian, who also oversees the contract. The partnership with Follett would later end, but the RCLS contract remains with LSSI and is their flagship contract.
- During the same late nineties time period, the company was hired to provide management services to four public libraries in New Jersey, North Dakota and California – all contracts have concluded.
- It has been reported LSSI also does consultancy, for example a contract to help establish a library in Bee Cave, Texas.
- Most of the company's clients have been municipal based services, but they have had at least two forays into post-secondary libraries; Montgomery College in Rockville, Maryland in 1999 providing technical services and Chatham College in Pittsburgh, Pennsylvania in 2003. It's not clear what happened at Montgomery College, but at Chatham, the deal was not worth it for the institution as it was more "cost-effective" to do their own staffing. It is unlikely LSSI will try the post-secondary market further, as often staff may be faculty, giving the company less control of staffing and costs as well as, being less likely to control, in part or whole, the library budget. Both of these factors are what allow LSSI to control costs.
- The 2000s saw LSSI's business and their partners expand and contract. In 2000, the company initiated a virtual reference operation on-line; a former Los Angeles library official was hired to manage it (another characteristic of the company). This endeavour was short lived, in 2003; the unit was sold to Tutor.com, but gave the Pezzanite's enough cash to buy out Follett.ⁱⁱ
- In the mid-2000s it was reported the company's business plan shifted slightly too pursuing services in smaller towns of 5 to 10,000 residents and handle the financing, design, construction and operations. These deals would be structured over 10 to 15 years, with the municipality paying up to \$1.3 million per year on the deal and \$300,000 for the management operation.ⁱⁱⁱ This appears to be a more appropriate strategy, given the size and scope of both the market and company, but could also be limiting.
- The company could be again looking for new business avenues. At a recent American Library Association conference, it was suggested by a LSSI executive they were in discussions with coffee/lifestyle retailer Starbucks to introduce franchises into library branches.^{iv}

Specifically, municipal contracts will vary, but there are several examples of the deal structure:

- In Jackson County, Oregon. The County signed a five-year deal in 2008 for \$3,048,948 in year-one and \$3,140,416 in year-two. The County will continue to pay for overhead such as

landscaping, library system and utilities, for a total of an additional \$1.3 million cost to the County.^v

- In a deal charged with local controversy, Santa Clarita library deal was worth \$4 million for three branches.^{vi}
- In Camarillo, California, City Council signed a deal for five years at about \$1.5 million per year, plus \$400,000 for multimedia materials – the contract began in January 2011. One of the attractions to the Council was leaving their obligation to the Ventura County library system as they were the largest contributor at about \$3 million per year.^{vii}

The company is also moving ahead with expansion plans in the U.K. It was reported in 2011; LSSI has a goal of managing eight libraries/authorities (like municipalities) by end of year and want to achieve a 15% market share in five years. One of the targets appears to be the Oxfordshire system, which has twenty branches and is reported to face challenges.^{viii} It remains to be seen, whether or not another change in direction, with the same model will be effective.

Corporate Structure & Finances

The Pezzanite's and Islington Capital Partners (based in Massachusetts) are the owners of LSSI. The couple's stake is owned in both their own names and through another owned company Internet Systems, Inc. The latter was formed by the family in the 1980s to buy back a portion of LSSI from another company. At one point, Internet Systems was a going concern for authority processing, retrospective conversion and database preparation; it is unclear what role the company currently plays in the family's holdings. Internet Systems also could be related to Informatics, a company Frank Pezzanite worked for prior to co-founding LSSI.^{ix} Regarding Islington, it was reported in 2006, that they had made a multi-million dollar investment in the company and taking a majority position in the company. The same article pegged LSSI revenues at \$23 million in 2006, which was a \$4 million improvement over the previous year and the most recent firm figure.^x

LSSI's CEO is controversial, mostly because of public statements he has made regarding library operations. Frank Pezzanite has drawn criticism for suggesting that corporate sponsorship and pledge drives could make up library funding or cutting full time staff to make margins.^{xi} One particularly egregious quote (which prompted a very public response from the America Libraries Association) read, "A lot of libraries are atrocious. Their policies are all about job security. That's why the profession is nervous about us. You can go to a library for 35 years and never have to do anything and then have your retirement. We're not running our company that way. You come to us, you're going to have to work."^{xii}

Union History

Scaling back workers salaries, benefits pensions appears to be one of the way's LSSI saves money – common in P3s.

- At the Camarillo library in Ventura County, California (another branch, which left the County to be managed by LSSI) saved \$1.2 million, by no longer having to contribute to the workers State pension.^{xiii} In the same New York Times article referenced above Frank Pezzanite was further quoted as saying, "Pensions crushed General Motors, and it is crushing the governments of California" – LSSI workers get a 401k, similar to an RRSP.^{xiv}
- In 2008, National Labour Relations Board (NLRB) complaints had to be filed to pull LSSI to the bargaining table. SEIU Local 503 filed the complaint in 2007 as Jackson County handed 15 branches over to LSSI to manage/operate and fired the workers. The company agreed to bargain with the workers and forgo the complaint process – the biggest issues were benefits as wages were close.^{xv}
- While at the same time questioning library's status in the community as a "sacred organization", CEO Pezzanite planned on saving money in the Santa Clarita deal by replacing union workers.^{xvi}

- The Farmers Branch, Texas system also faced pressures. In 2010, the Manske branch faced two separate cost cutting measures (one by the library director and the other by LSSI), because of a hurting local economy and to pare down tax rates. Although both proposals wanted to cut staff, the LSSI suggestions sought to cut jobs from 19.5 (FTE) to 15 (FTE) and trimming the budget by \$230,641. By contrast, the library director's proposal was to bring the staff down only to 17.3 (FTE) and \$203,587.^{xvii} It needs to be verified what proposal was chosen, but this example represents another example of LSSI's cost cutting measures.

A cautionary tale comes from Nevada regarding contracting out. In 2010, Nevada County supervisors decided against privatizing and going with LSSI; however, there were significant cuts to the service and staffing as a result – the location was/is unionized. The Library's \$400,000 deficit was dealt with by reducing the library's hours from 160 to 143 a week, as well as, cutting the 21 person staff by 3.75 (FTE) and reducing hours of other staff. There was a significant public backlash against privatizing the services.^{xviii}

Political Connections & Contributions

Political anecdotes are common when for-profit companies pursue and/or take over public work – LSSI is no different. It has been reported, that in several cases in New Jersey, the prospect of outsourcing library services was used as a political wedge issue for local internal politics. In Passaic, the Mayor and Councilors negotiated directly with LSSI about a contract, sidestepping the library board. In Linden, there were accusations of internal fights among directors, politicians and library board members, with LSSI in the middle.

Regarding donations, a more comprehensive search needs to be conducted, but initial results show some activity. It has also been reported that direct donations in the company's name are prohibited by the owners, but in 2001 LSSI gave \$500 to the mayoral campaign of John Gregorio in Linden, New Jersey. In 2002, a LSSI sales manager donated \$500 to committee(s) for two New Jersey State legislators. Again in New Jersey, a LSSI site director gave \$1,125 to a Republican Bret Schundler (it is unclear for what office).^{xix} Frank Pezzanite himself, gave \$2,000 to Schundler; as well as, two donations of \$250 each to the National Republican Congressional Committee Contributions in 2002.^{xx}

Litigation & Community Fight Back

Although an exhaustive search has not been completed, there are several ongoing legal disputes, including:

- Save Our Library has filed two suits in California to stop the city of Santa Clarita from leaving Los Angeles County's library system and forming a separate entity to be managed by LSSI
- Also in Santa Clarita, Ed Shain filed suit on the same matter as above claiming in violated California's open meeting laws.
- LSSI went on the offensive in Florida attempting to squash a regulation that a full-time librarian must regulate the States system – the case was dismissed.^{xxi}

LSSI's involvement in the sector has been subject to much scrutiny, critique and analysis. In a number of cases where jurisdictions engaged LSSI or the company bid on an opportunity there was community based opposition. One example is highlighted below in the Stockton case, but this is not an anomaly. In Nevada, a group called The Friends of Nevada County Libraries went so far as to submit a proposal to operate one of the branches under consideration of privatization (in 2009).^{xxii} In California, State legislators have pursued legislation, which would restrict private operations of libraries; the assumption is LSSI's involvement in the state system, in part, prompted the legislation.

Stockton, California

Earlier this year the fight over the Stockton-San Joaquin Public Library came to a conclusion for now. In February, it was decided that a partnership, which has been in existence since 1910 between Stockton City Council and the San Joaquin Board of Supervisors would continue. The two parties voted down a bid by LSSI to operate the system. One of the more succinct versions of the story appears in a February 2011 edition of *American Libraries* magazine:

“LSSI became a viable option for Stockton officials because the Stockton–San Joaquin city-county partnership had been showing signs of strain in recent years over how the city accounted for the county’s dollars, the *Stockton Record* reported February 12. However, the Friends of the Stockton Library and the Concerned Citizens Coalition of Stockton began raising concerns over losing local control of the library as soon as word of the negotiations with LSSI became public last fall.

Friends President Vince Perrin worried whether the group could continue its fundraising efforts if LSSI took over operations, since the firm is a private business and, the group claimed, not subject to open-government laws. “We’re a 501 (c) (3) operation. We cannot give nonprofit money to a profit-making company,” Perrin said in the October 1, 2010, *Lodi News-Sentinel*. Community members collected signatures opposing privatization and wrote newspaper opinion pieces and letters to the editor expressing their disapproval. “We did whatever we could do to make sure our voices were heard before any decisions were made,” said Concerned Citizens Coalition Chair Sylvia Kothe.

Five months later, after much negotiation and deliberation, County Administrator Manuel Lopez reported in a February 2 letter to the county board of supervisors that LSSI was promising to keep the libraries open longer, boost the books and materials budget, and increase the library’s fund balance. Moreover, the proposal indicated that no furlough or library closure days would be implemented, and the number of local library jobs would likely increase.

Nonetheless, Lopez recommended the renewal of the city-county partnership. The renegotiated city-county contract calls for quarterly reports detailing expenses for each of the system’s 12 branches and its bookmobile. Addressing county concerns over the possibility of future cuts, the contract requires county approval before service hours are reduced.

“The primary driver in the decision-making process was public opinion,” library Director Chris Freeman told *American Libraries*, emphasizing that “both the county board of supervisors and the city council recognize the value of public sentiment.” In a joint statement issued after LSSI’s bid was rejected, Perrin and Kothe expressed relief “that our elected officials continue to recognize the value of a vibrant public library. The city-county system has served library users for more than 100 years. Library staff have worked aggressively to increase efficiency and use technology to better aid library users in recent years.”

LSSI, in turn, issued a public statement reiterating that it would have given the county more control over the policies, focus, and finances of its libraries, as well as establishing a reserve fund for tighter economic times. “LSSI was passionate in its pursuit of the County library contract,” the statement said, “because we know our public-private partnership is a successful model for communities seeking to improve library services, extend operating hours, keep librarians employed, and expand vital programming during these difficult economic times.”^{xxiii}

Observations

In the recent discourse there has been much discussion in Ontario about privatization and outsourcing by municipal governments. This discussion and action is taking many forms throughout the province and thus far, only in Toronto have libraries become an issue that brought the community into action, in part because of a very effective Local CUPE campaign. In the U.S. the issue of privatizing libraries seems to be an option which will remain on the table for local governments.

This 'market place' still seems to struggle in gaining widespread attraction. There does not appear to be a large number of providers of the service and LSSI appears to be the market leader by default. Despite the thirty-year history of LSSI and its status of being one of the largest 'systems' in the U.S. it seems to still struggle to gain market traction. Other start-ups could further erode LSSI's position, but also a lack of transparency, community fight back and a negative public image of LSSI and its management all seem to be drivers against further expansion. The American Libraries Association has taken a strong stand against creeping privatization and has a committee to deal with the issue.

Moreover, it seems LSSI's shifting strategy has hampered a true direction for the company. Targeting smaller municipalities seems limiting in terms its capacity to operate/generate larger contracts and financial and market growth. Even the majority ownership – Islington – is a smaller cap firm providing private equity to established and profitable companies with revenues of up to \$50 million and/or generating \$1 to 3 million of earnings before interest, taxes, depreciation and amortization (EBITDA).^{xxiv}

Overall LSSI's strategy is all about lowering costs by centralization and eroding workers compensation (including pensions and benefits) – this is a similar theme when considering any privatization of a public service. LSSI argues that it can do more with less, but in a cursory review of the media and documents associated with the company this means service and staffing cuts and at times a lower amount of materials. However, some communities report increased hours and materials; the Riverside, California system is often held up as the success of LSSI, but even this example is debated in terms of its success.

It remains difficult to see how LSSI, or another company, could immediately move to a Canadian jurisdiction. The only option for market entry – particularly in a system the size of Toronto's – would be if separate branches were allowed to leave the system and be privatized in pieces. Even in this scenario, there would likely be even a higher level of community opposition.

Presumably, the company is in part on this path as smaller municipalities may have larger cash flow challenges and limited services. However, in another sign that the company struggles to define itself, it has faced increased opposition and faced a series of lost Request For Proposals (RFPs).^{xxv}

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- ⁱⁱ Library Journal. More On LSSI. Available at: <http://www.libraryjournal.com/article/CA457652.html>.
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- ^v Mann, Damian. LSSI begins labor talks; NLRB complain means workers rehired by library firm will still be unionized. Mail Tribune; February 13, 2008. Available at: <http://www.mailtribune.com/apps/pbcs.dll/article?AID=/20080213/NEWS/802130312&te...>
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