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# Michigan Library Association 2010 Annual Conference

## Comprehensive Financial Planning in Troubled Times

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Presented by Umbaugh



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# Background

- First economic contraction of any note since early 90's
- Worst recession since early 1980's
- Greatest banking (financial) crisis since the Great Depression
- Many people over age 40 have forgotten what recession feels like (and folks under age 40 were not even adults in the early 90's)
  - But, like all recessions, this too will end.



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# Background (cont'd)

- Libraries are insulated, (but not immune) from economic cycles
  - Libraries can't go bankrupt and simply cease functioning.
    - However, they can become insolvent whereupon a receiver could be appointed
    - Need to operate within expected resources
    - Cannot, and should not, incur long-term debt to pay operating expenses

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# Differences from Private Sector for Libraries

## ■ General Advantages

- ❑ No competition for customers (generally)
- ❑ Necessary product or service (demand is inelastic)
- ❑ Lower prices for purchasing (not subject to sales taxes on most items)
- ❑ Borrowing costs are less on debt (tax-exempt in most cases)
- ❑ Return on investment (“profit”) not a consideration
- ❑ Do not pay income or property taxes



# Differences from Private Sector for Libraries

## ■ General Disadvantages

- Significant regulations
- Unfunded mandates
- Customer resistance to change and diminished services
- Limited revenue sources and customer base
- Often a concentration of revenues in a small number of customers
- Can take months to enact an increase or changes to service
- If municipal library, the civil unit is also struggling to balance its own budget
  - Looking for cost-sharing arrangements
    - Rent on shared space
    - Shared equipment
  - Payments in lieu of property taxes
  - Other transfers



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# Library Management – Limited Choices

- Over the short term, management has a very limited menu of options
  - Reduce expenditures, or
  - Increase revenues
- Revenues
  - Taxes
  - State Aid
  - Contract and Misc Fees
  - Fines (Penal Fines & Overdue Fines)
  - Miscellaneous & Contributions
  - Interest



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# Library Management – Limited Choices

- Expenses
  - Salaries
  - Fringe Benefits
  - Supplies
  - Library Materials
  - Professional & Contractual Services
  - Other Operating Expenditures
  - Capital Outlay
  - Debt Service
  - Contingencies

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# Budget Development and Potential Shortfalls

- Estimate revenues to be generated or collected in the ensuing year
- Determine maximum budget amounts that can be funded from estimated revenues
- Determine desired ending cash balance
- Identify options to meet budgetary goals
  - Balanced Budget = current year expenditures equal to or less than current year revenues

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# Budget Development and Potential Shortfalls

- Anticipating and understanding potential shortfalls
  - Need to clearly understand nature of potential shortfall
  - Temporary – caused by timing issue or non-recurring element
  - Structural – ongoing elements that create unbalanced budget

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# Samples of Cost Potential Adjustments

- Personnel costs:
  - Defer hiring
  - Not replacing (attrition)
  - Freeze salaries and wages
  - Reduction in force
  - Sharing employees with other nearby libraries
  - Eliminate overtime
  - Cross-train employees
  - Mandatory four-day work week



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# Samples of Cost Potential Adjustments

- Personnel costs: (cont'd)
  - Rotating furloughs
  - Bid out insurance services
  - Consider raising deductibles
  - Increase health insurance co-pays
  - Consider Health Savings Account arrangements
  - Reduce or temporarily suspend retirement contributions (if private pension)
  - Eliminate post-retirement benefits
  - Outsource functions
  - Automate processes (operationally and administratively)



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# Samples of Cost Potential Adjustments

- Be cognizant of potential costs of downsizing
  - Unemployment
  - Deferred compensation
  - Subsequent training costs
  - Litigation?
- Other
  - Group purchasing through consortium arrangements
  - Strategic capital projects planning
- Strategic periodic maintenance
  - Is there a significant and timely return on reduction to operating costs?



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# Comprehensive Financial Plan

## ■ Results

- Framework to make informed/difficult decisions
- Goodwill with community
  - Explain cost-savings measures and efforts to control costs
- Ability to measure outcome of proposed changes
- Identify short term and long term steps to define or re-define organization.

# Multi-year financial plan

- Typically 3-5 year plan – by Fund
  - Operating
  - Capital
  - Debt
- Project revenues by source
  - What drivers will impact each revenue
  - Can create “what ifs” on revenue changes
- Project expenditures by line item
  - Monthly if needed to identify temporary shortfalls
  - Framework to evaluate potential policy changes
- Resulting cash balances and reserves
  - What is cash reserve policy
  - Bottom-up analysis

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# Understanding Your Services – Process Evaluation

- Take inventory of services offered and associated costs
  - Share information with all stakeholders
  - Community is often surprised with the depth of services
  - Characterize each service based on the following five questions:
    - Who primarily uses the services?
    - How are the services currently funded? (tax, grant, fee, etc.)
    - Is the service a must or a want?
    - Is this service redundant with another department or unit?
    - Should the private sector provide this service and not the public sector?



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# Understanding Your Services – Process Evaluation

- Take inventory of services offered and associated costs (cont'd)
  - Engage community and stakeholders in budget process
    - Understanding local needs
    - Work with community partners
    - Does output match up with desired outcome?
  - Identify services that can be discontinued, reduced, move to another provider (private), consolidate (public) or cover through an appropriate fee.



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