
Michigan Library Association 2010 Annual Conference

Comprehensive Financial Planning in Troubled Times

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.



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

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



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



Library Management – Limited Choices

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

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

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

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



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)



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?



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

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?



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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