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Finance and Budgeting for Libraries

Michigan Library Association

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Agenda

Budgeting

- Concepts
- Overview of Process
- Uniform Budget and Accounting Act Requirements
- Preparation/Adoption/Execution

Financial forecasting

Strategic planning

Benchmarking



Budget Concept

Definition of a Budget

- 1. The “Plan”** - A budget is a plan of financial operations embodying an estimate of proposed expenditures for a given period of time and the proposed means of financing them
- 2. “Authorization to spend money”** - In the State of Michigan, all General and Special Revenue Funds are required by law to be budgeted annually



Budget Concept

Budget Mission

- The mission of the budget process is the help decision makers make informed choices about the provision of services and capital assets, and to promote stakeholder participation in the process
- In one sense, the “budget document” is the package of information that the governing body reads to educate itself so that it may give the legal approval to management to incur expenditures during any given fiscal year



Budget Concept

Good Budgeting

A good budget process is characterized by several essential features. A good budget process:

- Incorporates a long-term perspective
- Establishes linkages to broad organizational goals
- Focuses budget decisions on results and outcomes
- Involves and promotes effective communication with stakeholders, and
- Provides incentives to management and employees



Budget Concept

Budget Challenges

The following issues need to be taken into account in the tools and techniques that support budgetary practices:

- Managing the budget process and changes to budget practices
- Desire to have change or to prevent change
- Adjusting for organizational structure and issues
- Level of resources available for programs
- Available level of technical system and support
- Dealing with high (or low) expectations
- Legal requirements
- The level of stakeholder understanding
- Accuracy of projections and assumptions
- Level of disclosure



Budgeting Overview

The annual budgetary process involves the following three phases:

1. Preparation

- Required for General Fund and Special Revenue funds
- Understand types of fund balance
- Gather past data and anticipated changes

2. Adoption

- By the Library's legislative body

3. Execution/Monitoring

- As circumstances or conditions change during the year, budgeted amounts can be amended by a process determined by the Library's legislative body



Budgeting Overview

Preparation

- The preparation phase is usually the responsibility of the chief financial officer of the organization. It is accomplished by analyzing the financial data and projecting the program requirements of the various functions and activities for which a particular organization may have responsibility
 - Can be outsourced, but responsibility remains with the CFO



Budgeting Overview

Adoption

- Once the budget has been prepared, it is presented to the governmental unit's legislative body for consideration, possible modification and final approval. Typically, the public is invited to participate in this phase via public hearings on proposed budgets or other means of public input



Budgeting Overview

Execution/Monitoring

- Budgetary accounts are set up to record the estimated revenue and appropriations in the fund accounts. As economic conditions change, periodic monitoring will allow for awareness for budget amounts to be amended by a process determined by the governmental unit's legislative body



Budgeting Overview

Legal Requirements for a Budget

- P.A. 621 of 1978 requires a budget appropriation to be in place before a governmental unit may commit to spending money
- Budget vs. General Appropriations Act
- Required data to be included in the budget



Level of detail

There are no set guidelines as to the level of detail a budget is to be adopted

- Line item (by account)
- Cost center (by groupings/departments)
- Fund total – provided it meets activity level exception

Budgets are commonly prepared on a line-item basis, but adopted at a less restrictive level



Accounting Basis

Accounting Basis Used in the Budget

- Cash basis (Easiest to understand for non-accounting types)
- Modified accrual basis
- Full accrual basis
- Other comprehensive basis (e.g., excluding installment purchase debt, encumbrance basis, etc.)



Requirements (Budget Act)

What needs to be included in the budget:

- Actual prior year results (mostly recently completed FY)
- Estimate of current year results (generally YTD)
- Proposed budget
- Amounts for contingencies (if applicable)
- Amount of fund balance from prior years and the estimated ending fund balance with the proposed budget

Cannot budget to have negative fund balance at year-end



Budget Preparation

Short and long-term objectives

- Most governmental units have broad goals that guide the direction for the organization and serve as the basis for decision making
- Best practice is that these goals are committed to writing
- The budget should discuss these goals and approaches. The budget document should explain how this budget moves the organization towards achievement of the goals.



Transparency in budgeting

The goal of transparency should be

- Provide information in a clear and easy to understand manner
- Accessibility from a central location or single website
- Updated regularly and often
- Honest and accurate
- Designed from the citizen's perspective – attractive/ intuitive presentation
- Provides opportunity for feedback and comments



Budget Adoption

Legal Requirements

- An annual budget is required by P.A. 2 of 1968, as amended. P.A. 2 differentiates between the budget document and the General Appropriations Act. The budget document is the informational package that is put together by the Chief Administrative Officer in order for the governing body to pass the resolution approving spending for the upcoming year. This resolution is referred to as the “General Appropriations Act.”



Budget Adoption

Beyond the “legal” requirements – getting a budget adopted is a *communication* process – *selling the document*

Strong, clear budget message

- Communicate the economic and fiscal conditions that support the budget
- Establishment of priorities, linking the detail to those priorities
- Why things were done this way



Property Taxes

- Typically > 85% of total revenue for a Library
 - Taxable value * Millage Rate
 - Tax revenue is recorded on a time lag, so information is available for budgeting purposes ahead of time
 - Imperative to have a good handle on this number

Budget Year	6/30/16	6/30/17	6/30/18	6/30/19	6/30/20
Assessment date (based on sales from 12-24 months prior)	6/30/14	6/30/15	6/30/16	6/30/17	6/30/18
Levy date	7/1/15	7/1/16	7/1/17	7/1/18	7/1/19



Other Revenue Sources

- **State Aid and Penal Fines**
 - Start with prior year and adjust
- **Library Fines**
 - Likely consistent from year to year unless policies or rates have changed
- **Interest Income**
 - Use prior year – not expected to fluctuate much
- **Other Income**
 - Use prior year unless know factors that would impact



Expenditures

- Start with what you know
 - Bond costs (principal and interest)
 - Full-time wages and fringes
 - Other fixed costs (leases, etc)
- What's left?
 - Part-time staff – are you utilizing appropriately?
 - Building costs (utilities, maintenance, etc) – where can you save?
 - Utilize purchasing cooperatives to get the best deals
 - Program costs and associated collections



Budgeting Tips

- Our current level of General Fund fund balance is \$_____
- We have unrestricted fund balance in other funds (if applicable) of \$_____
- Our current “gap” between revenue and spending is \$_____
- Is our current annual gap expected to increase or decrease significantly in the coming years? Yes No
- In general, our fund balances could cover the gap for _____ years
- Our General Fund fund balance is _____% of one year’s worth of expenditures.
- What changes have we already made that will help to close the gap?



Revenue increasing/Cost Reduction Opportunities

- Are you willing to use your millage capacity? Ask residents for new millage?
- Increase fines and fees
- Creative department solutions — cut budget by x percent
- Pooled “utility” programs/energy audits
- Health insurance programs/co-pays, cafeteria plan, health savings accounts, etc.
- Combined benefit limits vs. sick and vacation time banks
- Use of part-time vs. full-time resources
- Overtime pay review



Budget is Done. Now What?

- Budget is obsolete as soon as it is approved 😞
- Monitor and Amend
 - Monitor monthly
 - Amend quarterly or as needed



Strategic Planning and Long-term Projections



Strategic Planning

- Strategic planning defines the Library's vision, mission, and goals
- Consider service offerings and determine which support the strategic plan
 - What services are currently being provided?
 - Which services are considered essential looking into the future to support the goals?
- Sets the path for "strategic budgeting"
- Allows the Library to remain competitive with their neighbors
- Future capital projects
 - Does the library have a capital improvement plan
- How will the Library look in 5 years?
 - Do we have enough fund balance?
 - What will the revenue look like?
 - When do our bonds expire? Millages expire?



Benefits of Projections

- Awareness of future position can impact current decision making
- Changes can be less drastic if implemented sooner
- Provide an interactive model that allows user to see impact of changing variables



Key Decisions – Financial Projection

Starting point

- Prior year actual amounts
- Current year budget
- Other (year-to-date amounts for current year)



Key Decisions – Financial Projection

Variables

- Changes in taxable value
- Changes in state aid and penal fines
- Wage increases per union contracts or labor agreements
- Known retirements, payouts in compensated absences
- Pension/OPEB contribution rates or other retirement plan costs
- Capital needs
 - Includes infrastructure needs, technology needs, as well as book and media capital outlay
- General inflation



Key Decisions – Financial Projection

Level of Detail

- Line item
- Program budget – activity/service/product
- At a minimum, large items that will change at differing rates should be separated
- Similar items that will likely change at the same approximate rate may be combined



Example - Assumptions

Estimated Annual Percentage Change - Assumptions

		2018	2019	2020	2021	2022
	Property Taxes	-3.0%	-1.0%	0.0%	2.5%	2.5%
xxx.xxx.xxx	OTHER	2.2%	2.2%	2.2%	2.2%	2.2%
xxx.xxx.xxx	STATE OF MICHIGAN	2.2%	2.2%	2.2%	2.2%	2.2%
xxx.xxx.xxx	STATE AID	0.0%	0.0%	0.0%	0.0%	0.0%
xxx.xxx.xxx	INVESTMENT INCOME	10.0%	10.0%	10.0%	10.0%	10.0%
xxx.xxx.xxx	PENAL FINES	2.2%	2.2%	2.2%	2.2%	2.2%
xxx.xxx.xxx	LOCAL FINES	2.2%	2.2%	2.2%	2.2%	2.2%
xxx.xxx.xxx	REFUND CAPTURES PROP TAX	2.2%	2.2%	2.2%	2.2%	2.2%
xxx.xxx.xxx	GIFTS	2.2%	2.2%	2.2%	2.2%	2.2%
xxx.xxx.xxx	CITY SPONSORED CONCERTS	2.2%	2.2%	2.2%	2.2%	2.2%
xxx.xxx.xxx	MISCELLANEOUS REVENUE	2.2%	2.2%	2.2%	2.2%	2.2%
xxx.xxx.xxx	REGULAR SALARIES	2.2%	2.2%	2.2%	2.2%	2.2%
xxx.xxx.xxx	TEMPORARY EMP SALARIES	2.2%	2.2%	2.2%	2.2%	2.2%
xxx.xxx.xxx	OVERTIME	2.2%	2.2%	2.2%	2.2%	2.2%
xxx.xxx.xxx	FRINGE BENEFITS - just healthcare	8.0%	8.0%	8.0%	8.0%	8.0%
xxx.xxx.xxx	PROFESSIONAL SERVICES	2.2%	2.2%	2.2%	2.2%	2.2%
xxx.xxx.xxx	GRANT EXPENSE	2.2%	2.2%	2.2%	2.2%	2.2%
xxx.xxx.xxx	UTILITY SERVICES	2.2%	2.2%	2.2%	2.2%	2.2%
xxx.xxx.xxx	REPAIR & MAINT SERVICES	2.2%	2.2%	2.2%	2.2%	2.2%
xxx.xxx.xxx	RENTALS	2.2%	2.2%	2.2%	2.2%	2.2%
xxx.xxx.xxx	COMMUNICATIONS	2.2%	2.2%	2.2%	2.2%	2.2%
xxx.xxx.xxx	ADVERTISING	2.2%	2.2%	2.2%	2.2%	2.2%
xxx.xxx.xxx	COMMUNITY PROMOTION	2.2%	2.2%	2.2%	2.2%	2.2%
xxx.xxx.xxx	CONFERENCES/SEMINARS	2.2%	2.2%	2.2%	2.2%	2.2%
xxx.xxx.xxx	OFFICE	2.2%	2.2%	2.2%	2.2%	2.2%
xxx.xxx.xxx	OPERATING	2.2%	2.2%	2.2%	2.2%	2.2%
xxx.xxx.xxx	REPAIR & MAINTENANCE	2.2%	2.2%	2.2%	2.2%	2.2%
xxx.xxx.xxx	CAPITAL OUTLAY/EQUIPMENT	2.2%	2.2%	2.2%	2.2%	2.2%
xxx.xxx.xxx	MISCELLANEOUS	2.2%	2.2%	2.2%	2.2%	2.2%



Example – Scenario 1

Scenario 1 – No changes are made, no new millage or reduction of expenditures

	Actual 2017	Projected 2018	Projected 2019	Projected 2020	Projected 2021	Projected 2022
Revenues						
Tax Levy	\$ 741,762	\$ 709,106	\$ 709,106	\$ 649,106	\$ 649,106	\$ 649,106
Penal Fines	43,893	34,659	34,659	34,659	34,659	34,659
State Aid	21,659	24,000	24,000	24,000	24,000	24,000
Book Fines	55,333	54,976	54,976	54,976	54,976	54,976
Investment Earnings	40,727	36,212	32,590	29,331	26,398	23,758
Miscellaneous	71,113	59,835	59,835	59,835	59,835	59,835
Total Revenue	974,487	918,788	915,166	851,907	848,974	846,334
Expenditures						
Personnel	945,283	946,701	958,138	970,394	983,534	997,625
Contractual Services and Books	324,213	330,697	337,311	344,057	350,939	357,957
Operating Costs	299,918	305,913	312,029	318,266	324,629	331,118
Capital Outlay	30,705	31,319	31,945	32,584	33,236	33,901
Total Expenditures	1,600,119	1,614,630	1,639,423	1,665,301	1,692,338	1,720,601
Net Change in Fund Balance	(625,632)	(695,842)	(724,257)	(813,394)	(843,364)	(874,267)
Fund Balance - Beginning of the Year	4,245,270	3,619,638	2,923,796	2,199,539	1,386,145	542,781
Fund Balance - End of the Year	3,619,638	2,923,796	2,199,539	1,386,145	542,781	(331,486)



Example – Scenario 2

Scenario 2 – 1 mill is passed to maintain current service levels and provide raises to Library employees

	Actual 2017	Projected 2018	Projected 2019	Projected 2020	Projected 2021	Projected 2022
Revenues						
Tax Levy	\$ 741,762	\$ 709,106	\$ 709,106	\$ 649,106	\$ 649,106	\$ 649,106
Penal Fines	43,893	34,659	34,659	34,659	34,659	34,659
State Aid	21,659	24,000	24,000	24,000	24,000	24,000
Book Fines	55,333	54,976	54,976	54,976	54,976	54,976
Investment Earnings	40,727	36,212	32,590	29,331	26,398	23,758
Miscellaneous	71,113	59,835	59,835	59,835	59,835	59,835
Total Revenue	974,487	918,788	915,166	851,907	848,974	846,334
Expenditures						
Personnel	945,283	946,701	958,138	970,394	983,534	997,625
Contractual Services and Books	324,213	330,697	337,311	344,057	350,939	357,957
Operating Costs	299,918	305,913	312,029	318,266	324,629	331,118
Capital Outlay	30,705	31,319	31,945	32,584	33,236	33,901
Total Expenditures	1,600,119	1,614,630	1,639,423	1,665,301	1,692,338	1,720,601
Net Change in Fund Balance	(625,632)	(695,842)	(724,257)	(813,394)	(843,364)	(874,267)
Additional Revenues						
Tax Levy			-	775,513	775,513	775,513
Additional Expenditures						
Salaries & Wages Increases			34,465	44,805	55,144	65,484
Adjusted Net Change in Fund Balance	(625,632)	(695,842)	(758,722)	(82,686)	(122,995)	(164,238)
Fund Balance - Beginning of the Year	4,245,270	3,619,638	2,923,796	2,165,074	2,082,388	1,959,393
Fund Balance - End of the Year	3,619,638	2,923,796	2,165,074	2,082,388	1,959,393	1,795,155



Benchmarking



Benchmarking Overview

- Comparison of one organization's measurables against others
- Assessment tool for strategic planning
 - Can assist in staffing level decisions, millage rate or funding comparisons, program offering decisions and much more
 - Focusing on your own library is key; however, important to be mindful of how you compare to your peers
 - Must select comparable peers



Data Gathering

- Comparison to your peers
 - Consider using Michigan Public Library Survey Statistics on SoM website
 - <http://michigan.gov/libraryofmichigan>
 - Services to Libraries tab
 - Usage facts
 - Statistics



Data Gathering

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Public, Co-op and BTBL Library Statistics

- Michigan Library Statistics 2007 Thru 2013.

Michigan Per Capita Library Service Trends FY 2008 - FY 2012

Fiscal Year	Subscriptions	Circulation	Loans	Reference Services
2008	4.8	1.1	1.1	0.8
2009	4.9	1.2	1.2	0.8
2010	5.0	1.3	1.3	0.8
2011	5.1	1.4	1.4	0.8
2012	5.2	1.5	1.5	0.8

Michigan library statistics are compiled from the Annual Report/State Aid Application submitted by public libraries, cooperatives and braille and talking book libraries. The statistics are offered here as multi-tab Microsoft Excel sheets. The survey introductions and applications are offered as .pdfs.

Please refer any questions regarding these statistics to the Library Data Coordinator at (517) 373-3828. hamlinj2@michigan.gov

- Michigan Library Data Digest

Jump to a category... GO

LibPAS

- The new Public Library Annual Reporting/State Aid Application Software, Counting Opinions LibPAS!

When the FY 2014/2015 Public Library Annual Report/State Aid Application opens on October 1st of 2014, the Library of Michigan will implement new software. We will be using Counting Opinions' Library Performance Assessment software LibPAS. This new software with its intuitive design, allows for a much smoother data collection process and many more robust reporting features for libraries.

LibPAS offers users many options to make the survey process as easy as possible for everyone, including:



Example - Benchmarking

- Let's look at an example of a benchmarking exercise we assisted with
- What you are seeing is only a portion of the finished product (there were actually several other comparable libraries included in the study)
- Going into the process, this library was wondering if they were overstaffed and overly generous with employee benefits
- What conclusions might you draw?



Example - Benchmarking

	Library A	Library B	Library C	Library D	Class 6 Library Average
Population served	84,094	48,362	57,774	90,173	117,851
Population rank (out of 44)	28	N/A	39	27	
Total Operating Millage	0.9442	0.9233	0.9188	1.4980	
Second Operation Millage	-	-	-	-	
Debt Millage	-	0.5508	-	-	
Most recent completed audit	6/30/12	3/31/12	6/30/12	12/31/11	
Revenue	\$1,897,621	\$1,859,553	\$1,435,549	\$5,355,713	
Expenses	\$2,108,008	\$2,341,709	\$1,903,787	\$4,435,657	
Income (Loss)	(\$210,387)	(\$482,156)	(\$468,238)	\$920,056	

Per Library of Michigan. Data extracted from State Aid application and is from fiscal year prior to most recent audit.



Example - Benchmarking

	Library A	Library B	Library C	Library D	Class 6 Library Average
Expenditures					
Collection Expenditures	\$110,698	\$164,371	\$83,573	\$734,293	\$568,553
Collection Expenditures Per Capita	\$1.32	\$3.40	\$1.45	\$8.14	\$4.82
Collection Exp as percentage of total	6%	11%	4%	15%	12%
Staff Expenditures	\$1,196,477	\$992,959	\$752,227	\$2,997,252	\$3,011,448
Staff Expenditures per Capita	\$14.23	\$20.53	\$13.02	\$33.24	\$25.55
Staff Expenditures per FTE	\$56,225.42	\$45,011.74	\$34,192.14	\$51,873.52	\$54,443.14
Staff Exp as percentage of total	62%	64%	39%	59%	64%
Other Operating Expenditures	\$620,390	\$406,123	\$1,084,818	\$1,325,945	\$1,109,392
Other Operating Expenditures Per Capita	\$7.38	\$8.40	\$18.78	\$14.70	\$9.41
Other Exp as percentage of total	32%	26%	56%	26%	24%
Total Operating Expenditures	\$1,927,565	\$1,563,453	\$1,920,618	\$5,057,490	\$4,689,393
Total Operating Expenditures Per Capita	\$ 22.92	\$ 32.33	\$ 33.24	\$ 56.09	\$ 39.79



Example - Benchmarking

	Library A	Library B	Library C	Library D	Class 6 Library Average
Staffing					
# of Librarians	8	9	9	26	20
# of other employees	26	30	29	58	68
Total number of employees	34	39	38	84	88.05
# of employees per thousand residents	0.40	0.81	0.66	0.93	0.75
# of Librarian FTE's	8.00	7.06	7.50	19.54	17.06
# of other employee FTE's	13.28	15	14.5	38.24	38.25
Total number of employee FTE's	21.28	22.06	22.00	57.78	55.31
Total FTE employees per thousand residents	0.25	0.46	0.38	0.64	0.47
Collection					
Total items in the Collection	160,502	173,296	149,332	315,401	497,060
Items per capita	1.91	3.58	2.58	3.50	4.22



Example - Benchmarking

	Library A	Library B	Library C	Library D	Class 6 Library Average
Service					
Registered Borrowers	34,917	21,781	16,450	64,102	57,277
Borrowers as a percentage of population	42%	45%	28%	71%	49%
Total Circulation	434,814	269,534	243,857	1,914,274	1,269,861
Circulation per Capita	5.17	5.57	4.22	21.23	10.78
Total Visits	350,000	279,076	195,000	594,492	661,467
Visits per Capita	4.16	5.77	3.38	6.59	5.61
Programs					
Total # of programs offered	1,048	232	613	943	966
Total program attendance	21,352	4,634	11,943	31,985	28,233
Attendance as a percentage of population	25%	10%	21%	35%	24%



Example - Benchmarking

- In this particular example, at the end of the benchmarking process, the Library found the following compared to their peers:
 - They were spending less on their collection and had less items in their collection per capita
 - They were spending less on staff members per capita
 - They had less employees per thousand residents
 - They were offering more programs than many of their peers, but they were fairly well attended. In addition, borrowers and visits were fairly high
- At the end of the process, they considered whether to explore the possibility of increasing the millage rate to gain more funding



Wrap Up

- Go into the benchmarking process with a purpose
- Select appropriate comparable libraries
- Analyze the data with caution
 - You are not “wrong” if you are different
- Use in conjunction with strategic planning
- Questions?



Session Conclusion

Budgeting

- Budget sets expectations for upcoming year spending – “The Plan”
- Authorizes spending (Budget Act)
- Recommend monthly reviews – management tool
- Amend as necessary

Financial forecasting and Strategic Planning

- Goes beyond 1 year budget – long term focus
- Planning for the future – where to go and how to get there

Benchmarking

- Comparisons to peers as a tool for decision making



Thank you!

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