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The Art and Science of Managing a University Library Budget

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The economic model theory addresses a fundamental question of how scarce resources should be deployed to generate maximum benefits. An economic model includes forecasting, planning, allocating resources, predicting growth, and evaluating risks. The academic library is no exception to an economic model because there is a strong relationship between an academic library and its economic efficiency in budget performance, particularly during economically distressed times. The library operation requires a fresh look at its activities similarly to profit-making firms. Otherwise, widespread dissatisfaction may arise if budgets are ubiquitous and non-pervasive.

Budget Preparation

Budgeting is the nerve center of an academic library. It is a decision-making exercise for allocating funds, exploring resources, and achieving objectives economically, efficiently, and effectively. The economy has always shaped policy of the university at all levels, and budgeting is no exception Budgeting has, therefore, become one of the chief political decisions to make in the university arena.

The Allocation Process

Most universities operate under a decentralized management structure as revenues and expenses to each division are assigned to the respective units or cost center. The costs that can't be directly assigned in a division, such as central administration, operations, student services, libraries, and auxiliary operations, are distributed to cost centers on an allocation basis. Allocation bases are created from a variety of metrics using statistical information or effort studies. The total allocation consists of two types of annual budgets in the library: an operating use budget and a materials use budget.

A capital budget explains the annual capital spending plan, which is markedly different from an operating budget. It requires the creation of capital assets, whose benefits are spread over future generations. Debt financing for capital projects spreads the burden of paying the debt for long-term projects over several years. This is generally attributable to the several years the project was active, often in a 'pay as you use it' fashion. However, annual capital spending plans require

all capital projects, as well as financing sources, the annual cost, total estimated cost and completion date, to be explained.

During the annual budget process, the central budget office requests the library to submit a line-item budget for annual operation. The operating budget seldom sets out long-range strategies; it usually deals with the quantitative allocation of people and resources. The budget coordinates the various activities of the library, with a formula mostly guided from the university's central budget office.

Most of the line items in the budget are decided on an incremental basis from prior years' actual spending, keeping in mind inflationary increases. In some cases, zero-based budgeting requires department heads to start from ground zero and redefine activities in terms of library goals. The major appeal to zero-based budgeting is that it questions each activity and determines whether it should be maintained as it is reduced or eliminated.

Changes in demographics and technology are setting new directions for the library over the next few decades. The digitization of unique library collections and the growth of mobile internet devices will require a larger share of resources. Budget resources will shift to user-driven collections and electronic subscription renewals, and libraries will continue expanding their virtual resources. Libraries will move more collections online and get deeply involved in social networks and course-management systems. Physical library buildings will be redesigned as student workspaces. Some libraries have already begun the process by devoting space to academic support services such as writing, and media centers. However, achieving a balanced budget that serves all clientele continues to be a challenge for the library administration. Nevertheless, creating a positive climate by expressing real needs and benefits associated with university goals could be a winning argument.

Leveraging a Budget

A sizable university fund can be used efficiently with an effective spending plan. Libraries today are outsourcing services, negotiating rates with technology vendors, entering into service level agreements (SLAs) for things like computer maintenance, software updates, and server maintenance.

Operating lease agreements are used to rent buildings or property somewhere nearby for short or long periods of time, for use such as a library annex, which include infrequently used materials. During the lease period, libraries make monthly rent payments and pay other expenses such as heat, utilities, and security. The landlord is usually responsible for regular wear and tear, snow removal, and landscaping of the building. Libraries have an opportunity to sublease vacant sections of the building (if expressed in their contract) to other local libraries, which can offset some portion of the leasing cost.

Capital leasing is a little more complex because the risk of ownership is transferable to the lessee, i.e., the library may be required to purchase the equipment at the end of the lease period either at the regular price, a bargain price, or below the fair market value of the asset. Another arrangement could be to transfer the ownership of an asset on a minimum $1 payment after the

end of lease period. The asset sale and leaseback decisions are decided prior to leasing agreement. Leasing payments are typically made from operating budgets. It is also important to determine the present value of the payment schedule to decide whether to purchase the assets after the leasing period, and to determine annual depreciation on the assets.

Other Sources of Library Funds

Endowments: A financial endowment is a transfer of money or property donated to an institution. An endowment is required to be spent in a certain way as explained by the donor. The funds are usually invested in money markets with the principal remaining intact for an indefinite period. Thus, perpetual support through endowment gifts is an essential element in assuring the future of the university library. The endowment is typically designed to achieve the stated objectives of either funding operations or capital projects. The draw on the endowment remains a concern. For instance, the University of Rochester (N.Y.) uses a five-year-moving average for its withdrawals without diminishing the principle amount, and excess earnings are reinvested to compensate future cyclical changes in inflation and recession. Library budgets are simultaneously affected by university endowment market performance in a given year.

Grants: Many private corporate foundations and public organizations are receptive to library grant proposals. Grants help libraries budget for improvement of library materials, preservation of its collection, advanced technology in media centers, and acquiring digital assets. Some of the grants are supported by a multiyear capital program. Grant money may actually be a crutch to a library operating plan. There are several factors which may make the funding situation better or worse. For instance, New York State funding for grants usually comes late because the appropriations bill usually does not become law until three months after the fiscal year begins.

Other entrepreneurial activities: The culture of entrepreneurship in libraries is a new trend meant to promote them as a center of creativity by offering new services and looking for innovative ways of exploring fund sources. The top three drivers that rise to entrepreneurship in higher education are: insufficient financial resources, technological changes, and changes in demographics. Efficiency and cost sharing are crucial concepts in which libraries become responsive to customer demand without increasing their budgets. To be flexible, the library has to explore new opportunities, and create new businesses and activities. This means maximizing resources by tapping outside monies from private or nonprofit organizations. For instance, the University of Rochester's "eXtensible Catalog" (XC) software has several distinct open source applications; working with library catalogues and integrating web-based user interfaces can provide a wide variety of options for library users. What results is an independent software company under a not-for-profit academic library, which is not only supporting the university library financially, but marketing the library in the higher education arena and providing a socially beneficial service to the academic community. The idea was originally funded through a multiyear Mellon foundation grant.

Most libraries have their own development activity called "Friends of the Library," which usually raises funds for purchasing library materials through semi-annual book sales.

The university development office, along with the library administrator, raises funds from alumni and other donors for capital projects such as constructing a new library building, renovating library rooms, updating technology, or buying new furniture.

Monitoring and Evaluating

Accounting Systems: The academic library finance system works in the shadow of the university finance system. The university accounting system works on an accrual basis, which can't clearly show a library department head that income is earned and expenses are accrued in financial reporting. Therefore, many of the statements prepared in the university finance system are irrelevant to library administration for planning purposes. As a result, two sets of records are maintained; one in the library finance department and the other in the university finance department. In theory, both sets of books should show the same values. Differences can only be processing time and encumbrances. A benefit to library accounting systems is that they provide information for real-time decision making and control. Most academic libraries are part of the university system and follow the university payroll for paychecks, university finance for payment to vendors and university purchasing for vendor purchase orders. All the university business systems are consolidated under the university finance system for monthly ledgers.

Budget Reports: Budgets are administration plans. Budget reports compare the budget with actual results. The deviations, called variances, most often indicate the desirability of actions that were not included in the original plan. Planning and controls are interlocked in the budget variance report. Most library budgets are general line items. Personnel budgets include salaries and benefits. The line-item budget makes it readily understandable for the layman, allowing the budget to convey a sense of what is going on in the library and why. The line-item budget is not regarded solely as a financial statement, but serves as a control plan for programs, processes, and an instrument for communication. The budget report includes technical services, cataloging services, insurance, equipment financing payments, ethernet, mail charges, software and hardware contracts, library consortia memberships, photocopying services, library T&E, furniture and facilities maintenance costs.

Flexible budgeting methodologies are most appropriate when an organization is facing significant uncertainty about cost, processes, and grants. Each transaction is identified with a sub account. This makes it easier to reclassify financial data for different sections of reports which presents the plan for different levels of activity and requires adjustment in the level of activity. A continuous or rolling plan is revised monthly, dropping the oldest period and adding the current one, revisiting the forecast throughout the year for comparison with actual results.

While the university's budget reports are based on ledgers, the library's budget reports are designed on a cash basis for control and planning. Cash-basis budgets are thrown out of balance by adding estimated cash expenditures, unpaid liabilities, transfer payments, refunds, and vendor bills. The budget report for cash methods shows each budget item as the amount of cash spent taking into account encumbrances with a reduced balance. The budget variance is determined by comparing a forecasted line item budget and actual cash disbursements, plus encumbrances. Some line items are quite static, with monthly charges appearing every month; others are cyclical or volume-based, which carry a different meaning for variances. Generally, an online journal

subscription and electronic database renewal happens once a year with a lump sum payment. Software or equipment contracts have either quarterly payments or a yearly invoice. Of course, such guidelines are revised frequently to ensure that expenditures planned don't exceed the preapproved budget from the university.

What Does All This Mean?

Budgeting is an integral part of the library's decision-making process. The budget is developed using key planning assumptions, and a forecast of the strategic elements. The budget structure itself suggests many internal variables and resource allocations for decision-making. The library finance system is both science and art. It is science to follow standard budget formulas for approval and art for creating a climate for its approval, making flexible spending plans and continuously adjusting line-items on the face of increased accountability. Meanwhile, academic libraries are required to prove their value on the campus, as well as across national boundaries.

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