



**Cost Allocation Task Force:  
Report and Recommendations**

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**DALNET Cost Allocation Task Force**

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## **Detroit Area Library Network (DALNET) Cost Allocation Task Force Report and Recommendations**

### **Executive Summary**

The Cost Allocation Task Force submits this report for review and approval of the Detroit Area Library Network (DALNET) Executive Committee and Board of Directors. The report responds to a 2003 mandate by the DALNET Board of Directors to review and adjust the integrated library system (ILS) pricing formula, membership fee, and cost allocations every three years. As directed by the DALNET Board, the Executive Committee convened a Task Force in December, 2005 with the following charge:

- Review the current cost allocation fee structure, including the membership fee. Evaluate the relevance of the formula for a merged database environment.
- Review alternatives for establishing an equitable fee structure.
- By May 6, 2006 recommend to the Executive Committee an allocation formula that reflects each member's proportionate share of the total DALNET resource use, including costs associated with using the DALNET operated ILS and costs associated with producing and maintaining digital and other projects.

In response to this charge, the Task Force offers these recommendations:

**Recommendation #1:** Move toward a utilization-based pricing model for ILS members that reflects the SirsiDynix pricing structure and each member's use of the ILS. Cost distribution for ILS participants would be based on a formula that uses the cumulative average percentage of circulation transactions, copy records, item records, Horizon locations, and staff seats (workstations with the Horizon client).

**Recommendation #2:** Maintain a reasonable level of flexibility in the ILS participant cost allocation formula.

**Recommendation #3:** Provide pricing stability for members through setting parameters for cost allocation adjustments to reflect the impact of libraries that downsize on the consortium and by establishing caps on DALNET membership increases.

**Recommendation #4:** Establish a set of core services tied to non-ILS membership fees and ILS allocation fees. Develop and market fee-based services to members and non-members. Base hourly priced services on cost recovery for members and cost recovery plus 50% for non-members.

**Recommendation #5:** Provide options through the DALNET fee structure for libraries to take advantage of unique expertise at other member libraries and provide services for each other.

**Recommendation #6:** The 2006 CATF report **Appendix C1** shall be used as a basis for setting new ILS member annual fees. Fees for members who join DALNET as non-ILS members will be based on annual operating budgets as outlined in **Appendix C3**. The ILS formula, non-ILS membership fee schedule, and cost allocations should be reviewed on a three-year cycle. No ILS member of DALNET, existing or new, shall pay fees less than a set minimum of \$9,000 for the DALNET/WSU fiscal year 2007 (October 1, 2006 – September 30, 2007).

## **Detroit Area Library Network (DALNET) Cost Allocation Task Force Report and Recommendations**

### **Background**

In September, 2003, the DALNET Board of Directors approved a set of recommendations to develop a multi-faceted fee structure and implement an across-the-board membership fee as the basis for dividing DALNET costs among member libraries. The Board also approved the recommendation to develop a schedule of fee-based services, and review the integrated library system (ILS) pricing formula and cost allocations every three years. The current review and recommendations are in response to the three-year review mandate.

As recommended by the Executive Committee and approved by the Board in December, 2005, the charge of the FY 2005/06 Cost Allocation Task Force outlines a set of three tasks:

- Review the current cost allocation fee structure, including the membership fee. Evaluate the relevance of the formula for a merged database environment.
- Review alternatives for establishing an equitable fee structure.
- By May 6, 2006 recommend to the Executive Committee an allocation formula that reflects each member's proportionate share of the total DALNET resource use, including costs associated with using the DALNET operated ILS and costs associated with producing and maintaining digital and other projects.

The Task Force identified the major issues associated with each component of the charge and outlined goals for each meeting to insure all issues were reviewed. (**Appendix A**)

The 2005/06 Task Force was guided by principles similar to those that informed the 2003 Task Force:

- **Equitable distribution of costs:** An equitable fee structure should be based on "...each library's proportionate share of the total resource use."<sup>1</sup> The fee structure should also create an environment where members are confident they are "...paying what anyone else would pay in similar circumstances."<sup>2</sup>
- **Flexibility:** As a multi-type consortium, member libraries have very different characteristics. No formula will work equally well for all members. Some amount of flexibility to enable members to align costs with their ability to pay must be part of DALNET pricing.
- **Good value:** To remain viable, DALNET must remain a good value for member libraries.

- **Stability in costs:** Most member libraries are required to provide budget requests a year or more in advance of their organization's budget year. Many are subject to across-the-board percentage or dollar amount limitations or decreases in annual budgets. Pricing stability in the DALNET allocation is important for these libraries.

#### **Cost Allocation Formula and Membership Fee**

The current allocation formula for ILS members is based on the following components:

**Bibliographic records**

**Borrower records**

**Circulation**

**Database size**

**Item records**

**Volumes**

**Staff seats**

**Current serial subscriptions**

**Sites**

The Task Force identified the following elements of this formula as less relevant for a merged database environment.

- **Bibliographic records:** Bibliographic records will be shared in a merged database and many of these records will be attributed to multiple members.
- **Borrower records:** This was considered to be redundant of circulation transactions since the number of potential borrowers and circulation transactions are highly related. Circulation transactions are considered a better measure of ILS use than the number of borrowers, as circulation transactions reflect standard circulation and course reserves transactions.
- **Database size:** Individual library space requirements will be difficult to calculate in a single database. Counts of other components will be reflective of each libraries proportional use of database storage.
- **Current serial subscriptions:** This number is not obtainable for all members through the ILS and does not necessarily reflect member use of the Horizon serials module.
- **Volumes:** This number cannot be determined from the ILS and is probably provided as a rough estimate by most institutions. Volumes may also be a repetitive count of Item Records.

A review of other centrally automated library consortia showed a wide variety of allocation formulas (**Appendix B**). However, most of these formulas are based on a limited number of factors that reflect system use, with costs for services beyond the basic

ILS divided among those who use them. Some of the measures used in the formulas, such as the population served and full-time enrollment (FTE) are not relevant for a multi-type consortium.

In reviewing factors to retain in the cost allocation formula, Task Force members attempted to identify components (1) that reflect actual system use, rather than storage space, (2) reflect the pricing structure of SirsiDynix for the ILS, and (3) that are readily available from the ILS. Maintenance and licensing costs for using SirsiDynix products are based on bibliographic records, item records, staff seats (workstations with the Horizon client), and locations (building sites).

#### **Recommendation #1**

*Move toward a utilization-based pricing model for ILS members that reflects the SirsiDynix pricing structure and member's use of the ILS. Cost distribution for ILS participants would be based on a formula that uses the cumulative average percentage of circulation, copy records, item records, Horizon locations, and staff seats (workstations with the Horizon client). (Appendix C1)*

- **Circulation Transactions:** Circulation transactions are considered a valid usage measure of the circulation module. This measure also reflects use of the course reserves module for libraries that use the ILS to manage reserve collections.
- **Copy records:** Copy records reflect serials and multi-component sets. Including these records in the formula provides a way to measure use of the serials module and related features of the ILS.
- **Item records:** Item records represent the proportional use of the Horizon database for record storage. This is a component of the SirsiDynix pricing structure.
- **Locations:** Because many features of the ILS are tied to Horizon locations, using the number of Horizon locations will reflect ILS usage better than physical library buildings.
- **Staff seats:** The number of staff seats (workstations with the Horizon client) is part of the SirsiDynix pricing structure. Although it cannot be determined from the ILS, this information should be easily obtainable by each member library.

Identifying components to reflect Horizon acquisition module usage proved difficult, so none were included in the formula. Purchase order records, for example, are used at some institutions for a varying number of multiple orders. Budgets and fund codes were also considered unsatisfactory measures because they are not linked with system use.

#### **Recommendation #2**

*Maintain a reasonable level of flexibility in the ILS participant cost allocation formula.*

Maintaining some amount of flexibility in the cost allocation formula is recommended. As a multi-type consortium, DALNET has a diverse membership and any allocation formula will work less well for some libraries than others. Some amount of flexibility to recognize this issue is recommended.

Since the new cost allocation formula will result in significant price shifts for some members, there must be a level of flexibility to phase-in the new formula. ILS participants should not be asked to absorb more than a 10% cost increase per year.

For FY 2007/08, a budget strategy to limit allocation increases to 2% plus Board approved inflationary increases should minimize the impact of the new formula on members. To ensure that DALNET has an adequate budget for FY 2007/08, libraries placed at or below their FY 2006/07 allocation by the new formula will be asked to contribute at their FY 2006/07 level for FY 2007/08 plus Board approved inflationary increases. No ILS member of DALNET, existing or new, shall pay fees less than a set minimum of \$9,000 for the DALNET/WSU fiscal year 2007 (October 1, 2006 – September 30, 2007). (**Appendix C2**)

### **Recommendation #3**

*Provide pricing stability for members through setting parameters for cost allocation adjustments to reflect the impact of libraries that downsize on the consortium and by establishing caps on DALNET membership increases.*

When libraries add new locations or downsize, there is a shift in the proportionate use of DALNET resources for these sites. Although there needs to be a provision to respond to these changes within a reasonable timeframe, the ability of DALNET to quickly adjust operational costs in response to downsizing is negligible. SirsiDynix licensing costs change with downsizing, but staffing and overhead are the major components of DALNET costs and these costs are difficult to adjust.

The ratio of DALNET staff to the membership leaves little flexibility for staff reduction and overhead costs remain constant. With the current limited staffing levels, DALNET operates on a zero-sum basis: reductions in fees for some members designate an increase for others. When adjustments are made to reflect downsizing, no member should be asked to absorb more than a 10% increase per year in their proportionate share of DALNET fees and no member shall receive more than a 10% reduction per year in their proportionate share of DALNET fees, or a \$7,500 reduction, whichever is less. When libraries close or downsize and wish to withdraw from DALNET membership or seek a reallocation to reflect downsizing, libraries will be held accountable to the contract requirement of at least 14-months advance notice prior to the beginning of the DALNET FY. This clause of the contract must be enforced to ensure DALNET is provided with sufficient lead time to make adjustments.

Across-the-board increases to the base \$5,000 membership fee each year may make DALNET a difficult option to justify for non-ILS participants. Increases should never exceed increments in salaries, fringe, and overhead. So that non-ILS members can



predict their costs, the Task Force recommends capping increases for non-ILS participant membership fees, based on the scale outlined in **Appendix C3**. The scale bases membership fees on annual library operating budgets. For ILS participants, ILS costs take into consideration membership fees.

#### **Core Services and Fee-Based Services**

Members of the Task Force reviewed a list of services currently provided to DALNET libraries (**Appendix D**) to determine which services should be considered basic or “core services” and which could be designated as fee-based services. The Task Force further divided core services by their relevance to the base membership fee and the ILS service fee allocation. (**Appendix E**) In their selection of core services, Task Force members were guided by the question:

- What are the services we need to offer for DALNET to stay in business and keep member libraries in business?

Fee-based services were identified as appropriate for hourly or flat-fee billing. Services which are primarily storage-space based, projects which have a known time-allotment, or software licensing are identified for flat-fee pricing. Services and projects with less easily defined parameters and time commitments are identified as appropriate for hourly billing.

#### **Recommendation #4**

*Establish a set of core services tied to non-ILS membership fees and ILS allocation fees. Develop and market fee-based services to members and non-members. Base hourly priced services on cost recovery for members and cost recovery plus 50% for non-members.*

Membership and ILS allocation fees provide the opportunity to participate in the core services. Members may opt in or out of each service as appropriate for their unique circumstances, but are not provided with cost reductions for opting out.

Fee-based services for members will be based primarily on DALNET staff salaries and fringe plus overhead. For FY 2005/06, this is approximately \$50/hour for full-time staff, but would be considerably less for projects that involve technicians and student assistants. The 50% surcharge for non-members reflects costs for overhead, software, and equipment that have been provided at the expense of DALNET members.

Although payment schedules should be negotiated on a project-by-project basis, a deposit on projects for non-members is recommended to ensure DALNET is reimbursed for time spent on projects for non-members. To meet Wayne State University (WSU) requirements, member and non-member libraries will need to provide a purchase order (PO) for WSU invoicing.

As new services and products outside of core ILS pricing become available, the DALNET director will alert members to these opportunities. Since implementation and

maintenance will involve staff time, DALNET Board approval will be required. Board approval will also be required before DALNET staff members can contract with non-members for services. Board approval will be required before DALNET Staff members can contract for work as independent agents for projects that DALNET does not wish to contract.

**Recommendation #5**

***Provide options through the DALNET fee structure for libraries to take advantage of unique expertise at other member libraries and provide services for each other.***

DALNET is more than an ILS and members have continued to cite collegial relationships as a major advantage of DALNET membership. Expanding this concept to include incentives to tap into the expertise of member libraries by contracting for services that may involve DALNET software and hardware is favored by the Task Force. DALNET could bill one member for services provided by another member and reduce the providing member's fees for the services rendered. The providing member would have open access to DALNET software and hardware to conduct this work, provided that this use did not interfere with services to other member libraries. The DALNET Board should be informed as a courtesy, but Board approval will not be required.

**New Members and Review Cycle**

**Recommendation #6**

***The 2006 CATF report Appendix C1 shall be used as a basis for setting new ILS member annual fees. Fees for members who join DALNET as non-ILS members will be based on annual operating budgets as outlined in Appendix C3. The ILS formula, non-ILS membership fee schedule, and cost allocations should be reviewed on a three-year cycle. No ILS member of DALNET, existing or new, shall pay fees less than a set minimum of \$9,000 for the DALNET/WSU fiscal year 2007 (October 1, 2006 – September 30, 2007).***

New members are important to the mission of DALNET and enhance the ability of the consortium to achieve financial stability. Recommendation #6 should make it easier for new members to join DALNET, while retaining an equitable schedule of costs across all members. If approved, this recommendation will supersede the Board approved "DALNET New Member Pricing Formula" outlined in *DALNET New Member Policy Task Force: Report and Recommendations*.<sup>3</sup>

The three-year review process should be in line with the DALNET budget cycle to allow the Board sufficient time to review and approve any recommended changes in allocation formulas and membership fees. Responsibility for initiating the three-year review for the Board should fall to the Executive Committee. As specified in the DALNET Bylaws, approval by the Board is required for adoption of all new policies.

**Endnotes**

<sup>1</sup>DALNET Cost Allocation Task Force, *Cost Allocation Task Force: Report and Recommendations* (Detroit: DALNET, Sept. 22, 2003), p. 3.

<sup>2</sup>Ibid.

<sup>3</sup>DALNET New Member Policy Task Force, *DALNET New Member Policy Task Force: Report and Recommendations* (Detroit: DALNET, Jan. 14, 2003), Appendix B, p. 9.