

For Discussion

DALNET Business and Financial Principles

Issue No. 1: Baseline member services, with flexibility to choose from optional, add-on services

Background: DALNET offers various optional services to its members for additional fees. The most significant of these is MDAS and the related databases that can be accessed using MDAS. All but one member has elected to use MDAS. Of those using MDAS, each member can select to subscribe to any, or all, of several databases. This flexible arrangement has been beneficial for the members since not all databases offered are needed by all members. In addition, some members have limited budgets that preclude them from participating in all of the databases that they would like and they must select those of only the highest priority.

While the flexibility offered has been well received by members, at some points, it has created difficulties on system operations. Two problems to date have occurred. First, system limitations have now created situations in which access to certain databases not chosen by a member can not be fully blocked. This means we cannot guarantee full compliance with our vendor agreements for some databases, and this could cause termination of vendor contracts. Second, when almost all members have elected a service, both negotiations and system complexities are created which effect overall operational costs.

Question: What criteria should be used to determine when services get added to baseline rather than to the optional category?

Issue No. 2: Equal vote for all members

Background: Counting the DMC as one member (even though it by agreement has 3 votes), there are currently 13 DALNET members. There is a wide discrepancy in the financial support of DALNET from member to member. There are members whose annual fees are slightly more than \$7,000 and others whose fees are in excess of \$769,000. Currently each has 1 vote on Board issues even though the largest member contributes nearly 110 times the financial support of the smallest. The largest 3 members (23% of membership) contribute 74% of the financial support. Conversely, the 7 smallest members comprise over 50% of total membership, and, if voting in a block, could dictate DALNET policy, despite the fact that, in the aggregate, they contribute less than 10% of the total financial support.

Historically, this has not presented a problem to DALNET, since consensus has been reached in all policy and operational issues having a direct effect on the members' local site services, while decisions on issues primarily affecting DALNET's central site have largely deferred to the operating and fiscal agent, WSU. While representing the host site, it remains true that the WSU Dean could not commit to any arrangement that would be detrimental to its ability to operate the system in a cost-effective and efficient manner, there now is a commitment on the part of WSU Libraries leadership to shared decision making in some equitable fashion with other DALNET members. While it is hoped that DALNET decision making could take place in a consensus mode, it is probably wise to establish a fall back position in case consensus cannot be reached.

Question: Should a method of allocating votes be determined to give members a "proportional vote" in policy issues? Budgetary issues? Or should another approach be used?

Issue No. 3: DALNET Administrative Cost Sharing

Background: While the majority of DALNET's operational costs directly relate to the size, or complexity, of member operations, some

administrative costs are incurred on behalf of all members equally. These costs include:

- Salary and fringe benefit costs for those individuals performing functions such as corporate administration, budgeting and accounting, personnel, and other basic support.
- Certain supplies
- Travel (for DALNET administrative representation, not programmer training)

For FY 1997, these costs are approximately \$230,000, or 14% of total costs.

Question: Should these administrative costs or some portion of them be shared by all members? Should there be a minimum amount which all members should pay regardless of their size?

Issue No. 4: Founding member status (financial)

Background: At the inception of DALNET, the formula used to allocate costs to the members was established as the average of the percent-to-total of three statistics. These were annual circulations, number of terminals, and number of records in the bibliographic database (titles). This formula was used for the original members (those that were part of the development process from the beginning). After several years of DALNET operation, interest in membership was expressed by other local libraries. The new libraries joining DALNET were assessed a proportionately larger share of the cost of operations to reflect the effort expended by the original members in development of DALNET, both as a corporation and as an automated library management system.

Over the years, the inconsistency in fee determination has resulted in some wide disparities in the proportional costs paid by members. When applying the original formula to the current members, we find that, typically, the original members are charged less than their fair share and the other members are

charged more than their fair share. In the early 90's we proposed a plan to bring all member charges in line with the original formula, but the Board voted to maintain the existing relative charge structure.

Question: Should cost allocations to the DALNET members be based on an agreed upon formula that is consistently applied to all members, regardless of their contract date?

Question: Should all DALNET members, as of the implementation date of the "next generation system", be allocated costs based on an agreed upon formula, but any subsequent new members be charged a "surcharge" to reflect the efforts of the current members in designing, developing and implementing the new system?

Question: Should the surcharge for subsequent members be applied as one-time cost or for a limited time period, after which that member's charges would be determined consistently with the current membership?

Issue No. 5: Contract termination provision

Background: As we have gained knowledge in consortium operations and member relationships, the Online System Agreement has evolved. One of the provisions in which changes have occurred over the years deals with contract termination. There are several versions of that provision in existence throughout our contracts. In some contracts, a member may terminate with as little as 60 days notice.

Although we have never lost a member, if that were to ever happen, some of the current contract provisions could place the remaining members at financial risk. DALNET annual operating budgets are approved more than a year before the beginning of the fiscal year to which they apply, so that members can have sufficient time to plan and to incorporate the DALNET costs into their individual organizational budgets. (This long of a lead time is required because of the variety of fiscal years used by the different members.) If a member were to give a termination notice subsequent to the approval of the next year's DALNET

budget, some members would not have time to incorporate an increase for DALNET in their organizational budget. The resulting lack of funding would impact DALNET's ability to function at the expected level of service.

Recent proposals submitted to prospective members have included the following termination provision:

"Either party may terminate this Agreement at the end of any fiscal year (September 30), provided written notice is given to the other party at least 60 days prior to the beginning of that fiscal year (October 1)."

Question: Should the current Online System Agreements be amended to require the minimum notice of termination as specified above (i.e., 1 year plus 60 days)?

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