Huron CONSULTING GROUP

University of Kansas

Changing for Excellence

Phase II Business Case Executive Summary
Libraries - All Campuses

November 4, 2011

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Libraries – Phase I findings

Huron indentified opportunities across campuses related to libraries of at least $2.1M.

Current Challenges and Opportunities
• Most benchmarking metrics indicate that KU Libraries are overstaffed compared to peer institutions • KU Libraries offer a range of service at or above the levels of their peers • There has been a strategic decision to move collections development towards electronic resources; however, consideration should be given to the rapidly rising costs of online journals • Doubling of storage space in Annex fits KU's long-term materials management goals but creates significant unused capacity over the next several years • Recent library/IT organizational split has created an opportunity to develop a long-term KU Library strategy as well as a need to clarify the responsibilities of the two organizations as related to library technology needs • Wheat Law Library on the Lawrence campus and KUMC libraries at Kansas City and Wichita operate independently from the remaining KU library system, resulting in duplication of certain non-patron facing (back-office) functions

Goals
• Reassess library staffing and key service levels • Expand Demand Driven Acquisitions to reduce the acquisition cost of monographic materials • Assess the use of journals purchased as part of "big deal" bundles to produce more effective collections spend • Offer storage space in the Annex to non-KU institutions to enhance revenues • Re-assess library fines to create modest increase in income • Consolidate Library back office functions across campuses

Annual Financial Opportunity – Minimum Potential	
Cost Savings / Resource Reallocation	**New Revenue**
$1.7M – 3.3M	$300K – 600K

Phase II findings updates

Huron refined and modified the Phase I findings related to Libraries based on additional analysis and discussions with the Libraries workgroup and staff.

Opportunity updates

- Benchmarking metrics indicate that KU Libraries are overstaffed compared to peer institutions, though data may overstate the situation since forced budget reductions at other universities resulted in library staff reductions
- Anticipated natural attrition and movement of the Libraries workforce will impact staff costs within the next five years, though it is difficult to estimate KU's uniqueness in this regard
- There are opportunities to enhance cross-campus collaboration and potential for consolidating certain library functions across KU Lawrence, KUMC, and Wheat, though such efforts would likely require assistance from third party experts
- Collections expenditures may be preserved through the expansion of KU Libraries' Demand Driven Acquisition pilot program, though over-expansion may impact service levels and the long-term quality of KU's collections
- There is preliminary evidence that universities can save money by breaking "big deal" journal subscription packages, but KU is fully evaluating its options and taking an appropriately conservative approach
- The planned installation of a second Annex storage module presents an opportunity to either generate revenue through leasing agreements or clear campus space by accelerating the pace at which KU internal materials are transferred
- The fines policies and payment process could benefit from updates to provide better service and reduce required staff time

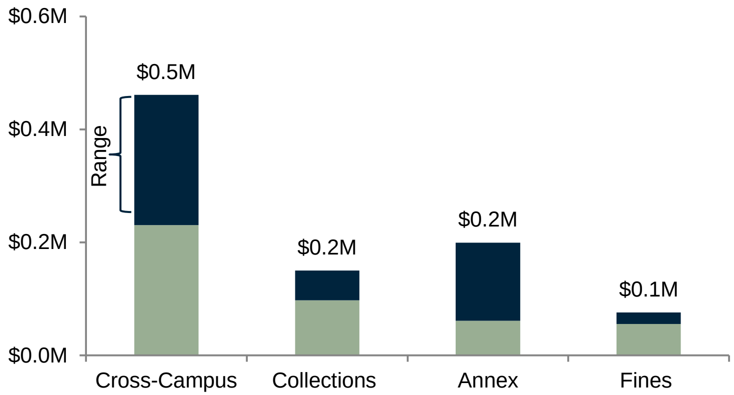
Impact on identified phase I opportunities

- Focus on staff rationalization modified to encapsulate more holistic view of library expenditures, resulting in a recommendation to develop a cost reduction contingency plan which is tied to KU Libraries' ongoing strategic planning efforts
- Based on analysis of KU journal usage, elimination of big deals is <u>not</u> a current opportunity, but should be considered an option going forward
- Utilization of Annex should be assessed for both leasing to third parties and accelerated intake of KU materials
- Analysis of fines and fees should not be limited to level of charges, but also include review of policies and payment process

Libraries analysis – opportunity

Several identified opportunities, when taken in aggregate, create significant financial benefits for KU Libraries.

Phase II – Steady State Annual Impact



Excludes recommended cost contingency plan

Phase II – Business Case Financial Summary

- The Libraries business case consists of several components
- Financial summaries for several components – collections, Annex, and fines – are driven by existing KU Libraries data and analysis developed by the workgroup during CFE Phase II
  - Annual steady-state savings estimated to be $445 - 886K
- The cross-campus opportunities require significant analysis, review, and implementation planning before reliable financial impacts can be assessed; the financial estimates included here are based on:
  - Decrease in total library expenditures due to consolidation
  - Cost of engaging a library expert consultant
- Excluded from this financial analysis is the recommendation that KU Libraries also develop a cost contingency plan identifying an additional $800,000 annual cost reductions as part of their strategic planning efforts

Five Year Cumulative Impact[1] (Expected Case)	$000s (parentheses denote costs)
Revenue	$848
Other	$702
Investment Requirement (total)	*($717)*
Net Benefit	$833

[1]*Year 1 is FY12, which is a partial year; Annex figures included here are 50% of the total 10-year projection and exclude capital investments*

Financial model – notes and assumptions

The cross-campus financial estimates are intended to provide directional guidance on the magnitude of potential savings.

Notes	Assumptions
These estimates are preliminary and based reductions to current-state expenses; a more detailed analysis would be necessary once the consolidation approaches are more fully defined Financials are likely to be driven by four categories: 1. Re-allocated or reduced staffing (re-allocation the likely outcome of cross-campus consolidation) 2. Reduced acquisitions spending 3. Reduced "other" costs, including equipment, software, space costs, etc. 4. Preventative savings of future technology investments in emerging activity areas: e.g., developing a single data warehouse and analytics package rather than three standalones Consultant fees estimated at $300,000 should be adequate to assess cross-campus opportunities and potentially identify additional cost contingency opportunities on individual campuses	There is no financial impact from activities which fall into the "enhanced collaboration" category Aggregate library costs could potentially be reduced or re-allocated by 1.0% (conservative case), 1.5% (expected case), and 2.0% (aggressive case) Library consultant fees of $300,000 paid in 2012 Additional transition costs of $50,000 are incurred in the first two years to estimate general expenses Financial benefits of consolidation are recognized smoothly over the course of four years starting in FY2013

The cross-campus financial estimates are preliminary, built on high-level assumptions, and require significant vetting and detailed analysis by third-party library consultants.

Financial model – cross-campus detail

Over time, consolidation across campuses could create savings in terms of staff and acquisitions costs.

Expected Case ($000's)
(assumed 1.5% cost reduction or re-allocation)

Benefits	**FY2012**	**FY2013**	**FY2014**	**FY2015**	**FY2016**
Aggregate Consolidation Benefits	$0	$86	$173	$259	$346
Total	$0	$86	$173	$259	$346
Costs					
Consultant Fees	$300	$0	$0	$0	$0
Transition Costs	$0	$50	$50	$0	$0
Total	$300	$50	$50	$0	$0
Net	($300)	$36	$123	$259	$346

Low Benefits Case
(assumed 1% savings rate)

Net Present Value **$160K**

High Benefits Case
(assumed 2% savings rate)

Net Present Value **$710K**

Net Present Value (Expected Case): $436,000

Note: 0.95% discount rate (5 year municipal bond, 8/18/11)

Financial model – notes and assumptions

The collections financial model is driven primarily by cost estimates developed internally by KU Libraries.

Notes	Assumptions
No impact of big deals management included in model	No material costs required to implement / expand DDA
Savings from e-DDA cannot be reliably estimated until pilot data is available; these potential savings are therefore excluded from the financial impact analysis	DDA limited to SciTech and Social Sciences
Shifting towards e-DDA, or e-books in general, may impact the effect of p-DDA if monograph purchasing declines (not included in model)	Savings estimates based on KU Libraries' projected FY2012 expenditures compared to FY2011
It is difficult to isolate the impact of DDA and the overall shift of library acquisitions from hardcopy volumes to electronic books; this model does not estimate the costs of e-books purchased through DDA due to lack of data, but the overall trend towards e-books should make it possible to implement DDA more broadly over time	Due to existing implementation timeline not aligning with start of fiscal year, only eight months of DDA benefits accrue in FY 2012
Expansion into Humanities and the adjustment of approval plan / DDA threshold levels are excluded from cost savings estimates	In order to isolate DDA impact from other changes in library collections expenditures (increasing materials costs, shift towards e-books, etc.), the net FY2012 to FY2011 savings are duplicated in subsequent years

It is difficult to isolate the financial impact of DDA given the expected shift towards e-books; this model is fairly limited in its predictive confidence do to the inability to reliably estimate the impact of e-books and e-DDA.

Financial model – collections detail

Collections savings are driven exclusively by DDA; no incremental savings are projected for big deals.

Expected Case ($000's)
(assumed same projections as KU Libraries analysis)

Benefits	**FY2012**	**FY2013**	**FY2014**	**FY2015**	**FY2016**
Savings – SciTech	$16	$24	$24	$24	$24
Savings – Social Sciences	$71	$106	$106	$106	$106
Total	$87	$130	$130	$130	$130
Costs – No material incremental costs					
Total	$0	$0	$0	$0	$ 0
Net	$87	$130	$130	$130	$130

Low Benefits Case
(assumed 25% lower savings)

Net Present Value **$440K**

High Benefits Case
(assumed 15% higher savings)

Net Present Value **$680K**

Net Present Value (Expected Case): $590,000

Note: 0.95% discount rate (5 year municipal bond, 8/18/11)

Financial model – notes and assumptions

A series of assumptions were required to estimate the financial impact (and, when needed, space savings) of increased Annex utilization.

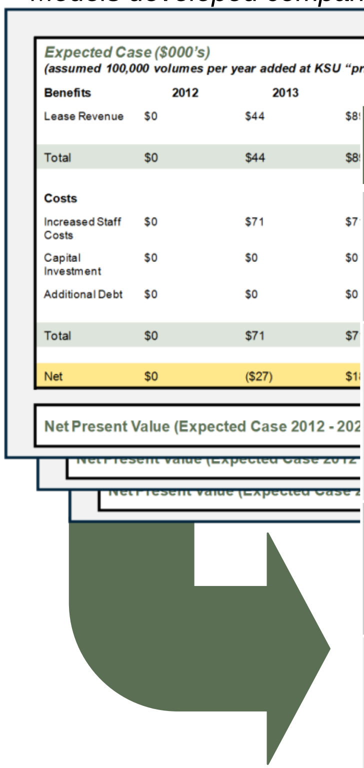
Notes	Assumptions
Whenever possible, the most conservative estimates were used to project the impact of enhanced Annex utilization (no charges for accessioning costs, etc.) • This may understate the expected financial benefit of leasing the Annex space • May overstate the costs associated with accelerating the movement of KU materials	Staffing costs and intake levels • Incremental inventorying costs if internal KU volumes exceed 125,000 per year • Incremental accession/retrieval costs if total volumes exceed 150,000 per year • Constrained to maximum intake of 250,000 volumes per year
The ongoing leasing scenario presented is assumed to be a deal similar to the current KSU arrangement Projections span a 10-year period, though the modeled leasing relationship can last for 12-15 years before KU requires the space for internal materials	Capital expenditure and debt • Capital investment in new capacity (shelving, module 3) occur when utilization exceeds 90% • Investments are debt financed and trigger a 3.5% payment each year
The “low benefits” model represents a short-term leasing scenario, while the “high benefits” model doubles the leased space and increased pricing by 30%	Leasing scenarios utilize the current KSU rental price of $64.40 but exclude the intake fee Roughly 2,500 volumes stored on normal “stacks” shelves equates to roughly 100 ft^2 of “room” space

Provided a leasing partner can be identified, the following results likely represent the least possible financial benefit.

Financial model – Annex detail

It was necessary to assess the Annex financial impact over 10 years and across the three scenarios to develop a full understanding of the opportunity.

Models developed comparing options B, C, and D to the base case



Case		Overview & Assumptions	NPV compared to Base Case	Campus Space Savings
A)	**Base Case**	Annex operates as planned: • Investment in module 2 in next year • 125,000 internal KU items moved per year	n/a	n/a
B)	**Short-Term Rentals**	• Move existing 125,000 KU items per year • Move in 125,000 outside volumes by 2013 • Move in additional 125,000 outside volumes by 2014 • Move out 250,000 volumes by end of 2019	$215,000	0
C)	**Ongoing Leasing**	• Move existing 125,000 KU items per year • Move in 100,000 outside volumes per year in 2013, 2014, 2015	$492,000	0
D)	**Accelerated KU Materials Intake**	• Move existing 125,000 KU items per year • Move additional 125,000 KU items per year starting in 2012 until module 2 is full in 2017 • No materials moved to Annex between 2017 and 2022: no accelerated investment in module 3	($1,555,000)	40,000 ft^2 by 2017 rather than 2022

The choice among scenarios B, C, and D would likely be driven by the value of the campus space created through accelerated KU materials intake and the ability to fund a third module in scenario C.

Financial model – notes and assumptions

A series of assumptions were required to estimate the financial impact of improved fines management.

Notes	Assumptions
Model estimates benefits; implementation costs cannot be reliably estimated until the solution is selected	Lost book charges will maintain current levels and are therefore excluded from the analysis
Fines are assumed to increase by a factor of roughly 50% to come in line with peers	Increased fines and fees will lead to greater adherence to policy, reducing the volume of fines by 10%
Although an option to consider moving forward, the model does not include a basic late book charged: it is expected that the service and administrative requirements of such a charge are more costly than the additional income	The overall volume of fines will continue to decline at the annual rate seen over the past three years (likely due to shift towards electronic materials)
Since the staff savings are contingent on the final solution, the model assumes 0.5 FTE time savings across the Libraries and Bursar's Office (as a point of reference, 16 Library staff members report dedicating some time to fines)	
Staff savings will likely be re-allocations, not reduction	

Actual benefits will be more accurately estimated as the policy and process changes are finalized, but the following model provides directional guidance as to the scope of the efficiencies.

Financial model – fines detail

Redesigning the fines management process and increasing charges will primarily enhance service levels, but also generate modest revenue.

Expected Case ($000's)
(assumed 50% increase in fines and 0.25 FTE re-allocation)

Benefits	**FY2012**	**FY2013**	**FY2014**	**FY2015**	**FY2016**
Additional Revenue	$60	$55	$50	$45	$40
Re-allocated Staff Time	$25	$25	$25	$25	$25
Total	$85	$80	$75	$70	$ 65
Costs	TBD based on preferred implementation approach				
Net	$85	$80	$75	$70	$65

Low Benefits Case
(assumed small fines increase, 0.25 FTE re-allocation)

Net Present Value **$240K**

High Benefits Case
(assumed doubling of fine rates, 0.50 FTE re-allocation

Net Present Value **$430K**

Net Present Value (Expected Case): $365,000

Note: 0.95% discount rate (5 year municipal bond, 8/18/11)

Financial model – summary

The following table summarizes the net benefits of the library business case components, excluding the cost reductions contingency plan.

Expected Case ($000's)
(assumed expected benefits cases of each component)

Net Benefits	FY2012	FY2013	FY2014	FY2015	FY2016
Cross-Campus Coordination	($300)	$36	$123	$259	$346
Collections	$87	$130	$130	$130	$130
Annex *	$0	($27)	$18	$62	($774) *
Fines	$85	$78	$75	$70	$65
Net	($128)	$217	$346	$521	($-233) *

Low Benefits Case
(built off low benefits cases of each component)

Net Present Value **$1.4M**

High Benefits Case
(built off high benefits cases of each component)

Net Present Value **$3.5M**

*** Annex model extends to 2022; option C (long-term leasing) for years 2012 – 2016 included here for illustrative purposes; reported NPV's include full model outputs**

Net Present Value (Expected Case): $2,324,000

Note: 0.95% discount rate (5 year municipal bond, 8/18/11)

Risk assessment summary – libraries

KU Libraries' ability to create a cost contingency plan and the possibility of significant budget reductions are the key risks related to the business plan.

- The risks related to most of the identified Libraries opportunities are manageable
  - DDA has been successfully piloted, a clear plan for expansion is in place, and further expansion would be contingent on thorough discussions with impacted faculty
  - The main risk associated with the Annex is the inability to identify willing partners, but preliminary investigation has turned up interested institutions and the upfront time / cost involved in seeking partnerships is minor compared with the upside potential
  - Changes to fines policies and levels will create little campus impact; the main risk is that technology solutions will prove too expensive to implement
- Two elements of the business plan – cross-campus consolidation and contingency planning – require KU Libraries to identify, vet, and design additional cost saving opportunities: a risk exists that viable opportunities cannot be identified or that the KU Libraries organization does not have the internal capacity to assess or implement such changes
- The expected attrition-based savings may not be realized if the current economic climate continues and workers continue to choose to work past typical retirement age
- Significant budget reductions could impact KU Libraries' service levels and, consequently, the University's reputation
  - In prior years of level funding, KU Libraries has counteracted rising costs by identifying internal efficiencies
  - Reducing budgets based on the identified opportunities would potentially have the effect of limiting the Libraries' ability to balance desired service levels with increasing materials costs

Approach

The table below depicts the high level tasks necessary to implement most components of the Libraries business case; Annex is addressed separately. *

Mobilize	Design	Deploy	Optimize
Sep. 1 – Oct. 15, 2011	**Nov. 15, 2011 – Apr. 15, 2012**	**Apr. 15, 2012 – contingent**	**Post-deployment**
Tasks • Finalize business cases for identified opportunities • Develop plans for implementing identified opportunities, assessing cross-campus consolidation, and creating the cost contingency plan	**Tasks** • Develop detailed cross-campus coordination implementation plan and timeline • Create cost contingency plan as part of broader strategic planning • Investigate options for fines policy/process changes and make recommendations	**Tasks** • Initiate expansion of DDA (to be initiated fall 2011) • Implement cross-campus coordination plan • Implement and communicate new fines policy and process • Implement opportunities identified in contingency plan on as-desired or as-needed basis	**Tasks** • Review upcoming big deals and investigate emerging best practices • Investigate further expansion of p-DDA and e-DDA • Review and assess other implemented opportunities
Deliverables • Business case, roles and responsibilities descriptions, implementation timeline, communications plan	**Deliverables** • Cross-campus coordination plan • Cost contingency plan • Go-forward plan to update fines policy / process	**Deliverables** • Implemented opportunities	**Deliverables** • Assessments of implemented opportunities • Recommendations for improvements and / or additional opportunities for efficiencies

** The Annex component of the libraries business case is a relatively stand-alone project and requires more specific treatment*

The detailed implementation plan is provided as an MS Project Plan, detailing the individuals responsible for each of the tasks involved in the next steps implementation plan.

Approach – Annex

The table below depicts the high level tasks necessary to implement the Annex utilization component of the Libraries business case.

Mobilize	Design	Deploy	Optimize
Sep. 1 – Oct. 15, 2011	**Oct. 15 – Dec. 31, 2011**	**Jan. 1 – Aug. 30, 2011**	**Sept. 1, 2011 →**
Tasks • Evaluate options and estimate impact • Develop communication plan • Establish implementation timeframe • Estimate implementation budget	**Tasks** • Continue communicating with potential customers • Evaluate pricing options and contract parameters • Gather feedback from KSU on current relationship • Develop marketing strategy and, if necessary, language for advertisements	**Tasks** • Market offering and reach out to potential customers • Negotiate with interested parties • Finalize contracts including storage timeline	**Tasks** • Review process and consider additional opportunities • If additional potential partners are identified, assess financial and mission impact on expanding service
Deliverables • Business case • Executive committee decision: status quo, leasing plan, accelerated KU intake	**Deliverables** • "Go-to-market" plan with target customers, pricing, marketing plan, and "sales pitch"	**Deliverables** • Signed legal agreements with other institutions to lease Annex space	**Deliverables** • Potential identification of opportunities to expand Annex leasing program

This approach arbitrarily assumes the leasing option is selected by the Executive Committee. If the accelerated KU intake plan is selected the approach will be modified.

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