

Reserve Funds

Why?

One of the primary jobs of library boards is to manage finances. According to section 7 of the Alberta Libraries Act;

“ The municipal board, subject to any enactment that limits its authority, has full management and control of the municipal library... ”

The Act further states in section 9(a)

“ The municipal board shall (a) keep accounts of its receipts, payments, credits and liabilities, ”

The importance of the legislation is that it clearly places the responsibility for the library's operation and financial management exclusively within the purview of the municipal library board. No other agency, including municipal council, can make financial decisions for the board or control capital or financial assets owned by the library. This includes reserve funds “owned” by the library.

Libraries need reserves for the same fundamental reasons any organization might need reserves. These include funding long term projects, like a new building, to provide funds in an emergency, for repairs, for operational costs if operating funding is stagnant or reduced, to fund special projects or programs, for large, planned technology purchases, furniture replacement, or even for severance and litigation issues. There is no fixed recommended amount that should be in reserves. Each organization has to make that determination based on its needs. However, when reserves are created, they should have a designated purpose which is clearly defined and there should be a plan for their regular use.

This is because public libraries are supported through taxation. In Alberta the vast majority of library funding comes from either municipal levies or provincial operating grants. As a public service, libraries are expected to expend their income on services for their communities. If a library consistently receives more income than it expends, municipal and provincial funders often conclude that the public library is not working hard enough to serve their community or that the public doesn't want the service. Given that municipal and provincial funders always face challenges when justifying tax revenues to the public or businesses, libraries become an easy target for funding reductions when municipal and provincial politicians struggle to fund core infrastructure and services like roads, sewers, fire and police protection, or waste management. Libraries which are generally viewed as a community service also face competition for funds from many other organizations such as arenas, swimming pools, museums, and other community organizations like centers for the performing arts or local family service support organizations.

How?

Public libraries should all have reserve fund accounts. Reserves can be funded through budgetary surpluses, fund raising, or even budgeting within the library's operating budget for reserves. There is no recommended amount for reserves. For many organizations it is recommended to have the equivalent of six months of the operating budget in reserves.

Examples

All reserves need to be clearly identified (named) and should have a definition to explain what the reserves' purpose is. It is also advisable to have either recommended or fixed minimum/maximum levels. Some samples of reserves are included below.

Building Reserve

Purpose: to provide for additions, replacements and repairs of a capital nature to the physical building and property.

Recommended Minimum Level	\$XXXX
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Contingent Liability and Consultation Reserve

Purpose: to provide funds for possible severance or litigation payout not specifically covered by insurance and to pay for unbudgeted legal or other consulting services.

Recommended Minimum Level	\$XXXX
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Equipment/Furnishings Reserve

Purpose: to acquire or replace furniture/fixtures and equipment (other than computer equipment)

Recommended Minimum Level	\$XXXX
Recommended Maximum Level	\$XXXX

Technology Reserve

Purpose: to acquire or replace storage devices, networking devices, computer hardware, software, network servers, client loaner equipment, peripherals and other IT equipment of the sort required to maintain an automated organization.

Recommended Minimum Level	\$XXXX
Recommended Maximum Level	\$XXXX

Ensuring Reserves are Supported by Adequate Funds

Many libraries have only one bank account into which reserve and operational funds are deposited. While it may be advisable to hold reserve funds in a separate account, it is not necessary. What is important is to ensure that there are always sufficient funds available to cover the dollars which are claimed to be in the reserve at any given moment.

Reserve funds can also be invested. They don't need to remain readily available as "cash". For example, reserve funds could be allocated to bonds, GICs, or even stocks in public companies. Any of a wide variety of financial instruments can be used to hold or grow a library's reserves.

Final Thoughts

Each library board has to decide if it wants to have reserves. In today's uncertain funding environment, it is certainly wise to have reserves since they are the only way for libraries to be

prepared for unanticipated contingencies and engage in long-term capital planning. All boards need to demonstrate they have a plan for their reserves and use them regularly, otherwise the board may be subject to funding redirection as their municipality “claws back” the money the library doesn’t appear to need. By following the simple steps outlined above, library boards will be able to easily explain and justify to their principal funders that the board isn’t “just sitting” on public dollars.