

ALA Financial Questions and Responses June 6, 2020

During the Midwinter Meeting discussions, ALA Councilors and Members Leaders held several conversations regarding the financial status of ALA. This situation developed due to unplanned deficits in FY16 through FY19 in addition to the strategic investment planned deficits for FY19-FY21. The unplanned deficits fall primarily into two categories: underperformance by ALA's three primary revenue streams--publishing, conferences, and membership--and overspending in several areas, with the greatest overspending in IT. However, the current COVID19 health situation and cancellation of ALA events including 2020 Annual are further impacting the association finances. The result is a financial situation that is impacting all areas of ALA.

Following are specific questions asked by Councilors and Member Leaders during and following the Midwinter Meeting. The questions have been deduplicated and sorted by topics. The issues identified through the many questions strengthen the resolve of the Executive Board and ALA staff to focus on communication, transparency, and a commitment to examine operations, services, and revenue to strengthen the ALA support of libraries and the library community.

Operating Agreement/Overhead

1. The Overhead Rate Formula

Annually the Overhead Rate (also referred to as the Indirect Cost Rate) is assessed and determined for future budget planning. The following is a link to information on the Overhead Rate and we will review the Overhead Rate in more detail as we begin to examine the Operating Agreement later this year.

Indirect Cost Rate Factsheet

<http://www.ala.org/aboutala/sites/ala.org/aboutala/files/content/governance/financialdata/financialrpts/IndirectCostFactSheet14.pdf>

2. Overhead Rate – what is the rate and how much do Divisions contribute?

The overhead rate is 26.5% and ALA Publishing, ALA Conferences, Divisions, and Round Tables all pay an overhead rate. ALA Publishing and ALA Conferences pay at 100% of the indirect rate on publishing and conference revenues. Divisions pay at 100% on Division conference revenue, but at 50% of the rate for Division Publishing revenue (including digital CE). No overhead is assessed on membership dues – either in the ALA General Fund or in Divisions. Round Tables pay a flat 10% fee based on membership.

The Executive Board during the Midwinter Meeting approved the formation of a workgroup to analyze the operating agreement and overhead rate process. The Operating Agreement Workgroup will be appointed in June 2020 and their recommendations will be considered at ALA Midwinter and Annual 2021.

The overhead contribution is listed on the detailed Five-Year Chart. Divisions pay \$1.5-2 million annually for overhead.

<http://www.ala.org/aboutala/sites/ala.org/aboutala/files/content/Finance/EBD%203.2%20BARC%203.2%205-Year%20Financial%20Plan%20FY20-24%20Fall%202019%20v1.pdf>

Here is an older chart for 2015 calculation that might be useful -

<http://www.ala.org/aboutala/sites/ala.org.aboutala/files/content/governance/financialdata/financialrpts/OverheadCostPoolAC16Attachments%20A%20%26%20B.pdf>

In addition, the Final FY Approved Budget spreadsheet contains the overhead contributions for Publishing, Conferences, etc.

Here is FY2020 –

<http://www.ala.org/aboutala/sites/ala.org.aboutala/files/content/governance/ExecutiveBoard/20192020Docs/ebd%203.4a%20BARC%203.4a%20FY%202020%20Final%20Budget%20Schedules%20Fall%202019.xlsx>

Sale of the Chicago Headquarters Building

3. Why place the bulk of the HQ sale in endowment? And why place \$1 million in short term/cash? Concern regarding investment when there is a cash shortfall.

The Executive Board agreed last year to proceed with the sale of the building if a substantial portion of the sale proceeds were put into the endowment. The Executive Board and Finance staff were looking long term to convert a depreciating building asset into a long-term asset that would generate payout revenues well into the future of ALA. It should also be noted that the decision was made prior to the revelation of the IT overspend.

Short term investment is still “liquid.” It will generate very modest income. Management tested the probable return on the \$5M investment in discussion with the Trustees and with investment advisers. Data indicated that we would be better off investing the full \$5M in the Endowment and using a commercial loan at current low rates for some move-related expenses.

4. ALA HQ is prime real estate so was the price too low?

Real estate sales - both home sales and commercial real estate sales – are based on current market conditions, on the condition of the real estate asset being sold and, in the case of commercial real estate in particular, likely future market conditions in which the purchaser must operate. ALA looked at various stay or lease options and necessary building maintenance and decided to proceed with the sale. The HQ building required significant maintenance including HVAC, roof, elevator, and window replacements in addition to asbestos, lack of accessibility, and outdated office layouts.

5. What is the loan interest vs endowment payout?

2.75% vs 4% -- a conservative earnings projection by ALA staff/endowment trustees (but annual payout is typically 5%).

6. Are we drawing on a line of credit to pay for operating/liquidity? What is that financial impact?

Yes. ALA regularly uses its line of credit and also replenishes that line of credit through regular repayments. ALA is considered a good borrower, which is a significant asset. ALA negotiates an interest rate working closely with its bank. Currently, interest rates are quite low and until the current COVID19 situation, the short- and long-term investment interest was high.

7. Is this a typical cash crunch for ALA?

While cash flows – and ebbs – throughout the year, creating “cash crunches” throughout the budget year, the current situation is more significant. A combination of flat revenue streams that fell faster and further than anticipated, combined with programmatic and infrastructure investments intended to move ALA forward, and unplanned deficits created a larger than anticipated cash drop.

Divisions and Round Tables

8. Divisions/Round Tables - can they spend? Why did ALA take the money?

The Division and Round Table fund balances exist and will continue to exist in the accounting records. The challenge will be funding the balances as liquidity has become a real concern for the Association. We have options for Divisions and Round Tables net balances but need to strategically execute a plan with advance notice of significant cash requirements. Working together we will be able to meet the needs of the Divisions and Round Tables, weighing the cost of borrowing additional funds versus the opportunity cost of foregoing short-term investment earnings.

9. Should we conduct an internal investigation?

The Executive Board is establishing rigorous accountability measures (see improved processes below). We will assess these accountability measures and determine if there is a need for an internal investigation.

Information Technology Costs

10. Why did IT overspend? What are we doing about it now? May we have a detailed report on the IT overspend?

Information Technology has both an operating and a capital budget. In FY16 and FY17, IT underspent its capital budget, in large measure related to lack of sufficient capacity. Funds not spent are not rolled forward to the following year.

As capacity was increased, IT overspent its capital budget in FY18 and FY19 by a total of approximately \$2 million. This has both an immediate cash impact and a longer term operating budget impact through depreciation.

The overspend largely related to contract expenses for stabilizing the eCommerce systems, developed through a private developer using Drupal eCommerce. Online sales are critical for revenue thus it was essential to fix problems but cost reductions in other areas should have been instituted to balance the budget.

While ALA has significant go-forward concerns with the current developer and is preparing an RFP to look at options moving forward, the current systems must be able to continue serving all ALA units and its members while changes are made, as millions of dollars of revenue for dues, donations, product sales such as books, graphics, subscriptions, and eLearning sales have been taken in through these systems.

Most urgently, we need to bring the current year budget back into line. Approximately \$300,000 has been cut from the IT budget for the current fiscal year. The IT schedule has been

substantially revised, spreading out the investments and projects across the next two fiscal years. IT also rebid some services, which resulted in savings.

IT has developed its own tracking on capital budgets. ALA Finance is reviewing how IT reports on capital spend and on improving reporting to Management on capital spend.

Operating Costs

11. Strategic Investment Plan – when the decision was made to invest \$8.2 million in IT infrastructure, development, and advocacy, where was the money to pay for this investment? Was the endowment to be used or was it to be a planned deficit? Was a cash flow projection done to assess if it was sufficient to absorb the loss?

At the October 2017 (FY18) Executive Board meeting, in response to needing to change our business models for long term sustainability, ALA staff presented recommendations and the Executive Board approved investing in information technology, advocacy, and development utilizing short-term investments/cash balances for planned deficit. Projections predicted that the revenue pattern would remain flat in the short term and then begin slow growth. During the spring 2020 meetings, the Finance and Audit Subcommittee and the Executive Board directed the Finance Office create and track a separate capital expenditure budget and provide regular reports.

12. What is the staff impact? We don't want to burn out ALA staff.

This is a difficult time for ALA staff – as it is for ALA members – but we are working on the cash flow stemming from this issue, at the same time we are dealing with the side effects of COVID-19, including the cancellation of the 2020 ALA Annual Conference. Like libraries and library workers, the next few years will be difficult financially so ALA staff, Executive Director, Executive Board, and member leaders are looking closely at operations, services, finances, and other areas to focus on association goals. Our values remain constant and our purpose strong. Thank you for showing your appreciation to ALA staff and contributing your ideas and energies to our joint work.

13. Should RFPs be shared with Council or some members before being sent?

Most RFPs include member requirements and input. RFPs are based on those requirements and reviewed by staff and legal counsel. In addition, the Executive Director is outlining a new process for contract approval that will include contract review by the Board for contracts at a certain threshold. This additional review will increase Executive Director and Executive Board Oversight.

14. Please provide specific costs such as SCOE, Council, Conference AV, other initiatives.

Conference and meeting costs vary per city and meeting venue (hotel versus convention center) but the following provides average costs and some specific costs.

- Council Meetings - \$719,000
- Executive Board FY19 - \$373,959
- SCOE - \$48,750
- Tecker Governance Consultant - \$199,907.38
- Conference AV (total for conference) – 2019 MW, \$812,254 and 2019 Annual, \$532,702

15. What should divisions and units plan for FY21?

Divisions and Round Tables are developing their FY21 budgets and the Finance Office is working closely on short- and long-term financial plans. If a Division or Round Table is anticipating unusual expenses or investments, they are encouraged to work closely with the Finance Office and Executive Director in their planning to determine short term cash needs.

As has been the longstanding practice, expenses are paid as incurred across the Association -- regardless of which part of the Association incurred the expense.

General ALA operations funded by the General Fund, such as the Washington Office, HR, IT, and Communications are reducing their FY21 budget by approximately 5-10%. ALA staff is committed to fiscal management via our emphasis on organizational excellence in FY21.

16. Explain the “one checkbook” analogy.

ALA is one, single legal entity with centralized budget and accounting functions in a similar fashion as most universities, government agencies, and not-for-profit associations. ALA offices, units, Divisions, and Round Tables are responsible for managing their portion of revenue and expenditures. Centralized budget operations allow for paying expenses across the Association as they are recognized, but create a ripple effect when anticipated revenues are not realized or when unexpected expenses occur. We are committed to doing a better job of forecasting revenues and adjusting expenses on a by-unit basis throughout the fiscal year when revenues and costs do not match expectations. We are also directing the Executive Director and Interim CFO to increase financial communication with Division Directors, Roundtable Staff, and member leaders for clarity regarding financial operations and regular financial updates.

Long Term Investments/Endowment/Donor Funds

17. Please provide an outline of our endowment/investments including restricted versus unrestricted.

Donor intentions are strictly followed according to donor agreements and fund purpose. Donors typically direct their donations to a specific scholarship, award, endowment, or initiative. Less than 5% of ALA endowments and funds are designated as unrestricted or general use funds.

18. Are Division endowments their own or are they rolled into ALA’s endowment and reported together?

There is an overall single, long term investment fund. However, within the accounting structure, funds are segmented for various Divisions, Round Tables, or units of the Association and specific purposes so designated by the donor or fund purpose. Divisions, Round Tables, and units are responsible for following donor agreements and manage their respective accounts.

19. Are we respecting the direction of our donors?

Yes. Donor directions are tracked and ALA spends donated funds within the constraints defined by the donor. ALA takes great care to act in accordance with donor intent.

20. When someone donates, does that go toward the donor fund or is ALA using it for operating purposes?

ALA observes donor directions. Some donors do provide donations to support general operations or initiatives.

21. Is ALA using the long-term investment to pay for operations?

In general no. The endowment does generate some operating revenues that support the Association’s operations, programs, and services. Endowment payouts are directed toward the intended purpose of the fund. The Endowment Trustees oversee the management of the endowment and the annual payout. They base the contribution of the Endowment to funds on a 5-year rolling average of endowment gain – generally 4-5% per year. This applies to all parts of the Endowment – e.g. each Division or Round Table with funds in the Endowment, the ALA General Fund, scholarship funds such as Spectrum.

Divisions and Round Tables

22. What are the net assets of the Divisions?

The year end balances are reported in annual financial reports such as Midwinter EBD#3.14 and are provided in the attached appendices.

[The Operating Agreement <A.4.3.4.1>](#) allows the Divisions to roll-over net revenues over expenses for use in future years; those “net assets” are tracked within the ALA accounting system. While the General Fund, overall, can roll over any net assets, individual units within the General Fund cannot – so Publishing or Conference Services cannot roll over net assets from one year to invest in future product enhancements. In that case, all net assets go to the General Fund overall, and individual product/service investments are considered in the overall context.

23. Does ALA have any written rules or guidelines related to Division and Round Table balances?

Yes, the Operating Agreement does provide guidance on Division finances. The text from the [The Operating Agreement <A.4.3.4.1>](#) is here: *Divisions must generate from dues and other revenue excluded from overhead at least 50% of the funding required to provide basic services. If a Division is unable to meet this 50% level for two consecutive years, its status as a Division must be referred to Council by the Executive Board, with an appropriate recommendation. Money from the General Fund will not be used to offset expenses for non-dues revenue-generating products and services. Divisions may retain the net revenue from these activities to initiate and support other similar activities in the future.*

Round Tables lack an operating agreement thus they only need to maintain a positive net balance. The forthcoming Operating Agreement Workgroup will include consideration of a Round Table operating agreement.

24. Divisions are being asked to be fiscally responsible but their balances are being pulled for ALA General Fund. Please explain.

As a single legal entity, ALA operates a consolidated budget with multiple accounts. The strategic investment budget funded by the general fund benefits all ALA Divisions and Round Tables. Net balances have not been pulled but Divisions and Round Tables are encouraged to work with the Finance Office before large expenditures are made.

The Executive Board, Finance and Audit Subcommittee, and BARC have encouraged the Finance Office to work closer with Division Directors and staff to be more transparent regarding budget planning, cash flows, and forecasting. The Finance Office is responding to member concerns raised during the Midwinter Meeting and is more proactive in its communication.

25. What impact might the financial situation have on the CORE proposal?

In spring 2020, Members voted in favor of CORE. The three divisions will combine their funds, net assets, and expenses. As with any Division, CORE will work with the ALA Finance Office on budget planning.

26. What are we going to do for the next five years? How do we get back on track? How do we build up the short term/cash?

The short-term response is focused on expense cuts in the General Fund. ALA's businesses are focusing on improving the year-over-year revenue gains in significantly changed business environments. Mid-term strategies need to focus on new business development - which necessarily involves some risk - and on growth in membership and Development. We also need to have consistent mechanisms (both staff and members) to separate "nice to" from "must." The long-term involves organizational simplification and streamlining -- including rethinking ALA's membership model and organization model (both internal and external).

ONGOING PROCESSES

27. Should we create a financial task force for the purpose of reining in ALA's finances?

ALA has a series of financial offices and committees including Council's Budget Analysis Review Committee (BARC), Planning and Budget Assembly (PBA), Executive Board's Finance and Audit Committee, Executive Board, Division boards and finance committees, Round Table leadership, various unit advisory committees, and ALA offices. We need these entities to work together, to question forecasts, challenge the status quo, and communicate more effectively with each other and members.

28. How can members provide input? How can members be engaged in the financial processes and decisions?

We appreciate member input and member expertise on financial matters makes us a stronger organization. Members have access to [financial data, reports, and financial learning resources](#). Members and Councilors are encouraged to provide ideas and send questions to BARC and the ALA Treasurer.

29. How can we improve financial communication? Monthly updates?

There is a lot of data and many reports available to members on ALA Connect and the ALA website. Financial updates are provided on a [quarterly basis](#). While there is significant data and many reports available to members, it is perhaps too much information that requires more context. The Executive Board will strive to provide more context, highlight critical concerns, and note trends and forecasting. The Executive Board will work on increasing financial communication and consolidating reports for better clarity.

30. The current confusion and unhappiness among members stems from not knowing information and a lack of transparency.

We want to improve internal communication – we hear your frustration that some Councilors, division directors, and staff feel out of the loop and that reports don't always provide a full overview of our financial situation. Additionally, Council clearly signaled that it wants to be more engaged and informed regarding financial data, which the Executive Board applauds.

The Executive Board will be involved in the move towards greater transparency and will work this year on reviewing timely questions and concerns such as the indirect cost rate, changes in financial reporting, more direct dialogue with divisions, and other strategies to improve an

awareness and understanding of financial matters. After information gathering and analysis we will work with the ALA Executive Director and report out the development of short-term financial strategies.

In addition, the Executive Board will be working with ALA's leadership team to reinforce accountability measures including soliciting additional ALA Council questions, clarifying processes, and sharing reports.

Data and Background Documents

During the Midwinter meetings, Councilors and Member leaders requested a number of reports which are publicly available on ALA websites. The requested reports are below. We will focus in the coming months to provide context and highlight important aspects of the financial reports.

Most financial reports are located on these public websites in addition to ALA Council documents:

<http://www.ala.org/aboutala/governance/financialdata/financialrpts/financialrpts>
<http://www.ala.org/aboutala/treasurerspage>

5 year Financial Plan – Past and Future summaries

<http://www.ala.org/aboutala/sites/ala.org.aboutala/files/content/Finance/EBD%203.2%20BARC%203.2%205-Year%20Financial%20Plan%20FY20-24%20Fall%202019%20v1.pdf>

In addition, this 10 year summary provides an excellent overview of trends and various aspects of the finances. ALA Ten Year Financial Results (FY2009 – FY 2018):

http://www.ala.org/aboutala/sites/ala.org.aboutala/files/content/governance/ExecutiveBoard/20182019Docs/INFO4_1ALA%20TenYearFinancialResults%20Spring2019%20v2%20%281%29.pdf

5 year Financial Plan Assumptions

<http://www.ala.org/aboutala/sites/ala.org.aboutala/files/content/Finance/EBD%203.2a%20BARC%203.2a%20Five-Year%20Investment%20Plan%20BGrowth%20Assumptions%20Fall%202019%20v1.pdf>

5 years of past financial reports

Reports are provided within the Executive Board Document Inventories. Budget reports are Series 3. For the most recent – please see the Fall 2019 Executive Board Documents specifically EBD#3.4a:

<http://www.ala.org/aboutala/executive-board-document-inventory-2019-2020>

Division balances

A summary of General Fund, Divisions, Round Tables, etc. are provided in every ALA Treasurer's Report in addition to the detailed financial report. These reports are provided to Council and archived on the Council document list. For Midwinter 2019, the Treasurer's Report is available here:

<https://connect.ala.org/HigherLogic/System/DownloadDocumentFile.ashx?DocumentFileKey=7c13b353-7e85-0c28-506d-868e6a20e8e6&forceDialog=0>

F&A Audits

Working draft reports are provided on the Executive Board Documents website and when the final Consolidated Audit report is available, it is posted here:

http://www.ala.org/aboutala/governance/officers/eb_documents

What is our liquidity? What are our cash/short term assets?

The best place to analyze liquidity is the Controller's Report, the most recent is

EBD#3.5:

<http://www.ala.org/aboutala/executive-board-document-inventory-2019-2020>

Strategic Investment Plan – details

EBD #14.9 – Planning for FY19 and Beyond (see pages 6-7):

http://www.ala.org/aboutala/sites/ala.org.aboutala/files/content/ebd14_9_financial_planning.pdf

BARC report to Council and PBA Annual Conference 2019 with Strategic Investment Graphics (see slides 7-11):

<http://www.ala.org/aboutala/sites/ala.org.aboutala/files/content/governance/financialdata/financialrpts/BARCReporCouncilAC19%20Final.pdf>

Appendices

ALA Division Net Asset Balances

ALA Round Table Net Asset Balances

Document Editor, Maggie Farrell, ALA Treasurer