To: PLA Board and PLA Budget and Finance Committee

From: Clara N. Bohrer, Fiscal Officer

Re: Operating Agreement Financial Model Discussion

Date: February 16, 2022

At the Board meeting we will have a discussion on the Operating Agreement Working Group’s proposal that was presented at the recent ALA Planning and Budget Assembly (PBA). Many of you attended PBA and heard the presentation. For those who weren’t able to attend, a recording of the session was posted to the Board and Budget and Finance connect spaces, along with the corresponding PowerPoint. **The goal of our discussion is to determine the written feedback that PLA will provide to the Operating Agreement Working Group as requested.**

**Part One:**

The Operating Agreement Working Group (OAWG) has established the following goals as they work towards updating the operating agreement:

* Support “one ALA” and ensure its financial sustainability.
* Simplify financial reporting to reflect ALA financial realities.
* Ensure ALA has sufficient resources to cover costs of shared infrastructure, core values and mission-based work, and strategic investments.
* Align financial reporting, budget planning and strategic planning with the Pivot Strategy.
* Preserve the autonomy necessary for Divisions and Roundtables to meet the unique needs of their members.
* Encourage innovation across all ALA units.

As a result the OAWG has put forth the following proposal to update the financial model within the operating agreement:

**PROPOSAL: Remove application of the indirect cost rate (overhead) to divisions, roundtables and ALA office units and eliminate reporting of net asset balances for individual ALA units.**

Under this proposal, Divisions would no longer be able to accumulate a net asset balance. This seems to raise the most concern. The concerns expressed during the PBA small group discussion, which I facilitated, were:

* There needs to be clarification that elimination of the reporting of net asset balances doesn’t preclude financial reporting which clearly shows financial results for each unit across the Association. For accountability and measure of success, this is particularly important.
* How will seed money for new initiatives, usually taken from the net asset balance, be determined? Can a percentage of revenue over expense be retained understanding there would be limits to how much and how long? Does this defeat the no net asset balance model and continue to make for more complexity in financial reporting/budgeting? Or should there be a well-documented budget process where Divisions and Finance work closely together with the ability to request money for special initiatives? And will the Division’s track record play into approval of any request? Which of these approaches would work for PLA? Can PLA live with either approach?
* We need a two-year budget so the impact of Division conferences can be accounted for during budget preparation. A two-year budget must recognize and adequately fund “spend down” years, since Divisions used their net asset balance for that purpose. This is very important to PLA.
* In a successful budget period, will there be the ability to transfer some revenue over expense funds into the endowment based on established practices, since increasing the book value of the endowment is a priority of ALA within the Pivot Plan. Transfers into the endowment usually came from the Division’s net asset balance. PLA has requested in the past to transfer extra funds into the endowment. Would PLA want this option to continue moving forward?
* A question that needs to be asked: Under the current operating agreement, Divisions may determine their own staffing based on what its budget can bear, as well as other strategic considerations. What will division staffing determination look like under this new financial model? Will Division Boards be brought into staffing discussions and decisions?

**Are there any other concerns you may have that aren’t listed above concerning the no overhead/no net asset balance proposal?**

**What feedback do we want to give to the OAWG?**

**Do we want to pose any additional questions to the OAWG regarding the proposal?**

**Part Two:**

**Below are some of the practices that I (and others) have been trying to champion within OAWG discussions of the “one ALA” environment particularly with the no overhead/no net asset balance financial model.**

**Do any of these resonant with PLA and should be included in our feedback to the OAWG? Which of these practices should be prioritized? Are there other suggestions?**

* We need well-defined business practices/processes adhered to by all, which includes a consistent association-wide pricing structure.
* In support of the “one ALA” concept, we need a well-defined budget process which incorporates a high level of collaboration, communication and transparency. We are against a top-down approach to budgeting. Divisions should be able to develop and present well thought out budgets that meet their strategic priorities and the programmatic needs of their membership with expectation of approval. The process should include the ability for a Division Board to dispute budget approval action.
* We need a consistent and collaborative approach to discussion, approval and funding of new initiatives in a way that preserves and respects Division autonomy and their in-depth knowledge of the needs of their membership. We expect the financial track record of a Division, along with its proven success in meeting member needs, to play a strong factor in obtaining funding.
* We need financial accountability that is measurable across all of ALA based on the Pivot Plan, strategic priorities, budget goals, and revenue targets. We expect all appropriate units across the Association to meet budget goals and revenue targets. This accountability should be regularly communicated to staff and Divisions through financial reports. There should be some type of established practice in place to address those units that consistently fail to meet goals and targets.
* We need evaluation and measurable accountability of core support services rendered. In the past, inadequacy of service and/or existing products prompted Divisions to strike out on their own to seek out alternatives, which added to ALA’s complexity.
* We need to tangibly recognize success.
* We need the ability to seek external funding in pursuit of projects to enhance Division programmatic priorities. PLA has been very successful in this area.
* We need to nurture and support innovation and collaboration across the Association.
* We need to evaluate the operating agreement, financial model, business practices, etc. on a continuous basis. Results should be widely distributed.
* It is extremely important to communicate and build **trust**. Trust will be crucial as we transition to “one ALA.”

**A Final FYI:**

One last thing, which is internal to PLA….In light of more scrutiny in ALA budgeting, ALA’s financial status and this new potential financial model, PLA needs to modify its budget process to add another review. We need to make sure that the Budget and Finance Committee and the Board review, discuss and approve the very first draft budget that is entered into the ALA accounting system in late February/early March which the PLA staff defends internally in March before the ED and Finance. I have already spoken to Mary Davis about this change and she agrees it would be beneficial. She will then be able to say that PLA governance has reviewed, discussed and approved the draft budget she is defending. Mary Davis would then bring any changes requested by management to Budget and Finance and the Board for further action if necessary. This will be implemented with the next budget cycle (FY24).