

**American Library Association  
2010 Midwinter Meeting  
Budget Analysis and Review Committee  
Report to the ALA Executive Board  
Tuesday, January 19, 2010**

It is my pleasure to report to the Executive Board on the activities of the Budget Analysis and Review Committee (BARC) at this Midwinter Meeting. Below are some topics BARC discussed:

- Proposed Presidential Initiatives Budget – BARC #15 (EBD #3.4)
- FY 2009 Budget Update
- FY 2010 1<sup>st</sup> Quarter Update – BARC #5.4 (EBD #3.3)
- Membership & Dues Update
- FY 2011 Budget Guidelines – BARC Info #5
- Electronic Participation – BARC Info #6
- Finance Workshop
- Indirect Cost Study Assumptions – BARC Info #2
- Human Resources Activity – BARC #16.1
- Capital Expenditures – BARC #26.1
- FY 2010 Small Division Support – BARC #25
- Planning and Budget Assembly
- Division Leaders/BARC Joint Meeting

On Friday morning, January 15, BARC and the Finance and Audit Committee of the Executive Board met jointly. BARC also met on Saturday afternoon, January 16. The following matters were covered at these meetings.

**Proposed Presidential Initiatives Budget – BARC #15 (EBD #3.4)**

BARC and F&A reviewed the presidential initiatives proposed by President-Elect Roberta Stevens. In addition to building on the work of previous Presidential office holders, this budget will be focused in three areas:

1. “Frontline Fundraising” In response to the nationwide reduction in resources at libraries - \$22,500
2. “Our Authors, Our Advocates” Using well known authors as advocates to highlight the key role of libraries – \$40,000
3. “Why I Need My Library” Utilizing the energy and exuberance of young people to advocate for libraries via a contest - \$37,500

BARC supports the presidential initiatives with enthusiasm.

**Action:**

**BARC recommends to the Finance and Audit Committee approval of the President-Elect's 2011 budget in the amount of \$100,000.**

**FY 2009 Final Budget Update**

BARC reviewed the final FY 2009 results. The Consolidated Summary of Operations indicates net revenues of \$683,102, a year-to-year decline in net assets largely explained by the financing of the new CHOICE building and General Fund net revenues of \$213,296. ALA had put in place a budget reduction plan of \$1,624,000, anticipating significant erosion in revenues. This included one-time expense adjustments, operating expense reductions including a staff furlough (\$250,000), and the use of Board reserves (\$436,000). The net revenue result of a positive \$213,296 was achieved without use of Board reserves, and is net of a one-time organizational incentive for staff totaling (\$250,000).

**FY 2010 1<sup>st</sup> Quarter Financial Report – BARC #5.4 (EBD #3.3)**

BARC reviewed the first quarter FY 2010 budget report, and noted the following highlights: Total ALA (all combined funds) revenue of \$11,057,169 is \$665,477 (6%) more than budget. The General Fund revenue of \$4,743,990 is \$283,029 (-6%) less than budget. Shortfalls are mainly in Publishing, primarily in Products & Promotions (\$168,146) due to the impact from the slow economy on library spending. Subscription and advertising are also being impacted. Division revenues of \$4,146,086 are more than budget by \$1,433,780 due to early recognition of the AASL national conference revenues. Grants and Awards revenues were \$1,902,743 which is \$540,057 less than budget due to timing. Investment interest and dividends are more than budget by \$61,811 (46%) or \$195,953.

Total ALA expenses of \$11,444,480 are \$1,159,131 (9%) less than budget. The General Fund expenses of \$5,802,008 are \$729,049 (11%) less than budget. The General Fund expense budget has been reduced by 3% due to expected revenue shortfalls. Division expenses are \$164,838 (-5%) more than budget at \$3,660,462. Grants and Awards are \$1,902,743 (22%) less than budget due primarily to timing.

On the plus side it was noted that the General Fund will be realizing savings in a couple of areas. Human Resources recently renegotiated the Association's life and disability coverage, which will result in savings of \$108,000. Additionally, another \$28,000 in savings will be realized by pooling the state unemployment compensation with other organizations.

Total assets for the period are \$69,209,767 and are \$8,549,092 (14%) more than the same time last year as a result of increases in property, plant & equipment, inventories and long-term investments. This increase was offset by a decline in cash and short-term investments to \$18,456,744 as compared to \$19,253,041 last year due to lower deferred revenues and higher

property, plant and equipment purchases. The Long-Term Investment Fund totals \$29,032,554 as compared to the \$22,617,368 balance at November 2008. As a result, net assets increased by \$3,311,543 or (14%) more than November last year totaling \$27,418,321.

As a continuation of the update on the FY10 budget update, the discussion shifted to revenue and expense expectations for the remainder of the year and beyond. Management has been proactive in examining the economic landscape and its potential impact on ALA. At this point in time management is anticipating a budget shortfall of \$1.1 million. The anticipated shortfall is broken down as follows:

Publishing (contribution margin)	(\$ 250,000)
Conferences (contribution margin)	(\$ 500,000)
Dues Reduction	(\$ 220,000)
Benefits Increase	<u>(\$ 90,000)</u>
Total	(\$1,060,000)

Note: Contribution margin is revenue minus expense not including overhead.

In order to address the projected revenue shortfall, a preliminary contingency plan has been discussed. The projected shortfall will be offset by expense reductions in the following areas:

Unallocated Fund	\$ 250,000
Staff Furlough	\$ 260,000
General Fund Unit Expenses	\$ 250,000
Use of Reserves	<u>\$ 300,000</u>
Total	\$1,060,000

At this point these proposed actions will be taken under advisement. Sometime after this Midwinter Meeting – March/April – a more definitive decision will be made on the proposed reductions as ALA’s financial results become much clearer. Whether or not to implement a staff furlough will be based on financial data available at the spring meeting.

The committee also took the opportunity to look beyond FY 2010. ALA is faced with the recurring issue of only one national division conference in FY 2011. This will potentially have a budgetary impact of approximately \$600,000. The fact that libraries across the country will be negatively impacted by the poor economy for at least 18 – 24 months is a major concern. The negative budgetary impact to ALA is likely to be felt in conference attendance, membership, publishing, and products and services in FY 2012.

### **Membership and Dues Update**

Cathleen Bourdon and John Chrastka joined F&A and BARC to update the committees on some membership information. They reported that the December figures were about where they were expected to be at 3% under budget. It was noted that personal membership was over budget by 2%.

Despite recent economic conditions, decisions by ALA personal members to renew or join ALA are not significantly at variance from either 7, 5, or 3-year averages of activity. During an average fiscal year, membership volume follows a well established pattern wherein the months of November, December and January account for 35% of transactions and the remaining months are realized at a smoother rate. This pattern appears to be continuing during this fiscal year, ensuring predictability of dues income.

Looking forward to the next several years, key indicators of the stability of this revenue stream include any material changes to the pattern of renewals, the impact of retirements around the profession and rate of replacement in those positions, as well as the ratios of members by type within the Association. As the 2010 dues increase phase-in has been fully realized, attention to our average dollar per member will also be an early actionable indicator.

For Organizational Membership, we are in the first quarter of a two-year dues increase. It is too early to assess the impact of the dues on renewal and recruitment patterns. More information will be available in the spring.

Corporate membership patterns have stabilized after a recent dues increase. Stronger booth sales for Boston and anticipations for Annual will provide year-to-year consistency in this revenue line.

#### **FY 2011 Budget Guidelines – BARC Info #5**

BARC reviewed the budget planning strategies for FY 2011 and the guidelines provided to ALA unit managers. Several key elements were noted:

- This is the first year of the implementation of the ALA 2015 strategic plan
- The FY 2011 budget is being prepared on the analysis of the actual FY09 results
- The FY 2011 budget is being prepared with a zero percent increase over the FY 2010 approved budget, including the carry forward of a 3 percent reduction in the FY 2010 budget
- There will be no adjustment for staff compensation nor staff additions
- Endowment transfers will be deferred
- Contingency plans for managing expenses in the face of declines of revenue in FY 2010 and FY 2011 are being put in place with a priority assigned to the sustenance of member services.

As the discussion continued, it was noted that BARC took an action earlier to amend the budget instructions to eliminate the possibility of making any net asset transfers to the endowment. The action was a direct result of a management recommendation after a review of the impact on the Association's cash flow. As a result of the CHOICE property purchase, investments in Publishing and lower than expected revenue growth in Publishing and Conferences, the impact

on cash was clear. BARC has the responsibility of monitoring the current budget and reviewing the proposed budget instructions. As such, some critical decisions must be made quickly. BARC however recognizes the importance of communicating such decisions to all impacted parties.

### **Electronic Participation – BARC Info #6**

A final report of the ALA task force on Electronic Member Participation was distributed for comment prior to this Midwinter Meeting. ALA acted on the recommendations from The 2009 Midwinter Meeting and Annual Conference. In April 2009 ALA Connect was launched, offering a new set of options for member participation. Other widely used forms of member participation included such options as blogs, wikis and social networking groups. The 2009 Annual Conference provided an opportunity to do some experimenting of various forms available to members and some important findings were reached. Wireless access for meeting, particularly at hotels, was determined to vary widely in Chicago due to costs and system limitations. As a result access was shifted to individual meetings for member leaders. Due to this experimentation a number of observations were made. It was found that wireless access was not always sufficient for the number of individuals wanting access. However, some high demand groups were identified. Also found was that providing wireless alone was often insufficient for large groups – more than 10 - but worked well for small groups. The most significant expansion of participation was made through informal channels – Flickr pictures, Tweeter Tweets, You Tube, OPAL and Facebook. Another outcome was the discovery of the perception that units were obligated to do e-participation. Finally, there still needs to be a good deal of work on the financial implications, as well as, determining where the Association is on policy issues and risk management.

### **ALA Finance Workshop**

BARC hosted the ALA Finance Workshop, providing an orientation to budget policies and procedures, and addressing questions raised by division and round tables representatives. It was a very successful session, attracting 40 attendees and received very high marks in the evaluation for content and organization, and for the opportunities for discussion. One note is that there seemed to be quite a few familiar faces. As a result, future training sessions may be needed to provide both basic information and a higher level orientation.

### **Indirect Cost Study Assumptions - EBD Info #1**

The committee reviewed with staff the indirect cost study assumptions to be used in the 2009 study. The study will be conducted in the same manner as the 2008 study. The most significant issue for this study, as compared to last year is how to equitably apply the composite rate to the new ALTAFF division. The document goes on to summarize the sources of the information used in the study i.e. 2009 audit report and internal performance reports etc., the allocation methods to be used and timeline. The results of the study will be summarized and presented for review at the spring meeting.

### **Human Resources Activity – BARC #16.1**

G. Calloway reported to the committee on the activities in Human Resources. Currently there have been eighteen new hires, which includes interns, and two promotions. There are a total of eight open positions with four active searches. There are also twenty-five funded and ten unfunded open positions.

### **Capital Expenditure - BARC #26.1**

BARC reviewed the FY 2010 capital expenditures. Through 12-23-09 ALA has expended \$291,213 on a budget of \$2.2 million. Most of the expenditures have been in IT (\$68,685) and Publishing related development of online products (\$175,622). It was noted that ALA faces significant new investment in technology and systems, specifically the new accounting system.

### **FY 2010 Small Division Support – BARC #25**

Budgetary support for small divisions, specifically ASCLA and ALTAFF, was discussed and endorsed. The preliminary estimate of the total small division subsidy is \$97,826. This is \$15,358 or 18.6% more than FY10. The support for ASCLA and ALTAFF is \$35,239 and \$62,587, respectively. Sally Reed joined the committee and discussed plans for ALTAFF. There are plans underway to increase the membership, particularly directors and affiliates. It was noted that ALTAFF wants to be the voice of America's libraries on the ground level. There was also an expressed desire to, at some point in the near future, move away from the subsidy received from ALA.

### **Planning and Budget Assembly**

Over 70 individuals with budgetary responsibilities and interests from across the Association attended and participated in discussions related to:

- Presidential Initiatives for FY 2011
- State of ALA Finances – FY 2009 Year-End Review and FY 2010 Update
- FY 2011 Budget Assumptions
- New Business Development
- Strategic Planning - 2015

### **Division Leaders/BARC Joint Meeting**

Per ALA policy, BARC met with division leaders to discuss items of common interest and concern. The focus of the discussion related to the reasoning behind the exclusion of transfers from operating net assets into the endowment fund from the FY 2011 budget instructions. Positive suggestions arising out of that discussion consisted of formally reaching out to the

divisions to obtain their current plans related to their desire to make future transfers. Divisions will be contacted regarding current and future transfers as part of the budget review meetings. In preparation for those meeting, divisions will be provided a budget form in order to communicate to BARC plans for the preliminary FY 2012 budget.

### **Acknowledgements**

We continue to be very well served by Greg Calloway, Keith Brown, Sandra Lee, Russ Swedowski and Elaine Klimek of the ALA financial staff. They have been very dependable, reliable and thorough in assisting in our financial oversight responsibilities. BARC carries out effectively its role because of the outstanding support provided by ALA staff.

Respectfully submitted:

Jim Neal, Chair  
Clara Bohrer  
Patricia Hogan  
Joseph Eagan  
Norman Eriksen  
Joan Giesecke  
Rod Hersberger, Treasurer  
Alexander Villagran  
J. Linda Williams