

**Budget Analysis and Review Committee
Report to the Executive Board
2011 Fall Meeting
Chicago, IL
October 22, 2011**

The information below represents the report of the Budget Analysis and Review Committee (BARC) activities since the Annual Conference in New Orleans. BARC met for two days on October 6th & 7th, 2011 at ALA headquarters in Chicago.

In the course of addressing the business issues facing the Association, the committee discussed a wide range of topics. Some of the more important topics included the following:

- BARC Orientation
- FY 2011 Budget Review, 2nd Close Results – BARC #5.3
- Final FY 2012 Budget Update – BARC #26
- Joint Trustee Membership Proposal – BARC #20
- Council Referrals
- ALA 2012 and Beyond – BARC #14
- ALA/APA Memorandum of Understanding
- New Business Development
- Finance Workshop/Webinar Content

BARC Orientation:

Three new members to the committee – Janice Welburn, Dora Ho and Patricia Wand - were welcomed and given a detailed synopsis of the committee’s purpose, how it fits within the organization, how it operates, important relationships (Council, Executive Board, Divisions, etc.), each member’s responsibilities and some of the best practices used for liaison success.

FY 2011 Budget Review 2nd Close Results– BARC #5.3:

G. Calloway provided the committee with a review of the fiscal year end based on the 2nd close results.

Total ALA –2nd close: Total ALA revenues for the fiscal year-end results were \$45.7 million, which is 0.5% or \$240,918 more than the budget of \$45.5 million and compares to \$52.0 million last year, a reduction of \$6.3 million. The gain was primarily a result of higher than expected activities in Grants and Awards, which was more than budget by \$1.0 million or 25.5% at \$5.0 million. Also contributing was better than expected results in long-term investment fund earnings

of 683,787, which was better than budget by \$201,436 or 41.8%. Although there was an overall gain in revenue, it was offset by a decline in the General Fund (\$811,517) and the Divisions (\$151,448). The General Fund was impacted primarily by lower revenue from Membership Programs & Services (\$331,631), primarily Conferences (\$227,751) and Communications (\$469,790), primarily Dues (\$458,287).

Total ALA expenses for the fiscal year end results were \$46.3 million, which is \$922,077 less than budget of \$47.2 million or 2.0% and compares to \$50.4 million last year. Significant savings were realized in the Divisions (\$1.7 million) at \$13.7 million as a result of fewer expenditures on web operations, design services and program allocations. Additional savings were realized in the Roundtables (\$119,548) at \$226,177 from lower conference related expenses. These savings were offset by the increased activities in Grants & Awards (\$975,614) at \$5.0 million.

On an overall basis the net result was excess expenses over revenues of (\$585,150).

General Fund Commentary: BARC #21- Committee members reviewed BARC #21, which provided a detailed review of the budget adjustments that were made at mid-year in order to achieve a balanced budget, as well as further adjustments made by Annual Conference to the General Fund revenue and expenses projections based on April/May results. At that time, year-end projections indicated a revenue shortfall of \$442,000 and expense overages of \$449,000 for a total net loss of \$891,000. Plans were put in place to manage specific expense reductions. These reductions, in conjunction with other offsets (BCBS refund and use of BCBS reserves), totaled \$737,000 in expense reductions, resulting in a possible \$154,000 shortfall. Management indicated that there may be a need to use Board reserves (Net Asset Balances) in the range of \$154,000 - \$375,000. The range covered the uncertainty related to the expense savings projections, as well as, the final results from the Annual Conference. As such, the following action was taken: **BARC recommended to the F&A and the Executive Board to use reserves of up to \$375,000 for the FY 2011 Budget.** This action was concurred by F&A and approved by the Executive Board.

G. Calloway highlighted the 2nd close results in a few areas as it relates to results since the Annual Conference. As noted earlier dues income was less than budget by \$458,287, which was primarily in the organizational dues (\$385,023) category. Both Annual Conference and the Midwinter Meeting were short of their revenue targets by \$112,321 and \$115,430 respectively. This was due to lower Exhibit fees (\$287,903) at Annual conference and lower registration (\$129,633) and Exhibits (\$113,074) at the Midwinter Meeting. On a net basis Annual Conference exceeded its net revenue target by \$73,159, while the Midwinter Meeting was short by (\$172,502).

A major positive contributor was the improvement in interest income, which was over budget by \$201,436 due to prudent and strategic moves in the bond portfolio.

As a result of the second close information G. Calloway reported that the General Fund net operating loss was approximately \$800,000. Taking this information into account senior management discussed a number of possible ways to cover the shortfall and recommended a combination of options as follows:

1. **Use of up to \$500,000 from the General Fund Net Asset Balance** - It was noted that currently the General Fund Net Asset balance is \$1.6 million after an earlier approved transfer to establish a \$1.0 million technology reserve fund. As there are also commitments for \$127,000 in 2015 related projects, the combination will result in a reduction in the reserve to \$988,360.
2. **Use of up to \$300,000 from the Future Fund Deferred Accumulated Interest Income (Unrestricted Funds)** - The Future Fund recommendation was made after a review of ALA policy 8.5.1 and the history of the interest transfers to the General Fund. It was noted that in FY05 and FY06 the allowable interest transfers were not made in support of the General Fund. It was determined that there was approximately \$394,551 in deferred accumulated interest available for use. BARC suggested that the Endowment Trustees be advised of the transfer and to endorse BARC's recommendation.

BARC discussed the recommended options and took the following action:

BARC recommends to the Finance and Audit Committee approval for the use of up to \$500,000 from the General Fund Net Asset Balance Reserve and transfer \$300,000 (deferred interest from FY 2005 and FY 2006) from the ALA Future Fund to cover the FY 2011 General Fund operating deficit.

Final FY 2012 Budget Update – BARC #23:

G. Calloway highlighted for the committee changes to the FY12 budget since the Annual Conference. It was noted that the economy is still in flux and that the library community is expected to continue experiencing negative impacts for the foreseeable future. Additionally, in view of the FY11 year end results revenue expectations needed to be revised. As a result, management made several additional adjustments to the budget to reduce both revenue and expenses. Some of the changes include the following:

- Incorporated newly revised Endowment policy 8.5.1 interest/dividend transfer
- Incorporated approved grants received after Annual Conference
- Targeted revenue and expense reductions of \$1.0 million in the General Fund, with specifics to be determined
- Modified Division budgets based on their board's recommendations

After a discussion of the budget changes since Annual Conference the following action was taken:

BARC recommends to the Executive Board approval of the final FY 2011 Budget, 2011-2012 BARC #23, which includes all the motions (attached).

Deferred Endowment Transfers

The Committee reviewed and discussed the outstanding FY09 approved endowment transfers and the deferred FY10 and FY12 transfers in light of the Association's financial position. The Association's cash flow issues that originally caused the deferrals are still very much a concern,

particularly in view of the sputtering economy and declining General Fund revenues. For FY09 there is approximately \$200,000 in approved deferred Division transfers (ACRL, RUSA and ALSC). Since these were approved, the Divisions were asked by finance staff if they would be willing to accept a transfer of 50% of their requested amounts. RUSA withdrew its FY09 transfers request, while ACRL agreed. We are waiting for a decision from ALSC.

After additional discussion, within the context of the Association's financial situation and economic challenges, it was felt that the current and expected environment over the next couple of years would make further transfers difficult. As such the following action was taken:

BARC recommends to the Executive Board that all approved and proposed transfers from 2009, 2010 and 2012 to the Endowment by divisions and round tables from their operating funds be deferred. No new transfers from operating funds will be included in the 2013 budget. The approved and deferred transfer requests will be reconsidered in the 2014 budget plan. Gifts received specifically for endowments will be implemented.

ALA 2012 and Beyond – BARC #14

As part of the final FY12 budget presentation and to address the necessary reductions in both revenues and expenses, a number of overviews from the primary units within the General Fund, within the context of the 2015 strategic financial plan, were presented. The areas presented were membership, finance, publishing and conferences.

A general overview highlighted that each area will be working to address a 3.5% reduction in FY12 revenue estimates and expenses. There is a desire to maintain a 2% salary increase, to be more collaborative in membership marketing with the Divisions, to continue international business development planning and to appoint a new ALA Marketing Director.

It was noted that the future holds some difficult truths about the future expectations beyond 2012 for both revenues and expenses. New revenues sources are needed more than ever while expense will continue to be a challenge as highlighted in the 2015 strategic financial plan. It was pointed out that expected overhead will continue to be volatile and is trending downward.

Membership - On the dues front, FY11 revenues were less than budget by 7% or \$454,000. The FY12 budget was revised downward by \$108,484 from the Annual Conference, primarily in personal and organizational member categories. During FY13 – FY15 the issue of member retirements will need to be addressed.

Finance – The focus will be on long-term investment growth and maximizing cash management opportunities. Implementation of the new financial management system is a priority, as well as, evaluating new business opportunities.

Conferences (MPS) – The FY12 conference budget is conservative with registration lower than FY11. While exhibit fees have been increased, merger/acquisition activity in the industry continues to be a concern. Fees will likely increase in FY13 in an effort to support the cost of digitally capturing conference content. Virtual conferences will continue and expand due to member demand. Conference through FY15 will be in cities that are viewed as expensive. ITTS will delay some of its planned e-commerce projects.

Publishing – In FY12 revenues are being reduced by \$468,430. Expenses will be reduced by \$269,737 to \$7.8 million, the lowest level in ten years. Reductions will come from RDA, Graphics, and Editions. A positive impact for FY13 is the expected approval of RDA by the Library of Congress. Additionally, there will be the first full year of Huron Street Press, the Booklist/Booklist Online bundle, and changes in American Libraries.

Joint Trustee Membership Proposal – BARC #20

Cathleen Bourdon updated the committee on a proposal from Chapter Relations and ALTAFF to offer a two year joint membership program to include a discounted Trustee personal membership of \$100. ALA has participated in other joint membership programs with the Chapters (student and support staff membership) and each time participating Chapters have reported growth in their membership. Expanding the program to Trustees is expected to have similar impact. The dues would be divided as follows:

1. ALA retains \$41
2. ALTAFF retains \$36
3. Chapters retain \$23

This proposal has been endorsed by the ALA Chapter Relations and the ALA Membership Committees. After discussion related to the potential benefits and the fact that the discounted membership would be available to new members and limited to 2 years of eligibility, BARC took the following action:

BARC recommends to the Executive Board approval of the Joint Trustee Membership Proposal.

New Business Development:

BARC went into closed session to discuss new business opportunities.

Memorandum of Understanding

G. Calloway updated the committee on proposed changes to the basic agreement (Memorandum of Understanding - MOU) between ALA and the ALA-APA. Changes to MOU further clarify how the APA operates and its relationship to ALA. Some of the proposed changes are related to language and the use of operating area classifications. The more significant changes included clarification on the allocation of employee time and the APA's operating structure. Additionally, there were changes in the revenue formulation and the application of royalties. The following action was taken:

BARC recommends to the Executive Board approval of the changes to the ALA-APA Memorandum of Understanding APABD #12.10.

Council Referrals

K. Fiels updated the committee on the status of a number of referrals from Council at the 2011 Annual Conference in New Orleans. A review of each of the task force reports listed below revealed some common threads with financial impact related to ALA Membership, Conferences and Elections.

1. Young Professionals Task Force Report
2. Presidential Task force for improving the Effectiveness of ALA's Council
3. Report of the Chapter Relations Task Force
4. Future Perfect Presidential Task Force

The common threads were discussed, along with a range of economic impacts of implementation and their status. Generally speaking the combined task force report recommendations resulted in the following budget impacts:

1. Membership Related – Moderate to high cost
2. Conference Related – Moderate to high cost, particularly options for virtual conferences, live video/audio streaming and hosting conferences in additional cities
3. Election Related – Moderate to high cost, particularly options for more ballot measures and voting opportunities and merging Council and the Executive Board.

Since the status of each of the recommendations are in various stages of completion, the BARC Chair will work in conjunction with senior staff to prepare the report to Council on the status of the referrals.

K. Fiels also reported that as a result of FY12 salary savings, a part-time position will be established and located at ALA Headquarters to work on e-content issues and activities. The position will work closely with all ALA units, including OITP.

Finance Workshop

The workshop provides an educational opportunity for those members interested in how ALA's finances work, as well as, providing those member leaders who are new to their positions the basis of financial responsibility. The feedback from last year's workshop suggests that changes made in terms of structure and material covered was successful. Feedback also indicated that it is getting more difficult, due to a variety of reasons, for the target audience, division and roundtable member leaders with financial responsibility, to attend the Friday afternoon session. To that end BARC plans to make available, on a permanent basis, some basic financial information via a series of webinars. The four topics selected to begin the series are:

1. Operating Agreement
2. Long-Term Investments
3. Budget Process/Cycle
4. Organizational Structure/Roles and Responsibilities

Webinars for these topics are currently under development and will be available prior to the Midwinter Meeting. The target audience, as well as all members, will be encouraged to view the webinars prior to Midwinter. ALA Connect will be used to promote the webinars and field questions that may arise after viewing.

Acknowledgement:

The BARC committee would like to thank the Finance staff, Greg Calloway, Keith Brown, Sandy Lee and Elaine Klimek for their outstanding work and support in preparing this committee for the work that it addressed during these two days of meetings. The chair would also like to thank Keith M. Fiels and Mary Ghikas for their insightful and helpful input and participation.

Respectfully submitted,

Clara Bohrer, Chair
Courtney Young
Dora Ho
Mario Gonzales - Absent
Patricia Wand
Alexander Villagran
Janice Welburn
Winston Tabb
James Neal, ALA Treasurer