

**AMERICAN LIBRARY ASSOCIATION
Budget Analysis and Review Committee (BARC)
Report to the Executive Board
2012 Annual Conference
Anaheim, CA
Monday - June 25, 2012**

It is my pleasure to report on the work of the Budget Analysis and Review Committee (BARC) at this Annual Conference. The agenda priorities included the April financial results, projections for the remainder of the fiscal year 2012 and finalizing the total ALA FY 2013 Budget. Below you will find a summary of the items that were addressed:

- Dues Adjustment Discussion – BARC #29
- FY 2012 Budget Update – BARC #5.7
 - Summer Year End Projections
 - Action: Use of General Fund Reserves
- FY 2013 Total ALA Budget – BARC #26.1
 - Action: Approval of FY13 Budgetary Ceilings
- Overview of BARC and Treasurer Reports to Council
- Planning & Budget Assembly
- BARC and Division Leaders Meeting

Dues Adjustment Discussion – BARC #29

The committee was presented by C. Bourdon – AED Communications and Member Relations, R. Jankowski – Director Membership Development and K. Cassell – Chair of the Membership Committee on two options regarding future personal dues adjustment strategies that were discussed at the Midwinter Meeting with the Membership committee. The purpose was to seek feedback from this and other committees on the options highlighted in document BARC #29.

After the Midwinter Meeting R. Jankowski prepared a number of financial models to determine the potential impacts of various dues rate adjustments. It was determined that two options presented the best scenarios. They are as follows:

- Option 1 - Tie future dues increases to the CPI index - annually
- Option 2 - After a \$10 increase in dues tie future increases to the CPI index - annually

Members of the committee felt strongly that both options would make it possible for the Association to manage dues adjustments annually. Additionally, in view of the fact that

two divisions (ACRL and PLA) have approved and currently use a CPI based dues structure, the members of the committee gave their full support in moving forward with further discussions with other committees, member groups and the membership in general. As the discussion moves forward, consideration will be given to the timing of such a proposal in light of pending divisional dues increases.

FY 2012 Budget Update and Summer Year End Projections – BARC #5.7

April Results - For April total ALA (all combined funds) revenues were \$31.1 million or \$7,670 more than budget. The General Fund revenue of \$15.6 million was \$672,543 (4.5%) more than budget due primarily to Publishing Services (ALA Editions - \$812,724 and ALA Graphics - \$113,353). Division revenues were \$11.3 million or \$755,807 (-6.3%) less than budget. Grants and Awards were \$3.5 million or \$173,022 (5.1%) more than budget. Interest and dividend income was less than budget by \$19,578 (-3.5%) totaling \$538,866 due to a lower investment balance.

Total ALA expenses were \$31.6 million or \$411,331 (-1.3%) less than budget. General Fund expenses were \$18.0 million and \$1.4 million (-8.8%) more than budget due primarily higher incurred expenses in Publishing Services (ALA Editions - \$1.4 million, ALA Digital Reference - \$109,119 & ALA Graphics - \$129,140). Division expenses of \$9.8 million were less than budget by \$1.7 million (-14.4%) primarily in PLA (\$647,360) and AASL (\$479,009). Grants and awards were \$173,022 (5.1%) less than budget at \$3.5 million.

As a result, the total ALA net operating loss is (\$433,835), which compares to the budgeted net operating loss of (\$852,836).

Staff also provided highlights based on the preliminary May results.

Preliminary May Results –Total ALA revenues were \$34.2 million or \$9,597 (-0.03%) less than budget, a slight deterioration over April. In the General Fund revenues were \$17.5 million or \$846,458 (5.1%) more than budget due continued strength in Publishing Services (\$1.1 million) from ALA Editions (\$972,075) and Booklist (\$147,300). Interest Income is below budget by \$338,964 due to lower investable funds.

Division revenues were \$12.1 million or \$767,736 (-6.0%) less than budget, although the revenues are still being analyzed. The divisions with the most significantly under budget are PLA \$230,081), AASL (\$322,685) and ALTAFF (\$136,661). Round Tables were under budget by \$102,310 (54.9%) at \$83,918. Grants & Awards were \$3.8 million or \$46,652 (1.2%) more than budget due to timing. LTI income was less than budget by \$65,452 (-10.4%) or \$562,856.

Total ALA expenses were \$35.0 million or \$1.1 million (3.1%) less than budget. General Fund expenses were \$19.9 million and \$663,792 (3.5%) more than budget. Division expenses were \$11.0 million and more than budget by \$1.4 million (11.6%). Note that the divisions are making a concerted effort to review their ongoing projects and activities. Round Tables were significantly under budget by \$102,310 (54.9%) at \$83,918. Grants and Awards were \$46,652 (1.2%) more than budget at \$3.8 million.

For the General Fund the result is a net operating loss of \$2.3 million, which is less than the budgeted net operating loss of \$2.6 million (14.2%).

Summer Year End Projections – At the spring meeting in Chicago staff shared with BARC its year-end projections. The projections were the result of the work of the department heads and unit managers based on February results. Since that time, management has refined the General Fund revenue and expenses projections based on April results. These updated projections indicate that at the end the year revenues are projected to be over budget by \$572,000 and expenses over budget by \$1.4 million for a total net loss of \$861,000. The increase in revenue is a result of a combination of factors that include additional revenue from Neal-Schuman (\$1.9 million) and less from RDA (\$90,000), lower exhibit (\$473,000)/registration (\$357,000) revenue from Annual Conference, lower interest income due to a lower amount of investable income for investment – see below:

Publishing	\$1,982,000
Annual Conference	(\$ 857,000)
Interest Income	(\$ 390,000)
Miscellaneous	<u>(\$ 42,000)</u>
Total	\$ 572,000

On the expense side, Publishing will incur additional operating expenses greater than budget related primarily to the Neal-Schuman operation in the amount of \$2.3 million. This includes an expansion of the Neal-Schuman operation (\$1.4 million), one-time Neal-Schuman transition costs (\$717,000) and a reduction in the Neal-Schuman book value (\$335,000). These cost increases are offset by savings in a number of areas such as Annual Conference - \$438,000, healthcare reimbursement - \$177,000, Unallocated/Contingency - \$323,000, Communications - \$117,000, Overhead - \$78,000, and the Executive Office - \$70,000. See below:

Publishing	(\$ 2,335,000)
Annual Conference	\$ 438,000
Healthcare Reimbursement	\$ 177,000
Unallocated/Contingency	\$ 323,000
Communications	\$ 117,000
Overhead	\$ 78,000
Executive Office	\$ 70,000
Other (Admin Exp.)	<u>(\$ 301,000)</u>
Total	(\$1,433,000)

As stated the combined results is a net loss of \$861,000. In view of these expectations, it has become necessary to use a portion of ALA's net asset balance above the \$300,000 approved at the spring meeting, along with the deferred interest from the Future Fund. The details are as follows:

NAB Beginning FY12	- \$1,428,293
Use of NAB to Cover FY12 Loss	- (\$ 860,960)
Use of Future Fund Interest	- \$ 94,000
2010 Projects Expensed in FY12	- (\$ 200,000)
Total FY12 Use of NAB	- (\$ 966,960)
NAB Ending FY12	- \$ 461,333

Because this particular solution requires the use of ALA's net asset balances, it will also require Board approval. As such the following action was taken:

BARC recommends to F&A the use of up to \$400,000 in additional reserves in conjunction with the previously approved \$300,000 for a total of \$700,000 to cover the projected FY12 operating shortfall.

FY 2013 Total ALA Budget – BARC #26.1

Total ALA Budget – G. Calloway updated the committee on the Total ALA FY 2013 Budget – General Fund, Divisions, Round Tables, Plant Fund Grants & Awards and Long-Term Investments, and provided an overview of changes since the spring meeting. Some of the basic elements of this budget include the following:

- An increase to the General Fund reserve of \$200,000
- Lower overhead from the Divisions due to conference cycle
- A 1% salary increase and a 1% end of year compensation adjustment contingent on meeting certain budget targets.
- Added 4 FTE's related to Neal-Schuman
- Increased revenue from Publishing (Neal-Schuman/RDA) and Conferences (pricing strategies)
- Maintaining health care benefit rate at 30%
- A ½% reduction in unit expenses
- \$2.2 million in capital expenditures for technology and building improvements

General Fund Budget – For FY 2013 the General Fund has budgeted revenues of \$31,640,176 million, which is \$4.6 million more than FY12. Revenues are budgeted as follows:

- Dues - \$5.8 million
- Conference - \$7.5 million
- Publishing - \$15.9 million
- Miscellaneous - \$2.4 million

Budgeted dues revenue of \$5.8 million is an increase of \$64,297 from FY12. Midwinter (Seattle) and Annual (Chicago) are both projected to be higher than in FY12 by \$322,735. The sale of materials, which includes the sale of books, is budgeted to increase by \$3,807,741 mainly from Neal-Schuman Publishing (\$3,074,008) and Huron Street Press

(\$368,665), while revenue from subscriptions is budgeted to increase by \$582,248, primarily from RDA (\$544,330).

Expenses for the General Fund are budgeted at \$31,440,176, which is \$4.4 million (16.1%) more than FY12. Payroll is \$751,645 (5.3%) more than last year due primarily to a 1% salary increase and a 1% end of year adjustment of \$295,000. The biggest area of increase is in operating expenses, which are budgeted at \$6.3 million and is higher than FY12 by \$1.5 million. This is due to increased amortization of intangible assets, royalty expense and postage related to Neal-Schuman Publishing.

Division Budgets - Revenues are budgeted at \$13.6 million, which is a decrease of \$3.0 million over FY 2012. This is due primarily to only one national division conference during the year. Total expenses are budgeted at \$16,645,729 million. This is a decrease of \$1.5 million (-8.9%) over FY 2012. Small division support will total \$98,160 the same as in FY 2012. By the end of FY 2012 the division fund net asset balances are budgeted to reach \$12.6 million.

Round Tables and Other Budgets - Round Tables have budgeted revenues of \$394,664, which is down from \$430,639 in FY 2012. Dues income of \$183,266 will account for approximately 46.4% of revenue. Expenses are budgeted at \$316,125 resulting in net revenue of \$78,539. The **Plant Fund** budget, which covers the costs related to the 40 & 50 East Huron buildings, the Washington Office and CHOICE, is \$1,206,759. There will be a General Fund transfer of \$1.6 million to cover all building related expenses. The CHOICE portion of the cost is \$78,531 which includes repairs, maintenance, utilities, leased equipment, interest expense and property taxes. The **Long-Term Investment Fund** is budgeted to generate \$583,371 in revenue to fund scholarships and awards. **Grants and Awards** are budgeted at \$4.7 million but will likely be adjusted for pending additional proposals awaiting approval. Note that this is down from \$5.3 million in FY12. Overhead recovered from grants are budgeted at \$368,857 compared to \$574,544 last year and will offset expenses in the General Fund. The **Capital** budget for FY 2013 totals \$2.2 million, which is slightly lower than last year at \$2.4 million. This budget maintains ALA's property. This also includes investment in the continuing investment in information systems technology of \$1.3 million.

After further discussion BARC took the following action:

BARC recommends to F&A approval of the FY 2013 Budgetary Ceilings as outlined in 2011-2012 BARC #26.1.

Overview of the BARC/Treasurer's Report to Council

J. Neal and C. Bohrer provided a brief overview of their reports to Council and the Membership Session. Their reports focused on the following:

- FY 2012 Budget Update
 - Summer Projections
- Strategic Issues Facing ALA and its Financial Future

- Income and Expense Trends
- Strategic Issues facing the FY 2013 budget
- Approval of the FY 2013 Budgetary Ceilings

These reports were also reviewed in the context of the previously mentioned FY12 budget update and FY13 budget approval.

Planning & Budget Assembly

The committee reviewed and discussed the content of the upcoming PBA agenda which included the following:

- Discussion of Presidential Initiatives
- Strategic Plan Update
- FY 2012 Budget Status and Projections
- FY 2013 Budget

BARC and Division Leaders Meeting

BARC met with the division leaders for an exchange of ideas and discussion on topics of interest to the Divisions. There were approximately 32 people in attendance.

There was a good dialogue on each of the topics. The benefits to the Association and the units were clearly illustrated.

Acknowledgements

BARC members thank Greg Calloway, Associate Executive Director of Finance; Keith Brown, Senior Financial Analyst; Sandra Lee, Director of Planning & Budgeting; Russ Swedowski, Controller; and Elaine Klimek in particular for the quality of work they produce to facilitate our work as a committee. We thank all the ALA staff for their open welcome to our probing questions and their work to enliven and enrich the Association.

Respectfully submitted:

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