**EBD #13.0**

**2020-2021**

**TO:** ALA Executive Board

**RE:** $3 million Endowment Loan from the Endowment Fund to ALA General Fund

**ACTION REQUESTED/INFORMATION/REPORT:**

Action requested/Information

**ACTION REQUESTED BY:**

Finance & Audit Subcommittee

**CONTACT PERSON:**

Maggie Farrell

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**DRAFT OF MOTION:**

The ALA Executive Board approves a loan from the ALA Future Fund in the amount of $1.5 million in FY21 and $1.5 million in FY22 for a total of $3.0 million, to be repaid by FY 2030 at an interest rate of 1%.

**DATE:** September 1, 2020

**BACKGROUND:**

During the June 17, 2020 Endowment Trustees meeting, a loan from the Endowment Fund to ALA’s General Fund was approved by the Trustees with the following terms:

 Amount: $3,000,000 [$1,500,000 for FY 2021 and $1,500,000 for FY 2022]

 Interest rate: 1% per annum

Due date: FY 2030

At this time, a payment schedule has not been decided upon, due to the five-year pivot strategy. This loan, along with other loans, will be reported quarterly to BARC and the Finance & Audit Subcommittee. There are no tax, legal, or donor implications surrounding the loan from the Future Fund to ALA.

**Source: Extract from minutes from June 17, 2020 ALA Endowment Trustees meeting**

Denise Moritz and Tracie Hall summarized the steps leading up to the request for the Association to borrow $3 million from the Endowment over two fiscal years – FY21 and FY22.

Since the pandemic and the resultant cancellation of the Annual Conference, revenues for this fiscal year (FY20) and subsequent years have markedly decreased. There was a need to react quickly to the changing environment and everyone challenged themselves with numerous what-if scenarios. Tracie views the next two fiscal years as pivot years to get ALA headed in the right direction, beginning with the FY21 budget.

The Executive Board was uncomfortable with some specific revenue projections (Conferences) and decided to hold off taking any action on the FY21 budget until the projections were flushed out with more detail.

In the meantime, management reacted quickly and availed itself to all Federal assistance offered. Denise referred Trustees to EBD #3.33.2, which details those government sources, possible insurance coverage, and how the projected FY21 budget deficit of $4.5 million would be addressed. As a result, management is requesting $3 million to be borrowed from the Endowment over the next two fiscal years at $1.5 million per year.

The Trustees inquired as to whether more restrictive scenarios were considered. Tracie indicated that while saving jobs is a high priority, hence the furloughs, other options have been discussed and would be used if necessary.

The discussion continued with respect to the terms of the request. Keith Brown discussed the history related to borrowing from the endowment. He recalled only one occasion when the Association borrowed from the endowment; that was to purchase the Huron Plaza building. In that scenario the loan, which paid for equipment and furniture for the new building, was forgiven and the title to the property was place in the endowment as an asset with a book value of $2.0 million. The only other time during his tenure that he could recall a proposed loan discussion was for purchasing the Washington Office condominium, but discussions with Trustees broke off and another funding source was used.

The discussion then turned to the terms of the proposed loan. Keith Brown referred the Trustees to the old and new investment policy statements (IPS). He noted that in the old policy it was clearly stated that any borrowing from the endowment needed to be repaid and at the prevailing ALA bank borrowing rate. However, the new policy, adopted in 2019, makes no such declaration although it was the intent of the Trustees to maintain the practice – Keith’s interpretation.

After some additional discussion there was agreement on the need to repay any loan. However, there was a split between those who thought that a loan should be repaid with interest and those who recommended a loan without interest. As a result of two considerations: 1. The member reaction at Midwinter where there was the perception that ALA would be raiding the endowment and 2. Not wanting to set the precedent of borrowing with no consequence, the Trustees agreed that a nominal interest rate should be charged.

Conclusion:

The Trustees concluded that for the benefit of the Association it was appropriate to make endowment funds available in order to move the Association forward, particularly in view of the extraordinary times and the impact of the COVID-19 pandemic.

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| Action items | Person responsible | Deadline |
| Endowment Trustees recommend to the Executive Board approval of a loan from the ALA Future Fund in the amount of $1.5 million in FY21 and $1.5 million in FY22 for a total of $3.0 million, to be repaid in 2030 at an interest rate of 1%. | Moved by Brian Schottlaender and Seconded by Mario Gonzales | Forward to the Executive Board ASAP |

**Source: Background information provided by the Senior Trustee, Pat Wand, on September 1, 2020**

As the minutes reflect, in the June 17 meeting Keith clarified the current policy regarding loans vs. disbursements from the Endowment to the Association; i.e. that "any borrowing from the endowment needed to be repaid and at the prevailing ALA bank borrowing rate.”

A robust and candid discussion ensued. Some participants felt strongly that there should be no interest charged, others felt we should go with the existing policy and charge the prevailing interest rate (which I believe was cited as around 3% i.e. Prime + 1%). An additional point raised by some of the Trustees was the desire not to set the precedent that it was an easy task to get funds out of the endowment outside of the regular funding mechanism.

In the end, the Trustees agreed on a modest interest payment to demonstrate Trustees’ commitment to maintaining a strong endowment in support of ALA’s financial health, to ameliorate somewhat the significant actual loss of revenue to Association operations and to set a precedence for future expectations.

It was pointed out that with $3 million of the Future Fund not working on behalf of the Association for 7 to 9 years (assuming draw downs in 2021 - 2022 and payback by 2030) the risk of losing considerable support for operations is very real. This is especially true considering the strong stock market when virtually every other aspect of the economy is tanking.

Important to note:  Of the approximately $58 million in the Endowment, only $18 million is in the Future Fund, the largest single fund in the endowment with the reminder in restricted accounts dedicated to scholarships, awards, divisions, etc.  The loan must come from unrestricted accounts, thereby decreasing the $18 million to $15 million in the Future Fund. ALA operations depend on revues generated by the Future Fund for about $600,000 to support operations each year with $642,633 scheduled for FY21.

### **ATTACHMENTS:**

None