AMERICAN LIBRARY ASSOCIATION

Executive Board Meeting Minutes

**September 2020 Executive Board Meeting**

The Board convened at 2:30 pm CT on Wednesday, September 2, 2020 with President Julius C. Jefferson, Jr. presiding.

***FY20 Budget Update & Preliminary FY21 Budget, EBD #3.3***

ALA Treasurer Maggie Farrell thanked Board members for their feedback from the summer meeting. She noted that the revised preliminary budget is typically reviewed during the June meeting, but this review was postponed due to the financial reporting situation. Today, the Board will review the FY20 Budget, the Preliminary FY21 Budget, and Annual Estimates of Income (spending ceiling for FY21). The Board will be asked to approve FY21 Budget, Annual Estimates of Income, and the Endowment Loan. After this approval:

* A special ALA Council meeting will be held on September 18 for a FY20 & FY21 budget update and to approve Annual Estimates of Income for FY21
* BARC, Finance and Audit Committee (F&A), and the Executive Board will consider the Final FY21 Budget for approval at their October meetings

**FY2020 Preliminary Budget**

Denise Moritz, Interim CFO, referred Board members to the document, and noted that Finance is still behind on closing out FY20 but consulted with major business “owners” throughout ALA to estimate where FY20 would end. Finance would estimate an 80% confidence in the current numbers.

Ms. Schneider asked if there is 80% confidence in numbers, but the document notes that we only have reports through February, how that level of confidence is reflected. Ms. Moritz emphasized that the budget was built closely will colleagues who are the representatives of each revenue stream.

Ms. Moritz reviewed the FY20 Budget, noting there is an $11 million loss projected. FY20 budget was built with $4 million loss forecasted. There are three major sources of revenue losses:

* Annual Conference resulted in $7.7 million revenue loss
* Increase in general administrative expenses, with an overage of $1.5 million
* Publishing shortfall of $1.4 million in revenue. Anticipate a total shortfall of $500,000, but this still reflects 87% of revenue achieved

Ms. Moritz noted the following concerning the general fund:

* Furlough in FY20 had a 2% savings
* As noted, Publishing has a shortfall of $1.4 million, but with expenses at about 90%, saving $1 million. Anticipate a shortfall of $500,000 net.
* Membership: $450,000 in dues decrease, which was anticipated
* Conference Services:
	+ Small uptick from Virtual Event with $500,000
	+ Annual cancellation was a $7.7 million annual loss
	+ Midwinter came $472,000 short
	+ Expenses for Annual under $1.5 million
	+ $2.5 million net loss (down 21%)

**FY2021 Budget**

Ms. Moritz noted that the budget currently reflects a $500,000 deficit, which is reduced from the $4.5 million forecasted in June. The following strategies have been identified to fill budget gaps for FY2020 and reach a $800,00 surplus:

* Received $1.2 million in Paycheck Protection Program (PPP) funds
* Applied for $2 million Economic Injury Disaster (EID) loan but awarded $150,000. ALA will watch out for additional government funding
* Since the last meeting:
	+ $3 million endowment loan approved by Trustees, $1.5 million in FY21 and $1.5 million in FY22
	+ Approval of virtual Midwinter, which will mean significant cost savings of $1 million
	+ Increase in contributed income from $100,000 to $2 million

Ms. Moritz emphasized that FY20 full-year budget was almost $50 million, and in FY21, the full year revenue is $43 million, which reflects is a 13% decrease. That is a significant revenue decrease, and expenses have been decreased in line with it.

Ms. Moritz noted that the $500,000 deficit was a result of two factors: general fund has balanced revenue/expenses for a $1 million surplus, while Divisions are coming in at $1.5 million loss. This is due primarily to ACRL and PLA. ACRL does have a conference year in FY21, but budgeting is very conservative given uncertainty around the event.

Ms. Moritz also noted the following:

* Decrease of 18% in General fund expenses
* Membership decrease from $3.7 million to $3 million
* Staff support number increased because costs of new building were pulled into that

Ms. Schneider asked for clarification on the increase in contributed income if that was based on a potential grant. Ms. Hall noted it was based on an increase more in line with the number of staff.

Mr. Neal emphasized that the budget should note that Divisions have deficit spend-down years built in. He also asked how the loan was factored into the budget. Ms. Moritz noted that the FY21 budget has $2.1 million interest income in the general fund, versus FY20 at $800,000. There is also an interest component of 1%. Mr. Neal noted that that the loan should perhaps be its own line item, as it reflects a liability that ALA must repay. Ms. Moritz noted that funds every year are drawn from the future fund and recorded as such, which is why the loan was recorded in that way. Ms. Farrell noted that she has asked staff to specify all loans in future budget documents.

Mr. Garcia recommended that the 1% interest be reflected in expenses. Ms. Moritz noted that she will follow-up on that.

Mr. Neal asked where the structural deficit comes from – general fund or divisions. Ms. Moritz replied that staff is trying to build a whole ALA budget. The deficit reflects two factors - the general fund has a surplus of $1.5 million, with Divisions at $1.5 million deficit. Mr. Jefferson noted that Board Members need to be able to articulate budgets when speaking with Divisions. Ms. Moritz noted that these numbers are reflected in the Divisions tab.

Ms. Malenfant, Interim Executive Director of ACRL, noted that ACRL’s budget as of January planned to spend down as part of strategic investment, but this was prior to learning about ALA’s financial situation and the pandemic. ACRL adjusted considering these issues, as well as anticipated losses in revenue and possible conference losses. The 2021 conference is scheduled for the west coast, which always has lower numbers and may have lower attendance or possible cancellation due to the pandemic. ACRL Board has a decision-making process for possible cancellation.

Ms. Booker asked for clarification on FY20 full-year budget versus projection. Ms. Moritz noted that full year is what is budgeted prior, and projected revenue is a real-time reflection.

Ms. Moritz noted that the budget also includes 23 days of furlough reflecting $1.5 million in savings, with hopes of reducing the number of days. The savings are only in salary; benefits will be maintained. Ms. Hall noted there will be a meeting on September 9 with unit managers to conduct a deeper dive into the effects and possible course corrections. Ms. Hall noted that some of the current circumstances – less travel, time saved in prepping for Annual conference, etc. – gives some time back to staff.

Mr. Neal noted that $859,000 is reflected as Annual revenue for FY21, while we are expecting only $500,000 from Virtual Annual in FY20. Ms. Moritz noted that Conference Services is confident that this can be achieved. Ms. Rivera noted that she believes the projections should be reconsidered for conference services, as attendance is likely to be very low in FY21.

Mr. Neal requested talking points, or an executive summary related to the $11 million deficit.

Ms. Rivera asked when final numbers are expected for FY20. Ms. Moritz noted that ALA will terminate its contract with EXL and secured a consultant to come on board to bring us up to date. The first ask of the consultant is to provide a timeline.

Ms. Wong expressed concern on having an $800,000 surplus, while having 23 days of furlough.

Ms. Booker asked what other areas were identified for cuts. Ms. Moritz noted there will be cuts to travel budgets, as well as FY21 salary savings.

Ms. Hall noted a point of order to address the meeting tone. She emphasized that we are all working together. Ms. Booker noted her questions were intended for better clarification. Ms. McCauley expressed her appreciation for the authenticity in discussions and emphasized the deeply stressful times we are in.

Ms. Farrell commended the Board for its detailed work on the budget.

***Five-Year Pivot Plan, EBD #12.1***

Ms. Hall emphasized that staff and member leaders view each other as partners in this time of tumult. She noted that ALA has been very conservative and mindful about keeping staff together until we employ the pivot strategy. Furloughs are in place of large staff cuts.

She referred the Board to the document and outlined the overall five-year pivot plan. Ms. Hall noted that the idea of pivot comes from Eric Ries and his work on creating agile organizations. Pivot reflects the idea of change in strategy without a change in mission or vision.

She noted that plan reflects a shift from implied to supplied value and increasing revenue streams from three to six. The plan document outlines specifics, but she highlighted the following:

* Over five years, move from a negative revenue and expense gap in FY21 to a neutral revenue and expense gap in FY22-23 to eventually positive in FY24-25, with diversified, six-stream revenue:
	+ Membership: Implied value (revenue generating): Currently still only 15% of market share, and significant percentage is students. ALA is not near saturation in the market
	+ Publishing & Media: Supplied value (revenue generating)
	+ Conference Services: Supplied value (benefit)
	+ Continuing Education: Supplied value (revenue generating): looking to develop robust, tangible resources for members
	+ Contributed Revenue: Implied (General Operating grants) and Supplied (Programmatic Grants) (revenue generating) for every member of the development team, we should see $600,000 in revenue
	+ Data & Research Services: Supplied value (revenue generating): Leverage our data and information as a service to members and organizations

Ms. Farrell noted that there is also typically a five-year financial plan, which is difficult at this time. The challenge will be to take this plan and put numbers to it.

Mr. Neal recommended changing the specific numbers of FY24 and FY25 to a general positive, as well as labelling foreign markets as international markets.

Mr. Jefferson commended Ms. Hall on the pivot plan.

***Action Items***

***Endowment Loan***

Treasurer Farrell referred Board members to EBD #13.0, which provides details on the endowment loan. Ms. Farrell noted that the Finance and Audit committee is bringing forth this action item without a recommendation, as they determined more detailed information was needed to make a recommendation.

Ms. Farrell outlined the following terms for the loan:

* A three-year loan at 1% interest rate. $1.5 million used in FY21 and $1.5 million in FY22
* There are no tax or legal implications for the loan, as it is internal
* This comes from the future fund, so there are no donor restrictions

The minutes from the Endowment Trustees meeting and an email from Senior Trustee Pat Wand are included.

The Finance and Audit Committee brought the Endowment Loan to the board without a recommendation.

*Ms. Farrell presented the motion that 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 million to be repaid by FY30 at an interest rate of 1%.*

Ms. Rivera asked for clarification that the interest will be repaid annually, at $15,000 in FY21 then $30,000 annually. Ms. Farrell confirmed that is accurate.

Ms. Schneider emphasized that the loan is specifically reflected in the FY21 budget. Ms. Farrell noted that this will be reflected in the final FY21 budget, with specific commentary.

Me. Garcia thanked staff and Ms. Farrell for putting together this information since the BARC/F&A meeting yesterday. He noted that a payment schedule is not identified. Ms. Moritz noted that this will be part of the financial plans for the five-year plan.

Ms. Rivera asked if there is a forecast regarding the cost of the loan to ALA operations, which are dependent on the future fund. Ms. Moritz noted two impacts: on the expense side, we will ensure interest expenses and an opportunity cost, which is discussed in Ms. Wand’s notes. The future fund, however, is designated to protect ALA at such times as these.

Mr. Jefferson called for a vote on the current motion from the Finance and Audit Committee

**VOTED to APPROVE** 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 million to be repaid by FY30 at an interest rate of 1%.

*Ms. Wong presented the motion that Finance and Audit Committee concurs with BARC to recommend that the Executive Board approve the Preliminary FY21 Budget and Annual Estimates of Income of $71,035,580 as highlighted in document EBD #3.3*

Ms. Schneider asked for clarification if a vote in favor indicates agreement on the amount of revenue for Annual Conference in FY21. Ms. Moritz noted that this is the absolute maximum spending but will not necessarily be fully spent. Ms. Schneider also asked for more clarification, particularly from Finance and Audit Committee, on why the estimate for Annual 2021 will be the same as 2019. Ms. Moritz noted that ALA plans to move forward with a live conference and good attendance. Ms. Schneider emphasized that she thinks those numbers are still unrealistic. Ms. Wong noted that ALA Staff will continue to examine the numbers closely, and that this vote pertains to the spending ceiling.

Ms. Rivera asked what percentage is typically spent against the ceiling. Ms. Moritz noted the average yearly budget is $50 million, in relation to the $71 million ceiling, which reflects 70% spent.

Mr. Jefferson called for a vote on the motion from the Finance and Audit Committee and BARC.

**Voted to APPROVE** the Preliminary FY21 Budget and Annual Estimates of Income of $71,035,580 as highlighted in document EBD #3.3.

Ms. Henry commended new Board members for their engagement, particularly because current circumstances precluded a Board Orientation this year.

The meeting was adjourned.