**Budget Analysis and review Committee (BARC)**

**and Finance & Audit (F&A) Committee Joint Meeting**

Virtual Meeting

9/1/2020: 10:00 am CT

**Attendees:**

BARC: Peter Hepburn (Chair), Ann Ewbank, Brett Bonfield, Carl Harvey, John Lehner, Rodney Lippard, Karen Schneider (ALA Executive Board Liaison), Larry Neal (ALA Executive Board Liaison), Maggie Farrell (ALA Treasurer)

F&A: Maggie Farrell (ALA Treasurer, chair of F&A), Ed Garcia, Maria McCauley, Patty Wong, Peter Hepburn (BARC Chair)

ALA Staff: Tracie Hall, Denise Moritz, Brad Geene, Joanne Lee, Keith Brown, Holly Robison

**Welcome**. Peter Hepburn, BARC Chair, called the meeting to order. He noted that documents were forwarded this past weekend and day before, noting that ALA staff is dealing with furlough time and difficulties accessing finance information. He also noted that while open to observers, meeting discussion is not typically open for non-BARC/F&A or ALA Staff not providing direct support to the committees or answering questions.

**Introductions.** Members of the committees introduced themselves.

**Agenda.** Today’s agenda reflects special meeting called to finalize preliminary budget, which is usually done during Annual. Agenda **APPROVED,** by consent.

**Approval of Minutes from June BARC/F&A Meeting, EBD #3.1. APPROVED** as written.

**FY 2020 YTD Results, FY 2020 Projections and FY 2021 Outlook, EBD #3.3**. Ms. Hall noted that she will discuss ALA’s pivot strategy later in the meeting, but ALA must attend to where we are now. We are in year of tumult, global, national and by extension libraries. We are in a liminal space. She spoke with other library associations in US and international, as well as non-library organizations, that are all facing similar challenges.

ALA has seen tremendous downturn and lost revenue, such as conference cancellation and other revenue generating satellite events. Ms. Hall emphasized the following strategies for addressing these budgetary gaps:

* Furloughs
* Capping of expenses
* Hiring freeze
* Focus on FY21 cost containments

*FY21 Budget***.** Ms. Moritz referred participants to EBD #3.3. 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 are in place:

* Received $1.2 million in Paycheck Protection Program (PPP) funds
* Applied for $2 million Economic Injury Disaster (EID) loan, but only awarded $150,000. Funding simply ran out because of large volume of applications, and ALA will continue to look for government funding
* $3 million endowment loan approved by Trustees
* Additional furlough days (max at 23)
* Increase in line of credit
* Executive Board approved a virtual Midwinter, which will mean significant cost savings
* Increase in contributed income from $100,000 to $2 million
* Creation of Core is now reflected in budget schedules
* $1.5 million has been added to general fund through budget managers efforts at reducing expenses

*FY2020 YTD Results***.** Ms. Moritz provided the following updates:

* Finance is still behind on closing out FY20 but consulted with major business “owners” throughout ALA to estimate where FY20 would end. An $11 million loss is projected. FY20 budget was built with $4 million loss forecasted
* Focused on the second year of strategic investment when FY20 budget was built. Much of this was halted due to real world circumstances
* Cancellation of Annual Conference resulted in $7.7 million revenue loss. Ms. Hall noted that this would have been greater if we had not cancelled as early as we did
* Increase in general administrative expenses, with an overage of $1.5 million
* Revenue:
  + Publishing shortfall of $1.4 million, with expenses at about 90%, saving $1 million. Anticipate a shortfall of $500,000
  + Membership: $450,00 in dues decrease, which was anticipated
  + Conference Services: $7.7 million annual loss, Midwinter came $472,000 short, and expenses for Annual under $1.5 million. $2.5 million net loss (down 21%)
* Expenses
  + Down 6% in general admin expenses
  + Significant expenses were not accounted for in FY20 Projected Budget:
    - Move-related expenses significantly more due to delay. The budget planned for a December 1 move-out date. ALA sold the building in the last week of November, and move-out was pushed to April 27. COVID resulted in additional delay and associated costs
    - $270,000 real estate commission
    - $89,000 Concur expenses
    - $240,000 accounting outsourcing
    - $18,000 decommissioning expenses for Huron building
    - $130,000 interest expenses from line of credit for financing furniture and IT equip in new space
    - $140,000 in legal fees, mostly related to sale of the building
    - $704,000 expenses due to move-out delay (rent, utilities, security, professionals, and payroll)

Strategies to fill budget gaps for FY2020 included:

* PPP money received
* Short term investments of $2.8 million
* Line of credit increase of $1.5 million
* PLA conference was very successful, though expenses are still being finalized

Mr. Garcia asked, given the $240,000 loss from outsourcing for accounting, what was the original savings anticipated? Ms. Moritz does not have that number. Most discussions were held in closed session for HR reasons, as four staff members were let go. Looking at EXL moving forward, savings look to be about to $100,000/yr, though it has proved not worth the cost savings because we cannot continue without financial reports.

FY21 compared to FY20 saw 13% decrease in revenue. Budget managers are looking at their sectors and consulting each other to look for bundling opportunities and ways to provide value to members, as well as to expand market share for members.

Division Expenses:

* ACRL loss despite conference year: Starting point was at $185,000 deficit to purposely invest in a series of programs. Worked to have an additional $126,000 decrease in expenses to try to improve bottom line
* ACRL conference: Lower registration for west coast and expense city. Preliminary budget was tight at with $377,000 net revenue projected. Projections were reduced to $183,000 net due to COVID. ACRL approved a decision -making process about determining if the conference should move forward in-person

**Five-Year Pivot Plan, EBD #12.1.** Ms. Hall referred the group to the document and outlined the overall five-year pivot plan. Ms. Hall noted that the idea of pivot come 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, increasing revenue streams from three to six. 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%, and significant % 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 (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. Hall and Ms. Farrell emphasized the main takeaway is the need to diversify revenue streams.

Mr. Neal asked if there will be 5-year budget projection. Ms. Moritz noted the pivot plan is a strategy, and the next step will be to back up with numbers.

Ms. Wong encouraged members to review the strategy. This will also be discussed in depth at the Board level.

Ms. McCauley suggested that benchmarking measures are set up along with numbers.

Mr. Lehner asked how general fund units generate dollars, as it is difficult to understand how some units, such as HR, can do so. Ms. Hall noted that this will be reflected in operational effectiveness and expense management that connects dots between benefits and staff. The goal is to keep the association strong enough to track benefit, but not necessarily to track specific yield per staff member.

**FY21 Preliminary Budget & Annual Estimates of Income, EBD #3.3.**  Mr. Geene noted that Ms. Moritz already outlined the general strategies for a reduction from a $4.5 million deficit to the current projection of $500,000. He provided the following updates:

Annual Estimates of Incomes driven by projections of FY20 and budgeting for FY21:

* As of September: Total revenues at $43 million (in June, $41 million) and expense $44 million (in June, $46 million)
* Major changes are not anticipated for the final budget presentation later this Fall, though some units have not been able to adjust budgets since the announcement of Midwinter cancellation, so there may be some changes from that
* General Fund:
  + Change from prior year: 15% decrease of $2.9 million
  + Conference Services: net is up $1.7million ($700,000 forecasted in June)
  + Contributed Income: increased to $2 million ($100,000 forecasted in June)
* For Divisions Revenues, Expense, and Nets, the following are highlights, but please reach out with any specific questions:
  + Core is budgeted in this document. Three divisions will eventually fall off and roll into Core, currently at a deficit of $48,000
  + Roundtables revenues are at total net of $124,000
* As noted, budget reflects 23 furlough days, an extra savings of $197,000
* Increase of $100,000 to $2 million in contributed income: Ms. Hall is acting as Development lead after the departure of Sheila O’Donnell, as she comes to ALA directly from the philanthropy community. This year will see a heightened level of activity

Board Members asked why the Library Instruction Round Table is down $11,000. Finance staff will follow-up.

Annual Estimate of Income at $71 million:

* Net Asset Balance end of FY 20: just over $27 million
* FY21 Budgeted Revenue: just over $43 million

Mr. Neal asked what the cost savings of furlough are versus the estimate of lost productivity. 23 Furlough days reflects an 8.7% decrease or $1.5 million decrease expense. Ms. Moritz emphasized that benefits are left untouched. Only payroll is impacted. In this particular environment, the lack of commute and travel saves time, as well as additional reduction in face-to-face activity, resulting in a return of time for staff.

*Motion that BARC recommends to the Executive Board approval of the preliminary FY21 budget and Annual Estimates of Income of $71,035,580 as highlighted in document EBD #.3.3*

**APPROVED** Motion, with one abstained

*Motion that F&A concurs with BARC and recommends to the Executive Board approval of the preliminary FY21 budget and Annual Estimates of Income of $71,035,580 as highlighted in document EBD #.3.3*

**APPROVED** Motion unanimously

Ms. Farrell presented the Motion that F&A concurs with the Endowment Trustees and recommends 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 by 2030 at an interest rate of 1%.

Mr. Garcia noted that he has not seen any documentation and does not feel comfortable approving this motion. Ms. Hall noted that ALA staff will work to provide documentation. Mr. Neal asked if there is a repayment schedule. Ms. Hall and Ms. Moritz noted that ALA staff will work to provide documentation.

Ms. Wong moved to amend the motion to include a caveat that F&A recommend a documentation with further information but withdrew the amendment.

*Ms. Farrell called for F&A members to vote on the original motion: Motion that F&A concurs with the Endowment Trustees and recommends 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 by 2030 at an interest rate of 1%.*

**DEFEATED** Motion: 1 yes, 3 no, 1 abstained.

*Mr. Garcia moved that F&A recommends forwarding to the Executive Board for further discussion the details of the recommended loan request of $3.0 million from the ALA Future Fund.*

**APPROVED** Motion unanimously.

The next BARC/F&A meeting is scheduled for October 19, 2020.

Meeting Adjourned.