

June 25, 2024

Peter Hepburn
Treasurer
American Library Association

Dear Treasurer Hepburn:

On behalf of our respective boards and membership, we thank you for your ongoing leadership in stewarding the important, complicated work of the Operating Agreement. All the undersigned Divisions support a revised Operating Agreement and related financial model to streamline practices, procedures and internal ALA processes while maintaining the governance and programmatic autonomy and authority for Divisions.

We are committed to finding a financial model for the ALA – Division Operating Agreement that supports ongoing fiscal health, is mutually beneficial, and delivers value for ALA and Division members. We echo the sentiment shared by ALA Interim Director Leslie Berger aptly stated in her recent report: ALA MAKES LIBRARIES BETTER. **ALL** our divisions contribute to this—working to make public, K12 school, and academic/research libraries and library workers, trustees, Friends, and more.

To continue doing this, however, we must express concern regarding the three proposed overhead models as currently conceived and offer a compromise approach to make all three financial models less burdensome to divisions and better enable us all to innovate and thrive. We hope the following requests can serve as a roadmap to a new solution that meets our shared goals for ALA financial sustainability while ensuring division profit centers are strengthened.

REQUESTS:

- 1. We request information about the expected impacts of each overhead scenario for ALA's overall financial position, overhead estimates for the next 3-5 years, and if they will be sufficient to meet the Association's needs.** Divisions have been provided with impact data on each division's budget and have built out our own forecasts, but we have not seen impact data for ALA's overall financial picture with the three models. Currently, 10% of general fund expenses are funded by overhead from divisions and roundtables. **ALL** of us should know how much this significant change in how we do business will improve ALA's bottom line.

2. **We request a clearly defined process for calculation of overhead to date.** The current models calculate the overhead rate based on previous overhead paid, but there is still no transparency or shared understanding of how the base rate is developed. Beyond support for the 25 ALA support units, it is unclear what is included in ALA's overhead calculation (i.e., employee benefits, rent, etc.), nor full details of what divisions will receive (e.g., staff travel to conferences, recruitment costs, etc.) and what will be shouldered as division expenses.
3. **We request additional review and association-wide feedback on the 2022 proposed updated Operating Agreement policy document (EBD#10.12/CD#40.1).** It has been two years since the OAWG's Recommendations and Report were accepted by the ALA Executive Board and referred to the Committee on Organization for review. During this time, the Association has experienced significant changes, and it is vital that the final policy document reflects input and feedback from a broad range of impacted stakeholders. It is important that COO carries out its directive to reengage the membership. If the updated OA has left COO, that responsibility can be assumed jointly among stakeholders (divisions, treasurer, CFO, etc.)

PROPOSED SOLUTION:

The three models under consideration address the need for increased overhead contribution, as well as ALA's need for operating revenue. But each one significantly impedes divisions' ability to continue to generate revenue, innovate, and grow membership. To keep making libraries better, divisions need a fair share of resources to invest in products and services. PLA, for example, has modeled all three using FY21-FY23 actuals to assess real-world impacts. We share this assessment below to illustrate the need for a new solution.

Currently, Model 3, favored by ALA CFO Dina Tsourdinis, is unfavorable to sustainability by three of the highest performing divisions with long track records of fiscal success and accountability. Using 2024 budget numbers as a model, PLA would retain a mere \$15,000 under this scenario to invest or put toward innovation and growth. This is one tenth of 1% of PLA's total budget for 2024.

Models 1 and 2 are almost equally unfavorable under the recent budget performance with Model 2 (OH on expenses) a bit more advantageous. PLA always budgets for and realizes revenue over expenses in its 2-year budget cycle. However, under each of these scenarios, PLA will be left with only \$24K for future innovation and planning after a year in which PLA's net revenue will top \$2 million. Among PLA's highly successful programs seeded with investments available through our net asset balance are Every Child Ready to Read (in partnership with ALSC), Digital Learn, Project Outcome and *A Trauma Informed Framework for Patron Support*. Each division

has examples of impactful programs and services developed to meet emerging member needs quickly and effectively that would not otherwise be possible without flexible access to a significant amount of investment funds.

We know from Avenue M and other member surveys that strong, responsive and innovative divisions are a leading reason for people to become and stay ALA members. We need this passion and kinship more than ever as all associations evolve our value proposition to meet changing member expectations, and ALA and divisions also face the reality of a “grayer” profession where many longtime leaders are retiring. We propose two strategies to strengthen the ALA-division relationship and create incentives for mutually beneficial fiscal growth.

1. We propose to revise the proposed 75:25 (ALA: division) ratio of net retention to 50:50. Going from the current Operating Agreement stipulation of 100% division net retention to only 25% is a radical change that undermines division capacity and an engine for growth. Shifting to a 50:50 ratio in the near-term (and leaving open further changes in the future) would give divisions more time to adjust to new models and build trust for ongoing collaboration. We are in agreement with the proposed plan that, once ALA reaches its short-term invested goal, the ratio be revisited.
2. We propose to add an incentive formula that recognizes when a division exceeds 20% net profitability by enabling the division to retain 15% of the net or \$250K, whichever is lesser. The ALA: division split then follows the incentive payment on the adjusted net. This formula rewards division entrepreneurialism and sustainability with little direct financial impact for ALA.

If a division does not meet the net profitability hurdle, no incentive is received. Even for divisions that are emerging from years of deficit with narrow profitability, these proposed strategies will preserve for the division a proportionately significant portion of net to respond to member needs. Providing this incentive will also go a long way to signal that we are a united ALA, and that divisions are valued as significant contributors to our shared mission.

Again, we all agree change is needed to streamline internal processes while maintaining division governance and programming autonomy. We appreciate the spirit of your 2023 Update from the Treasurer, acknowledging that “The divisions and round tables have worked hard to control expenses and have contributed significantly to ALA’s fiscal viability.” We are deeply committed

to the fiscal health and success for ALA and our divisions so that we may continue to serve our members in the most impactful ways possible.

We welcome your feedback and further discussion of this approach.

Respectfully submitted,

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