

TO: Core Board of Directors

TOPIC: Budget & Finance Report & IRC Recommendation

ACTION / INFORMATION / REPORT: Report

ACTION REQUESTED BY: Cara Calabrese, Budget & Finance Committee

SUBMITTED: June 10, 2024

Summary: The Budget & Finance Committee (B&F), based on our discussions and data provided over the past 2 years, recommend that Core vote in favor of Scenario 3.

Overview: ALA has been working on updating the Operating agreement and in the past 2 years a task force was created to tackle how overhead is calculated. The task force was asked to:

1. Determine whether to keep the current method or suggest alternative options
2. Determine how Net Asset Balances (NAB), which is added to when a unit has a Net Operating Surplus (NOS), will be handled moving forward
3. Determine how to have all divisions have a NAB or at least break even every year
4. Review the budgets and process for any units that have internal unit transfers (affects RoundTables)
5. Ensure that any strategy developed accounts for building reserves and the ALA endowment while allowing for units to be able to draw on NAB to fund new initiatives
6. Develop accountability measures for quality shared services

The objectives above besides Objective 6 which has been determined to be beyond the current scope, will be addressed through whichever scenario is chosen. For 2 & 5, 25% of a division's NOS will be designated for their endowment. The other 75% will be added to the ALA reserve to get to the 25 million goal. After that number is reached the breakdown in how the NOS is allocated will be revisited. The data provided to illustrate the scenarios has indicated that it will take 15 years at least to reach that goal. Currently all the proposed ICR scenarios operate under the assumption that negative NOS will be subsidized for up to 3 years by ALA. During this time ALA will work with that unit on a plan to break even. We do not have notes on what happens should this go beyond 3 years as the hope is through a new ICR and support from ALA no unit will be in the negative. (The assumption is the issue will be revisited in 3 years if that is not the case). Objective 4 will be satisfied as the same ICR will be applied to all and internal unit transfers will still be allowed.

This document will focus heavily on object 1, the Overhead, now in part termed Indirect Cost Rate (ICR). The Core Executive Board is being asked to make a formal recommendation and vote over the summer on the ICR scenarios, so that the ALA Treasurer & CFO can make a final recommendation to the ALA Executive Board in fall. The new ICR method will be part of the next year's, FY26, budget creation.

ICR is part of a division, roundtable, or other revenue generating unit budget's that supports their use of shared services. It is to be an added line to the budget, a number already populated in the budget template when it opens in January/February each year. The ICR funds generated from divisions has been noted as only a portion, 10%, of the total Shared Services budget. In 2024 the Share Services budget was about 19 million and the revenue generating units (Divisions, Roundtables, etc) supported about a third of that.

Shared services have been outlined as:

- (100) Advocacy & Member Relations
- (101) Standing Committees
- (102) Governance
- (103) Executive Office
- (104) Library & Information Research Center (Lirc)
- (106) HRDR
- (108) Office of Intellectual Freedom
- (111) International Relations Office
- (112) Office For Accreditation
- (113) Communications Marketing & Media Office
- (114) Development Office
- (115) Public Programs
- (116) Diversity
- (150-151) Public Policy & Advocacy
- (200) AOMR
- (230) ALA Awards
- (250) Membership Services
- (251) Chapter Relations
- (501) Staff Support Services
- (505) Information Technology
- (506) Human Resources
- (509) Distribution Center
- (511) Building Maintenance
- (550-551) Finance & Accounting
- (591) Admin cost center(Insurance-Audit-Telephone-Legal)

An additional consideration when initially determining the ICR options is that ALA needs to build their reserve to cover at least a half year of expenses, about 25 million, as soon as possible. The ICR for each new FY will be determined by reviewing the most recent 2 years of ALA Audited budgets to find the average overhead cost and applying the agreed upon scenario.

The scenarios currently being considered are:

1. ICR is a percent of the total revenue
2. ICR is a percent of the total expenses
3. ICR is percent of the on the NOS

4. A 4th scenario was initially considered, but determined to be too complex

The basics of these calculations are that the average of the 2 audited years' data relating to the appropriate scenario (average revenue, expenses, or NOS) is found and divided into the average Overhead. This number then would be multiplied by the appropriate revenue, expenses, or projected NOS for the next budget.

This seems at odds with having a set number in the budget when it opens, but the CFO and ALA Treasurer have indicated otherwise. Also to note restricted funds, grants, and much of the donations would not be part of the calculations (affects Scenarios 1 & 3). Another thing to note regarding calculations is that under this Scenario 3, it would never be mathematically possible for the Overhead number applied to our budget to cause us to go into the negative (if our budget was accurate). The CFO and Treasurer did indicate that the Overhead number applied in our budget would not be adjusted during the course of that FY. (so if Core had a bad year revenue wise the Overhead amount would stay the same and we could end up with a negative NOS)

Rationale: Several members of B&F and the Task Force ran numbers and created projections several years out based on the above scenarios. B&F members have discussed the projected scenarios and data, both older and more recent, at length. B&F and the Core executive board have asked questions regarding the scenarios to the Treasurer and CFO. All of our conversations end with Scenario 3 (or 4 before it was dropped) being the best option for Core. Since Core is still a new division the projections based on past data do not accurately show what our future earnings, revenue, or NOS may be. That being said, even with the projections made internally, Scenarios 1 & 2 start backing Core into a place that increasingly looks harder to come back from. Based on past conversations Scenario 2 appears to be the worst option for Core, with Scenario 1 being close behind. Therefore B&F recommends Scenario 3, basing the ICR on the NOS, as the best option available for Core.