

TO: ALA Executive Board

SUBJECT: Selection of overhead model and associated financial matters related to the operating agreement

BOARD REQUEST: Board Action

ACTION REQUESTED BY:

Peter Hepburn, ALA Treasurer

CONTACT PERSON:

Peter Hepburn, ALA Treasurer. phepburn@ala.org.

DRAFT OF MOTION:

- 1) To approve, commencing with FY26, an overhead model based on net operating surplus (NOS) to be applied to all revenue-generating units
- 2) To approve, commencing with FY26, a savings plan, subject to the annual budget process and the ALA evaluation of available cash and of the overall financial health of the association, whereby each unit will be able to invest 30% of its NOS for later use by the unit and free from the conditions of the annual endowment payout as determined by the trustees and whereby 70% will be placed in ALA's short term investments with a goal of building those funds to the level of 50% of annual expenses.
- 3) To mandate a review of the overhead model in advance of FY29 planning, with annual discussion of the model to be held between the ALA Treasurer and representatives from the revenue-generating units in the meantime and with a further reviews to be held on a three-year cycle thereafter.
- 4) To direct the ALA Treasurer to develop a communication plan for informing the membership at large about the new overhead model with a goal of disseminating pertinent information by December 1, 2024.

DATE: August 27, 2024

BACKGROUND:

In May 2020 the Executive Board approved the establishment of an operating agreement working group. The membership included representation from the division members and staff along with other members and staff and was chaired by then-ALA Treasurer Maggie Farrell and Andrew Pace. That working group finished completed its task, save for the finance piece, two years later. A subsequent working group, an implementation working group, was established in October 2022 by the Board. That group included the executive director and the finance officer for each of the divisions as well as the two Round Table Coordinating Assembly co-convenors. ALA CFO Dina Tsourdinis and ALA Treasurer Peter Hepburn co-chaired that second group.

In October 2023, the Board voted to dissolve the second working group and direct the ALA Treasurer and CFO to bring recommendations to the Board. In the time since, all revenue-generating units were asked

to submit their preferences from among three possible overhead models. The results of that poll (Appendix 1) informed the recommendation brought forward today.

In conjunction with the overhead model, there is a proposal for a model for sharing the net operating surplus from each revenue-generating unit. Each unit will be able to invest its share for use in the future and under conditions that are not subject to payout caps as set by the endowment trustees. The share that returns to the association will accumulate over time until such a point as ALA has 50% of its expenses placed in short term investments. For much of the time during which this model has been discussed, the sharing would be 25% to the unit and 75% to ALA. In view of the feedback from revenue-generating units, however, the proposal coming to you designates 30% of the NOS as returning to the units. To shift beyond that will lengthen an already considerable timeline for ALA to accumulate short term investment funds to a point that is intolerable. The designation of 30% for the benefit of the revenue-generating unit is subject to the annual budget process and the ALA evaluation of available cash and overall financial health of the association. The word “designate” does not, and is not intended to, imply “ownership”. The designated funds still belong to ALA and will be held in the ALA Reserve. From a legal perspective, the ALA Board will always have the right to “un-designate” such funds if ever and whenever they believe they have an appropriate reason to do so.

There have been numerous townhalls, meetings, and other communications with revenue-generating units throughout this process. There were two resulting suggestions that deserve exploration and support. First, that there be a review process established such that data can be collected over a period that will include divisional conferences. A review cycle of three years seems appropriate in this instance. During each three-year period, the ALA Treasurer should annually convene representatives from revenue-generating units to monitor financial matters related to the operating agreement and to collect data. Second, there needs to be a communications plan in place to inform members about the change to overhead and the operating agreement. While this may need some time to be implemented, a delay of more than several weeks would not be acceptable.

The final piece to complete the work on the operating agreement is for the ALA Policy Manual Revision Working Group to bring to Council related policy for approval as part of its overall work. The Working Group has been supplied with the language from the working group chaired by Farrell and Pace, with some slight revisions (Appendix 2). The recommended language should come before Council at LibLearnX 2025. There is no action item related to this as that work is already underway.

Appendix 1: results of the vote by revenue-generating units on overhead model preference

Model 1: Overhead based on revenue	Model 2: Overhead based on expenses	Model 3: Overhead based on net revenue	Revenue-generating unit
Third choice	Third choice	<i>First choice</i>	ACRL
Third choice	Second choice	<i>First choice</i>	American Association of School Librarians
Second choice	Third choice	<i>First choice</i>	Association for Library Service to Children (ALSC)
Second choice	Third choice	<i>First choice</i>	Core
Second choice	Third choice	<i>First choice</i>	Coretta Scott King Book Awards Round Table
Second choice	Third choice	<i>First choice</i>	FMRT
Third choice	Second choice	<i>First choice</i>	Games & Gaming Round Table
Second choice	Third choice	<i>First choice</i>	LearnRT
Second choice	Third choice	<i>First choice</i>	MAGIRT
Second choice	Third choice	<i>First choice</i>	NMRT
Second choice	Third choice	<i>First choice</i>	RUSA
Third choice	Second choice	<i>First choice</i>	United for Libraries
Third choice	Second choice	<i>First choice</i>	YALSA
Second choice	<i>First choice</i>	Third choice	GODORT
Third choice	<i>First choice</i>	Second choice	Graphic Novels & Comics Round Table
Second choice	<i>First choice</i>	Third choice	Rainbow Round Table
Second choice	<i>First choice</i>	Third choice	Social Responsibilities Round Table
Second choice	<i>First choice</i>	Third choice	The Public Library Association (PLA)
<i>First choice</i>	Third choice	Second choice	IFRT
<i>First choice</i>	Second choice	Third choice	Library History Round Table
<i>First choice</i>	Third choice	Second choice	Library Research Round Table

A.4.3.4.1 Policies of the American Library Association in Relation to its Membership Divisions (Old Number 6.4.1) DRAFT REVISION BY OPERATING AGREEMENT WORK GROUP, June 2022; amended August 2024 (*in bold, red italics*)

A.4.3.4.2 Preamble

The American Library Association (ALA) is one association, governed by one Council, from which its Executive Board is elected. ALA is managed by an Executive Director who oversees ALA's office units and serves at the pleasure of the Executive Board. ALA has indivisible assets and a single set of uniform administrative, legal, financial, technology, and personnel policies and procedures. It also has a set of shared values articulated in its Policy Manual, Key Action Areas, and regularly updated strategic planning. ALA's unique Division structure provides additional layers of governance, member benefits, and programmatic priorities. Divisions work within one ALA and their work aligns with the overall goals, strategies, and processes set by the Executive Board.

Each Division has

- a statement of responsibility developed by its members and approved by ALA Council;
- a set of goals and objectives established by its members, which drive its activities;
- an Executive Director and other personnel as necessary to carry out its programs;
- responsibility for generating revenue to support staff (salaries, wages, and benefits) and carry out its programs; and,
- a separate Board of Directors, elected by its members, and responsible to ALA Council.

ALA and its Divisions are inextricably interrelated in overall mission, structure, personnel, resources, and operations. All members of Divisions first join ALA in support of general interest in libraries and librarianship. Their decision to become Division members is an indication of their special interests, thus the commitment of Divisions to serve those special interests.

By this commitment, expressed in an array of services germane to their mission statements, the Divisions serve the American Library Association as a whole. ALA looks to the Divisions as the subject matter experts in their respective mission areas and tangibly recognizes the importance of Divisions by providing for operational needs and also through supporting strategic commitments to ALA's mission-based activities and member value operations.

The nature of the relationships among the various ALA units is a dynamic one. Divisions and ALA are committed to maintaining a respectful, transparent, and collaborative style of interaction and to remaining flexible enough to address the ever-changing environment, the financial well-being of the Association, and issues facing libraries and librarians.

This collaborative model implies mutuality in relationships, the ability of any aggregation of units to work together for the common good, and the coexistence of Division autonomy and ALA unity.

This policy document implies the need for a mutual understanding of the specialization that Divisions bring to ALA, as well as the value of shared services provided by ALA. The specialties and focus on their members that Divisions provide are of tremendous value to the Association, just as ALA's shared mission and values are of value to the entire membership.

Divisions are integrally involved in the decision-making process of the Association. They exercise their decision-making prerogatives through the following means:

- Full authority within those areas of responsibility designated by ALA Council (ALA Bylaws, Article VI, Section 2b)
- Representation on ALA Council to raise issues and set policy (ALA Bylaws, Article IV Section 2c; ALA Policy A.4.2.3)
- Negotiation of performance objectives of Division Executive Directors (ALA Bylaws, Article VI; ALA Policy A.4.3.4.8)
- Day-to-day involvement of Division staff in the operations and deliberations of the Association
- Staff and volunteer representation on Association-wide bodies
- Participation in the strategic planning and budgeting process

In sum, this document is designed to serve as a cooperative framework in which the Divisions can focus on their valued contributions to ALA and their members while ensuring the long-term success of a unified Association.

A.4.3.4.3 Purpose, Implementation, and Review Process

A. Purpose

The American Library Association is the corporate and legal entity; however, as a part of its business model, Divisions enjoy a substantial degree of autonomy and responsibility in developing programs and services that meet the needs of their members. Any responsibilities not specifically delegated to Divisions remain within the authority of the Executive Board and ALA Council. The principal intent of this document is to define the policies governing the relationship between ALA and its membership Divisions.

In addition to the ALA Constitution, Bylaws, and other ALA Policies, this document provides a framework of guiding principles for that relationship. As a policy document, its adoption and approval of revisions are the responsibility of the ALA Council.

B. Implementation

Implementation of these policies and associated practices will be carried out under the direction of the ALA Executive Director, working with the department heads and Division Executive Directors. Major operational decisions made in that implementation will be codified in documents referred to as "Operational Practices."

[Operational Practices](#): Definitions of the manner or method of implementing policies. Operational Practices (1) deal with terms under which services will be provided free of charge or at a cost; (2) define roles and responsibilities in policy implementation; and (3) reflect other issues contained in the "Policies" document that may require negotiation between departments and membership Divisions.

Operational Practices are developed and periodically reviewed by the ALA Executive Director with the ALA Department Heads in consultation with the Division Executive Directors and appropriate personnel in the department responsible for the activity described. Department personnel will provide draft copies of those practices for review and comment to appropriate ALA staff members whose work will be affected by those practices. Copies of Operational Practices are supplied to appropriate membership units responsible for the governance of ALA and its membership Divisions.

Detailed information about the implementation of the policies outlined throughout this document is found in the [Operational Practices](#) for the Implementation of Policies of the American Library Association in Relation to Its Membership Divisions.

C. *Review Process*

To make this Agreement responsive to the needs of the Association, this policy shall be reviewed as needed at least every five years by those responsible for the leadership and governance of ALA and its membership Divisions. Interim changes may be recommended by ALA Leadership (Executive Board, Division Executive Boards, and ALA Council) to the Budget **Analysis** and Review Committee (BARC) or other appropriate policy-making body.

Any changes undertaken in this Operating Agreement shall be implemented consistent with the budget cycle of ALA and its Divisions and shall be done in such a manner as to minimize negative impact on the programs of ALA and the Divisions.

Roles of Key Parties to the Operating Agreement

- Division Boards: identify problem areas and issues; initiate actions necessary for revisions; work with Division staff and other Divisions as appropriate to explore problems and solutions; make recommendations to BARC to initiate revisions.
- BARC: identify problem areas and issues; communicate information concerning the Operating Agreement **through PBA** to Council and to ALA at large; work with Division leaders and ALA management to recommend solutions and consequent revisions to the Operating Agreement.
- ALA Management: identify problem areas and issues and work with the Division Executive Directors to explore problems and solutions. Review policies and make recommendations as appropriate to BARC and the Executive Board.
- Division Executive Directors: identify problem areas and issues and work with ALA management and Division Boards to explore problems and solutions.

A.4.3.4.4 Use of ALA Services

All ALA Divisions must use exclusively the following services provided by ALA: finance and accounting services; procurement, subscriptions, orders, and billing services; furniture and

equipment procurement services; distribution and mail services; telecommunications and IT infrastructure; human resources and recruitment; membership and customer services; communication and media services; legal services; insurance services; library and information resources and archive services. ALA Divisions must be housed in properties owned or leased by the Association.

A.4.3.4.5 Financial

Divisions are governed by prevailing ALA fiscal policies and procedures related to dues (ALA Bylaws, Article I, Section 2; Article VI, Section 6) and Council actions with fiscal implications for Divisions (ALA Policy A.4.2.2). Divisions shall participate in formulating and revising these policies and procedures.

A. Shared Services and Expenses

The fiscal arrangements between ALA and its membership Divisions can be categorized in four ways—shared administrative and operational expenses that are covered by ALA and Division revenue; shared member value and mission-based expenses that are covered by ALA and Division revenue; Division expenses for which the Division assumes full responsibility; and direct costs for services that are paid by Divisions for special services.

1. Shared Administrative and Operational Expenses
 - a. Award promotion
 - b. Communications and media
 - c. Executive Office and Governance
 - d. Financial and Accounting Services
 - e. Human Resources
 - f. Legal services
 - g. Library & information resources and archive services
 - h. Member Services (e.g., ALA Annual Conference travel, equipment, supplies, services, and space; customer services; and other services as defined in the Operational Practices.)
 - i. Publishing and intellectual property (IP) services (e.g., copyright, rights, and permission services)
 - j. Staff support services (e.g., office space, telecommunications, basic furniture and equipment, personnel services, and other services as defined in the Operational Practices.)
2. Shared Member Value and Mission-based Expenses
 - a. ALA Development
 - b. Accreditation
 - c. Center for the Future of Libraries
 - d. Chapter Relations
 - e. Data, Research & Design
 - f. Diversity, Literacy, and Outreach Services
 - g. Human Resource Development
 - h. Intellectual Freedom
 - i. International Relations
 - j. Public Policy & Advocacy
 - k. Public Programs
3. Division Expenses
 - a. Division personnel compensation

- b. Projects and activities of the Divisions except as specified in this agreement
- c. Membership group support (governance: boards, committees, etc.)
- d. Divisions may purchase services or products from other ALA units and outside agencies, consistent with ALA policy and maximize vendor centralization to achieve cost savings through economies of scale.

4. Direct Cost Services

Divisions will pay directly for specialized services as defined in Operational Practices.

B. *Net Asset Balances*

ALA maintains a single net asset balance which represents the excess of assets over liabilities. Divisions do not build or maintain separate net asset balances.

C. *Endowments*

Divisions may establish endowments or add to existing Division endowments from any source, including ~~historical net asset balances or~~ budgeted revenue that exceeds expenses (*net operating surplus, or NOS*), ~~once provided that~~ ALA's liquidity position and budget can support the Division endowment transfer. The establishment of Division endowments and associated spending policy will follow the guidelines outlined in ALA policy A.6.5.1.

Net-asset Transfers by the Divisions to the Endowment Fund will be reviewed and approved as part of the budget process and after review of ALA's liquidity position to determine sufficient cash balances to support the transfer.

D. *Division Budget Process and Review*

The ALA budget process is codified in [Operational Practices](#) and is based on transparency, collaboration, and cooperation between all units. It is a process that is iterative, inclusive, and accountable. Division Boards have responsibility for developing and approving budgets and multi-year program and financial plans, which are then reviewed by ALA management and BARC. Annual budgets are approved by the ALA Executive Board. Division representative(s) have the ability throughout the review process to support their approved budget requests. Divisions will receive reports on revenue and expenses (income statement) to effectively monitor their budgets. Divisions have the responsibility to alert the Association to multi-year budget cycles and any planned activities that could have a potential negative impact upon the fiscal stability of the Association. In turn, Divisions will be kept informed about the Association's financial health and will be involved in meaningful consultation when there is potential impact on Divisions, collectively or individually.

E. *Divisions with Small Revenue Bases/Number of Members*

ALA Council has assigned specific responsibilities to Divisions. To carry out these responsibilities, each Division requires a base of operating revenue. ALA recognizes that each Division must have staff and must provide basic services to its members.

While a Division has the responsibility for generating revenue to carry out its programs, support its staff, and contribute to overall ALA mission and services; circumstances may arise where a Division may not be able to meet that financial responsibility for a period of time. Recognizing that each Division brings a valued specialization to the Association, the Division will be required to develop a well-planned strategy, working collaboratively with the ALA Executive Director, Finance Office, BARC, and the Executive Board during the budget process, to address the issue and work to regain financial stability. The Division, again working in collaboration with the ALA Executive Director, Finance Office, BARC, and the Executive Board, will explore organizational and/or operational strategies as necessary to reach financial stability within three to five years.

F. *Other*

1. Credit and Collections

Management will provide effective credit and collection policies and services to the Divisions. Divisions will be charged for their bad debts in accordance with ALA policy.

2. Unrelated Business Income Taxes (UBIT)

To the extent that Divisions incur unrelated business income, they will assume responsibility for paying the resulting taxes.

A.4.3.4.6 Publishing Activities

The ALA Publishing Committee is a Committee of Council that brings together a diversity of members to share their expertise and experience in helping identify the content most needed and desired by the field, the most appropriate channels for disseminating that content, and continuous improvement in related business practices. The Committee includes representatives from imprint-specific committees, advisory boards in Divisions or other ALA units across ALA, and other units at ALA with publishing activities.

Materials prepared by a Division, for other than its own publication(s), should be offered to ALA Publishing & Media for first consideration. A Division may pursue other publishing opportunities if considerations such as total revenue generated for the Division and for ALA, available technology, distribution channels, or timeline are more favorable.

Divisions exercise editorial and managerial control over their publications.

A Division may purchase production services from ALA's central production services team, part of ALA Publishing & Media and the Governance Office.

ALA Publishing & Media pays royalties to Divisions for Division-generated materials. Divisions may negotiate with ALA Publishing & Media on royalties and other variables of publishing.

"Intra-mural Agreement of Publishing Responsibility" is signed by the Division Executive Director and the AED, ALA Publishing & Media for each publishing project.

ALA has the sole right to record and market recordings of programs at ALA conferences with the advance consent of the units and speakers. Divisions receive royalties from the sale of recordings of a Division's conference programs. Divisions have the right to record and market recordings of Division pre-conferences, programs at ALA Annual Conferences that ALA chooses not to record, and at Division national and regional conferences and meetings.

A.4.3.4.7 Personnel

All ALA personnel are responsible to the ALA Executive Director and through the Executive Director to the entire membership. Unlike other ALA personnel, Division Executive Directors are also responsible to Division Boards and through those Boards to the membership of their respective Divisions.

All ALA employees are subject to ALA's personnel policies. Each Division shall be responsible for generating the income required for the salaries, wages, and benefits of Division employees.

Each Division Executive Director serves in a senior professional position and is responsible for advising on ALA plans and preparing recommendations on priorities and alternatives, especially as they relate to the Division's priorities, goals, and objectives. The Division Executive Director meets regularly with other ALA staff members and communicates, cooperates, and coordinates Division activities with those of other ALA units.

The assignment of the appropriate grade for Division staff is made according to ALA personnel policies. The determination of the appropriate staffing pattern (number and position descriptions) shall be made by the Division Executive Director in consultation with the Division Board and the ALA Executive Director.

The recruitment, appointment, and termination of Division Executive Directors shall be a process involving consultation by the ALA Executive Director with the Division Board of Directors or its designees.

Each Division's Board of Directors shall annually review the performance of the Division's Executive Director based upon a single set of goals and objectives as agreed upon by the Division Board, the ALA Executive Director, Department Head, and Division Executive Director. The Division Board shall convey its recommendation to ALA Management that has responsibility for evaluating the performance of Division Executive Directors. The ALA Executive Director or Department Head shall discuss the confidential report of the performance review with the Division's President upon request.

Division Executive Directors shall have the authority to select, evaluate, and recommend termination of all Division employees, consistent with ALA personnel policies and procedures. Assignments of Division staff to ALA internal committees are arrived at in the context of Division priorities and are kept at a reasonable level.

A.4.3.4.8 Division National Conferences, Pre-conferences, and Related Activities

Divisions may conduct pre-conferences, workshops, institutes, seminars, and Division national conferences, in accordance with ALA Policy, at intervals determined by Division program priorities and supported by sound financial management. A Division is responsible for all costs incurred in planning and carrying out such activities. (ALA Policy A.7.2.2)

Division National Conferences shall be defined as "non-business conferences removed in time and place from the American Library Association's Annual Conference" and LibLearnX Meeting in order "to view and explore areas of Divisional concerns in depth."

Location Proposals for Division National Conferences¹⁰ should be made to the ALA Executive

Board at least two years in advance of the anticipated meeting date following a prescribed proposal outline. ALA state and regional chapters in the geographical area of a proposed conference shall be notified in writing of a desired conference prior to submitting the request to the Executive Board. Such notice shall seek the cooperation of the chapters with respect to scheduling and programming to the extent feasible. The Division shall contact the host Chapter prior to determining date availability with the host city. The Division shall contact the chapters in the geographical area immediately after determining date availability with the host city. In the event of a conflict with the ALA state or regional chapters and the proposed Divisional conference, the ALA Executive Board shall make the decision in consultation with the chapters and Divisions.

A.4.3.4.9 Conference Programming

ALA provides the support necessary for Divisions to conduct business and plan and present Conference programs. Some Conference program costs may be borne by the Division except for financial support for staffing and equipment as described in ALA Policy A.4.3.4.5, Section A.1.b. Recognizing that conference programming benefits all attendees, financial support in the form of General and Special Allocations from ALA to Divisions and other units for Annual Conference programming shall be provided; this support will be arrived at as the result of an explicit and equitable process in which the Divisions participate. Meal functions and special events must be self-supporting.

A.4.3.4.10 Special Projects of Divisions

Divisions may seek external (non-ALA) funding to pursue projects to enhance Division program priorities. Division Boards of Directors have the responsibility for assessing programmatic impact and must approve all requests for funding external projects. Additionally, all proposals and contracts for such funds are signed by the Executive Director of ALA in the name of the Association. All special projects are reviewed, approved, and conducted in accordance with established ALA policies and procedures and the conditions of the grant or contract. All costs for projects funded through grants or contracts from outside agencies or organizations should be covered by project funding and may include grant overhead to support administrative and operational services.

A.4.3.4.11 Planning

Each Division has autonomy in its own planning processes within its area of responsibility as designated by ALA Council, subject to present and future ALA policies. Divisions have the responsibility to develop and implement a planning process to guide their programs and allocate their resources within the areas of responsibility assigned to them by the ALA Council. Since Divisions contribute to the formulation of ALA goals, it may be expected that many of the priorities and activities reflected in the plans will also be a part of Division priorities and activities. Further, each Division has responsibility for providing ALA with a multi-year financial plan consistent with ALA's existing financial policies and resting on multi-year program plans reflecting the priorities of the Division's members. Divisions have a responsibility to assist and inform the ALA Executive Board of their strategic plans on a regular basis, and to inform the ALA Executive Board of their work through timely and comprehensive financial and operational reporting.