



## MEMORANDUM

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**TO:** UUA Board of Trustees and Finance Committee

**FROM:** Tim Brennan

**RE:** UUA Budget FY09 transmittal memo

**CC:** Bill Sinkford, Kay Montgomery

**DATE:** April 14, 2008

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### Summary

This budget cycle marks the first time that the UUA administration has submitted budgets for the upcoming fiscal year and the following year (the “out year”) together. As required by our by-laws, the proposed budget for FY09 is balanced. The forecast for FY10, which will be “received” by the board, shows a small deficit.

This new process has worked well from the administration’s perspective. Because we had the benefit of actual revenue and expense data through January, and because we were close enough to the upcoming year, the proposed budget has much more refined projections than has been the case in the past. As a result, we do not anticipate going through a full budget revision process for the October board meeting. Instead, we will present a revised forecast based on results for FY08 and analysis of any new information available at that time.

As we look forward to the next fiscal year, we are anticipating a challenging financial environment. Given the slowdown in the US economy and the decline in the stock market, we believe it is prudent to project little growth in revenues. Overall, the proposed budget assumes an increase of 0.4% in income and a like increase in expenses. Expense growth was contained by allowing only 2% of total payroll for raises, but cutting travel expenses by 5%, and by containing other expenses throughout the budget. (Note that the assumption of a 2% increase in salaries does not imply that there will be a 2% across-the-board raise.)

As a further precaution, certain expenses, which are anticipated to be funded through campaign gifts, have been identified as “conditional.” This means that although the expenses are included in the budget, expenditures will not be authorized until the associated donations are committed.

The FY10 preliminary budget is intended as a tool for planning, showing the implications of trends and program choices in FY09 and what the impact is likely to be in FY10. This pass at the budget for FY10 shows total revenue and income of around \$27 million, excluding Beacon Press and General Assembly, both of which are assumed to operate at breakeven. The small deficit of \$393K will be eliminated when the final FY10 budget is presented to the board for adoption next year.

The following analysis will focus on changes from the FY08 to the FY09 budgets, the one the board will be considering at its meeting on April 19 and 20.

## **Notes on Significant Changes from Budget FY08 to Budget FY09**

### **Overview Report Format**

The accompanying report has six columns as follows:

FY08 Budget 10/17/07: this is the budget for FY08 adopted by the BOT at the October 2007 meeting.

FY08 Results 12/31/07: this shows income and expenses for the first six months of the fiscal year. Note that it is not a forecast for the full year.

FY09 Budget 3/07/07: this is the preliminary FY08 budget that was “received” by the board at its April 2007 meeting, one year ago.

FY09 Budget 3/05/08: this is the budget that the Administration is submitting for consideration by the BOT.

FY10 Budget 3/05/08: this is the “out-year” budget to be received by the BOT.

### **Overall Income – up 0.4%**

#### **Fundraising – up 0.7%**

APF is projected to grow by \$125,000 while Friends and bequests are essentially flat. In the last variance analysis report submitted to the BOT in January, we had anticipated possible shortfalls in APF and Friends, but APF is currently ahead of budget and Friends income is now tracking just slightly below budget. We attribute this to filling the Friends director position in the Fall. Given the tight economic conditions we anticipate for the year, we elected to hold bequest income constant at \$425,000.

#### **General Investment Income – up 0.7%**

We have assumed no growth in assets for FY08 and an increase of 5% in FY09. Our policy of averaging assets over 13 quarters in calculating endowment payout diminishes the effect of market fluctuations.

#### **Campaign Income – collectively down by 3.0%**

Note that income from campaigns included in the operating budget includes funds that will be expended on programs during the fiscal year, not the total amounts pledged or collected. Payments from the Handing on the Future campaign, primarily matured planned gifts, and withdrawals of spendable accounts produce a doubling in spending. CFUU, on the other hand, now includes mostly earnings from endowed accounts and is down 77% from last year. Now is the Time Campaign (up 8%) – is projected to essentially hold steady with this fiscal year.

#### **Veatch Grants – up by 11.4%**

The Veatch Fund has increased their support of the UUA.

#### **Holdeen Trusts – down by 5.2%**

Due to decreased spending from Trust income, primarily due to lowering our support to IARF.

#### **Income for Other Purposes – up by 4.8%**

Mostly due to increased payments from Health Plan Trust to offset personnel, administrative, overhead, and occupancy expenses of the Plan.

**Overall Expenses – up 0.4%**

With the FY09 budget, we initiated the practice of allocating occupancy costs (depreciation, utilities, maintenance, etc.) to each staff group based on square footage used. In the case of Beacon Press, the occupancy cost allocation is offset by a support payment recorded in the Communications staff group budget. While there is no effect on the bottom line, one effect of this change is that the FY08 and FY09 budgets are not directly comparable. The notes below comment on changes not related to occupancy cost.

**Board and Volunteer Leadership – down by 5.1%**

Youth consultation was completed in FY08.

**Congregational Services – down by 20.0%**

Following on the Youth Consultation process, all Youth activities have been consolidated in the Lifespan Faith Development Staff Group. Young Adult and Campus Ministry represented \$445K in the FY08 budget.

**Identity Based Ministries – increase of 12.8%**

The increase is due to spending on the Diversity of Ministry program, most of which will be funded from Campaign donations and Association Sunday.

**Lifespan Faith Development – 37.7% increase**

This reflects the transfer of the YACM budget from Congregational Services and the consolidation of all Youth activities in LFD.

**Ministry and Professional Leadership – up 26.3%**

Increased spending on Excellence in Ministry and Lay Theological Education funded with \$500,000 from Association Sunday. These expenses are conditional on achieving the revenue goal. Also includes a new program for supporting congregations with worship and music resources funded entirely through a generous donation (\$87,000 in FY09). These funds are already committed.

**Communications – up by 17.1%**

In addition to the occupancy cost allocation and the Beacon support payment (together \$443K), Periodicals expenses have increased by \$30K due to printing and postage costs.

**Administration – up by 11.1%**

The increase is due largely to the fact that the pool for raises is carried in this line (\$149K). Human Resources expenses, which include benefits, are flat with the FY08 budget due to the UUA Health Plan, which is helping to contain costs.

**Internal Services – down 39.1%**

Reflects the allocation of facilities expenses to the staff groups.