MEMORANDUM

To: UUA Board of Trustees

From: UUA Administration, submitted by *President Susan Frederick-Gray, Executive Vice President Carey McDonald, Treasurer Andrew McGeorge*

Re: Consolidated and Capital Budget Submission for 2023-2024

Date: May 9, 2022

Consolidated Budget

The consolidated budget presents the FY23-24 forecasts for the UUA Operating Budget, as well as the organization's other "business units": Beacon Press, the General Insurance Program (GIP), the Building Loan Program, UUCEF, General Assembly, and the UUA's role as landlord at 24 Farnsworth. Budgets for each of these areas are presented, along with adjustments for eliminations. The eliminations line recognizes that we cannot simply add up the various sections to determine totals for the Consolidated Budget, since some of these units are doing business with each other and we do not want to double count income and expense lines.

Among the highlights of the Consolidated Budget:

- Beacon Press expects to return to sales levels more like pre-White Fragility. Although the press is forecasting modest operating losses in FY23-24, these figures also include a higher base occupancy cost transferred to the UUA versus prior periods and increased salary & benefit costs for Beacon.

- UUCEF's budget simply assumes a 6.5% return on the UUA's portion of the fund, less the various manager and third-party fees and administrative expenses charged to the fund.

- General Assembly is forecast with a flat budget, but with a lower income/expense level in FY24 versus FY23 in recognition of the likelihood of a virtual gathering that year.

- Lease income is flat between FY23 and FY24. The reality is that we bring in more cash from tenants each year as rents rise, but the accounting standard for lease income is to record level income each year based on the lease term and the total income over the life of the lease.

On a consolidated basis, we are forecasting surpluses of $3.1-3.2 million over each of the next two years but note that these figures are highly dependent on the observed returns from the endowment.

Capital Budget

For FY23, we anticipate spending $155,000 in IT-related capital expenditures (CapEx), while the investment in the building will be $898,500. The figures are budgeted to increase to $212,000 and $1,186,000 respectively in FY24.

For IT CapEx, we are reaching end of life on major hardware components including networking equipment and backup power supplies. For components that affect the security of the UUA's network, we cannot wait until hardware fails and instead must be more proactive about replacement. Additionally, we monitor when vendors plan to end support of our installed hardware as a guide to replacement. We have accelerated the replacement plan into FY22 to take advantage of pricing incentives and supply chain concerns, and this increased our FY22 CapEx by about $125k.

Additionally, $100k is budgeted to support migrations, development, and implementation of new software during FY23 & FY24. These expenditures will support migration away from several legacy applications that limit staff's ability to be agile and, in some cases, hinder our ability to apply security updates in a timely manner.

On the Facilities side, we follow the best practice for nonprofit institutions with substantial physical assets by conducting a Facilities Condition Assessment (FCA) periodically to determine the right amount to set aside for the replacement of major building systems. The FCA looks at each major system – roof, HVAC, elevator, electrical panel, fire safety, etc. – and estimates when each will reach the end of its useful life and the cost of replacement at that time. This is plotted over time, typically 10 years, which yields an aggregate capital budget for major systems replacement. The FCA was last completely updated with the guidance of consultants and engineers during FY19, although we make annual adjustments to the plan based on the condition of the facility and resulting priorities.

When we last updated the FCA, we had several relatively expensive projects to complete over the next decade: replacing the boilers in the building, adding interior reheating to the UUA portion of the building, replacing the building's fire pump, repair of the masonry façade, and replacement of the building's windows. Unfortunately, due to end-of-life concerns, these projects were somewhat front-loaded in the 10-year plan. Of this list, just two remain, the window replacement project and the façade repairs. The windows project is estimated to cost $860,000 and these outlays are split between FY23 and FY24, with the implication being that the work will be done during the spring/summer of 2023. The masonry project is included in the FY24 total and amounts to $295,000.

We took advantage of having few people in the building in FY22 to accelerate work on the interior reheat system, a project that added supplemental heat to the interior of the building, which otherwise relies on radiators along the front and back perimeter of each floor. We unexpectedly had to prioritize the fire pump project in FY22 when further repair of the old system became problematic. These two projects, along with the garage sprinklers, resulted in the large forecast for capital expenditure in FY22.

The good news is that once the windows and masonry work is complete, we should see CapEx for the building drop considerably. In FY25 and beyond, capital requirements for the building should be less than $200k annually for the next several years, barring any surprise replacement projects.

Even with this heavy burden of capital costs in FY23 and FY24, we still show depreciation expense exceeding new CapEx. Over the long run, we would expect our CapEx to be less than our depreciation costs, recognizing that we aren't growing our capital base, and we had to make significant upfront investments when we moved to 24 Farnsworth. The fact these numbers are closer in FY22-FY24 reflects the large group of capital projects flowing through the system right now, and we expect depreciation to greatly exceed CapEx in FY25 and beyond. The condition we would not want to see is new capital expenditures more than depreciation, since that would not be sustainable for us in the long run.

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