

MEMORANDUM

To: UUA Board of Trustees

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

Re: Budget Submissions for FY24 and FY25

Date: April 10, 2023

We are pleased to submit to the Board of Trustees for its adoption this budget for Fiscal Year 2024 (July 1, 2023 to June 30, 2024) for the Unitarian Universalist Association.

The budget shows a deficit for FY24 of \$132k. The budget includes no layoffs, although we continue to hold open several vacant positions at the UUA. We have included a 3% of salary cost of living adjustment for UUA staff effective 7-1-23. This COLA adjustment also has equity-based considerations including a floor of 3% of the median salary and a ceiling for a maximum COLA. We believe this COLA to be absolutely necessary and at the low end of what we would like to offer given the inflationary environment. We have been through two iterations of cuts to travel, consultants and other more variable expenses with budget managers, and these totals have been reduced significantly from initial requests. Lastly, the budget includes the bylaws-required contingency of \$438k, an amount equal to 3% of unrestricted expenses, which continues to offer protection against downside risk inherent in the budget. **We ask the board to approve this budget with a deficit of \$132k, less than 1% of total spending, recognizing that making further cuts would be detrimental and knowing that there continues to be uncertainty with any budget.**



Overall Budget Trends

Overall, the FY24 budget looks a lot like the FY23 budget. Total income is close to flat, with declines in outside trust income and APF offset by higher expected campaign spending releases. We have incorporated an increase in expected bequest receipts given our recent history. However, this is offset by lower expected occupancy cost transfers from Beacon Press to the UUA. Meanwhile, expenses

are up by about \$475k versus the FY23 budget, which is a smaller overall increase than the individual line items for salary and benefit increases, implying that we've made cuts in other areas.

The difficulty in balancing the budget arises from the ongoing challenges of largely flat revenue for the Association paired with ever-increasing staffing and benefit costs, amplified by this high inflationary period. Simply maintaining our staffing levels, assuming a 3% salary increase, and offering the same benefits to staff costs the UUA an additional \$700k each year. In other words, to maintain staffing levels while offering a modest cost of living adjustment we need to deliver a combined \$700k of income increases and non-staff expense reductions year after year. We have had some recent good fortune on this front, with short-term, pandemic-related expense reductions, better-than-expected fundraising from our Annual Program Fund (APF) and bequest income, and diligent work to trim discretionary spending from the budget. These factors have leveled out in FY24.

The FY24 APF budget calls for a roughly 5.5% reduction from the recent peak seen in FY22. As we had previously predicted, declines in congregational giving through APF are a lagging effect of reduced expenses for congregations during the pandemic. Overall, our APF ask of congregations is declining because it is calculated as a percentage of prior-year congregational expense. We already have figures for FY25 and know that our APF ask will go up again in FY25, but for FY24 our ask is reduced. Additionally, we are also witnessing some softening of APF attainment down from the strong performance in FY21 and FY22, with anecdotal reports of particular stress in the finances of mid-sized congregations.

The return to in-person meetings and events has added some \$1.3 million of net expense to the budget relative to the pandemic lows. Our discussions with budget managers this year did not produce as many available new cost savings or income stream ideas as we had over the past few years, which indicates that we have achieved most of the easy gains to be had from carefully scrutinizing the budget each year.



Prior Period Income

As with last year, we are relying on three large sources of prior period income in the proposed budget. A description of these sources of funds and their use in the FY24 budget follows in this section. We have also separately shared with the Board a tracking spreadsheet the administration uses to monitor the use of and remaining balances in these funds.

Paycheck Protection Program (PPP)

We continue to rely on use of the PPP funding to help close the operating budget deficit, as we have started to do in FY23. We consider three uses for PPP funding in this budget: APF, publications and the virtual hymnal project. Our original approach to putting PPP funds into the operating budget was to use as a baseline our last pre-pandemic APF forecast and assume ongoing 2% increases in APF contributions. Using this approach, we would have anticipated over \$8.6 million in APF contributions for FY24. Our budgeted amount of \$7.97 million is \$664k below the calculated figure, so we propose using this amount of the PPP funds in the budget.

We again plan to include an additional PPP allocation to account for UUA Bookstore sales that have been adversely affected by the pandemic. Total sales for the UUA Bookstore have suffered since the pandemic. A large percentage of Bookstore sales is from congregational materials, including hymnals, pamphlets, brochures, and OWL curriculum, all of which have been adversely affected by the pandemic. In FY19, the last full pre-pandemic year, the Bookstore saw gross sales of about \$700,000 for UUA publications (not including trade sales or products). The cost of goods sold for such titles is about 20% of sales. For FY24, we are forecasting \$500k in sales, or a decline of \$200k from pre-pandemic levels. Subtract the 20% for cost of goods sold, and the net revenue lost due to pandemic-related sales declines is \$160,000.

Lastly, we are including \$50,000 in expenses for the virtual hymnal project development paid for with PPP funding. This is the continuation of a project that will last through FY25. It became clear during the pandemic that congregations needed assistance with digital rights for music and incorporating music into online services in a compliant manner. This is a need the UUA is well-suited to address,



and we believe dedicating PPP funding to this project is prudent. We should note that we expect this investment in digital music resources to become a source of income for the UUA in the years ahead, but we are just getting started on the work of developing a business plan that would allow us to model this income.

The total proposed PPP usage for FY24 is \$664k + \$160k + \$50k = \$874k. Along with what we expect to spend in the current fiscal year and accounting for the transfer of \$1 million of PPP funds to the UU Health Plan to bolster the plan's reserves, we will end FY24 having used \$2.41 million of the original \$3.3 million of PPP funds.

COIC Implementation Funds

The budget includes \$526k in expenses related to implementation of recommendations from the Commission on Institutional Change. At the end of FY20, the UUA Board designated \$1.062 million of that year's net surplus to be used toward COIC implementation work.

These funds began to be spent in FY22, and by the time we end FY24 we will have used \$708k of the original amount. Costs will begin dropping significantly in FY25 as some of the time-limited, project-based work recommended by the Commission is completed during the upcoming year.



FY 2021 Operating Surplus

Lastly, we again propose to use 25% of the FY21 operating surplus, or \$395k, towards the upcoming budget. We used this exact same approach in the FY23 budget. We closed FY21 with a surplus of \$1.58 million, and this was mainly a consequence of a significant decrease in travel and event expenses. Rather than designating this surplus for specific purposes in the years ahead, the Board agreed to allow the administration to spread its use out over the next four or more years. As part of this discussion last year, we shared a long-range model with the Values and Resources group that showed we expected to trend toward balanced budgets even with some extra spending over the next few years.

Importantly, we have not incorporated a similar approach with the FY22 operating surplus of \$1.277 million. Deploying the FY22 surplus in a similar fashion this year would increase the likelihood of future budgets having to reckon with a fiscal cliff scenario. Instead, we're viewing the FY22 surplus as a buffer against future risks and a resource to be used to take advantage of potential opportunities.

Opportunities Ahead

We continue to feel encouraged by strong investments we are making in the core work of the Association. Some of the most exciting news is that under the leadership of Rev. Lauren Smith, we have fundamentally rebuilt the Stewardship and Development department in ways that we expect will increase revenue to the Association over the next few years. We have already seen the ways our investments in APF management and attention to mission grew APF income even during the pandemic. And while we see softening in APF, this expected lagging impact of the pandemic has already been a part of our planning. Additionally, the pandemic posed a major challenge for meeting and inviting new people into relationship with the UUA. However, we used that time to make the department overall stronger, with clearer and more consistent procedures and are getting ready to be able to build a stronger major donor program and a mid-level donor program. We also have and will continue to benefit from investments in legacy giving, beginning with the *Wake Now Our Vision* campaign and continuing with greater attention to this work.

Additionally, we were unable to address opportunities that are available with the asset of 24 Farnsworth as we approached a Presidential transition and were still learning how the pandemic would impact work. As we move more fully into a digital first workplace, there are many opportunities for generating more income given this asset.



Mission Investments for FY24

We made a range of critical new investments in our mission and programmatic work in the FY23 budget, which we are proud to sustain into FY24. Many of these investments are directly rooted in the recommendations of the Commission on Institutional Change (COIC)'s 2020 report *Widening the Circle of Concern*. Funding of these priorities remains possible because of continued reductions in travel and event costs, usage of prior year surpluses, and the constant drive to save money where possible to reinvest and address urgent needs. The FY24 budget includes \$526,000 drawn from the COIC implementation funds set aside at the close of FY20 for one-time expenses and term-limited positions (these are tracked separately through their own project code).

Sustaining our new investments in mission has been our focus heading into next year, so we have added only one additional major project for investment through the operating budget. This project is to use one-time funds to invest in the UUA's data systems, essential foundation for a digital-first organization. This project includes:

- Developing a replacement for the critical Raisers Edge fundraising platform
- Bringing online new ADP modules for Human Resources
- Activating a database of identity-related information for our leaders, with appropriate privacy protections—
- Creating new backbone data infrastructure to connect our core systems and allow users to log in via UUA.org

Longer-term investments continuing from previous years include the "Hope for Us" Conflict Engagement Team, now with a full team of coaches on staff; more capacity for workplace culture change through the Staff Learning and Relations Director position in Human Resources; new positions with the Side with Love Organizing Strategy Team, including a Climate Justice Organizer position; and increased Church Staff Finances staff to improve customer service and support for congregational administration. This budget also sustains or increases the UUA's long-term investments in serving marginalized communities within Unitarian Universalism, including grants to Diverse and Revolutionary UU Multicultural Ministries (DRUUMM), to EqUUal Access according to our newly signed agreement, to support a retreat for Transgender Religious professional UUs Together (TRUUST), and funding for the Finding Our Way Home retreat for religious professionals of color.



For FY24, we are sustaining or growing the following new investments:

- **Mosaic Hub for Anti-Racism** – We have been proud to launch the Mosaic Hub this year, an integrated platform for anti-racism resources, training, inspiration, and connection for UU congregations. This initiative includes a new project manager position, funds for curriculum development, and additional project funds.
- **UU the Vote 2024** – Fresh off the heels of a successful UU the Vote 2022, we know that mobilization will begin next year for the 2024 election cycle. The Side with Love Organizing Strategy Team will invest an additional \$325,000 in one-time expenses to build out our voter engagement and mobilization for 2023-24. This cycle, we will work on strengthening volunteer leadership and partner relationships, to create an ongoing regular campaign for engaging democracy into the years ahead.
- **UPLIFT Action and LGBTQ Programs** – We have increased to full time an LGBTQIA+ Program Coordinator position which supports regular gatherings for trans/nonbinary UUs and launched the UPLIFT Action campaign through Side With Love for gender and reproductive justice.
- **OWL Sexuality and Our Faith** – Our Whole Lives Lifespan Sexuality Education curricula are producing new illustration materials, and offering a new print format which is easy to update.
- **Accessibility and Disability Justice** – As part of the memorandum of understanding we signed with EqUUal Access, we have hired two new part-time staff positions: a Disability Justice Associate on the Side With Love team and an Accessibility Resources Coordinator to support congregational accessibility.
- **Revitalizing Children & Family Ministries** – We have hired a two-year Children & Family Ministries Specialist position who will help to lead Threshold Conversations, engaging UU educators and other leaders in reimagining ministry with children and families.
- **National Youth and Emerging Adult ministry team** – We have shifted two positions supporting youth and emerging adult ministry from regional staff to become part of a new, national team for youth and emerging adult ministry. This team is part of the



