



## **MEMORANDUM**

To: UUA Board of Trustees

From: President Sofía Betancourt, Executive Vice President Carey McDonald

Re: FY 25 Budget Proposal

Date: April 19, 2024

---

This memo provides the context for the UUA's Fiscal Year 2025 (July 1, 2024 – June 30, 2025) \$32 million balanced operating budget proposal.

### **Summary**

The UUA is now experiencing the full effects of the pandemic years and, like many organizations, it is reshaping the prospects of our budget. Our largest income sources – congregational giving, endowment returns and leasing income – are flat or down, and fundraising increases are modest. Meanwhile, inflation remains higher than pre-pandemic, pushing up labor, benefit and travel costs.

We continue to focus on sustaining our core mission work, including our outward facing ministry for organizing, justice and liberation, as well as our internal work for anti-racism, anti-oppression and multiculturalism.

We are conceiving of the FY25 budget as a bridge year to a new strategic multi-year planning approach, that reflects our reevaluation of budget realities following the acute pandemic phase. The UUA's financial fate is tied with the fiscal realities for our congregations, and we expect local budget pressures to continue for the next few years. We are committed to creating an approach that will reduce our core budget footprint while investing in what is most essential to address our urgent challenges and opportunities.

### **Income**

Like many of our congregations, the UUA is experiencing a number of income headwinds this year. Congregational giving through the Annual Program Fund (APF) has come down from its peak in FY22 of \$8.4 million and has continued to soften through FY24. We are anticipating APF will be flat for FY25 at \$7.9 million, and slow to

grow over the coming few years. We expected this softening, knowing that congregational giving often showed trailing impacts of two or more years. We had been saving income from our 2020 federal Paycheck Protection Program (PPP) grant for this purpose, and will use the remainder in FY25, about \$870,000.

Leasing income is our biggest change, as we see the impacts of the departure of our previous tenant WeWork. Our fourth floor tenant continues in a long-term lease. WeWork's leasing income was guaranteed through most of calendar year 2024, and we have been working with a real estate broker over the past few months to re-lease the space. However, WeWork's leasing rate per square foot was set at the height of the real estate market, and commercial rates have since come down. Even if the space is fully occupied, we anticipate at least \$400,000 less in future income. Our estimated lease income for FY25 is a bit lower, and includes the guaranteed rates from WeWork as well as a few months of partial income from a new tenant.

Endowment returns have been strong, yet stabilizing formula is tending to restrict spending given the up and downs of market valuation in the past few years during the pandemic. Despite strong performance in the past fiscal year, our formula is generating a year over year decrease in our draw. We are asking the Board for a one-year suspension of the rolling quarter average portion of the formula (specifically 4.5% of the four quarters ending in December of the current fiscal year), and simply apply the inflationary increase portion for the coming year. In FY25, we will review the endowment draw formula overall to ensure it is the best way to achieve our long-term goals for our endowment.

We are predicting a modest increase in overall fundraising with the addition of a major gift officer. We will be continuing fundraising for UU the Vote through the November election, where we expect to see strong interest. In the coming months, our Executive Team will also be working with our Stewardship and Development team to plan for future fundraising and campaign opportunities.

Finally, we are following a recommendation from our auditors to improve cash management. The UUA currently has about \$19 million in cash on hand. Given the strong interest rate environment, we plan to shift a portion of that cash into higher-interest bearing vehicles that are federally insured to generate interest income for the coming year.

**Expense & Investment**

This budget proposal continues investment in helping congregations adapt coming out of the acute pandemic, moves forward with UU the Vote and leans into the fifth year of implementation of the *Widening the Circle of Concern* recommendations.

We hear the challenges that congregations are facing, including ministry to children, youth and families, staffing and budget pressures, and continued multiplatform worship services. This budget proposal, while not beginning any major new initiatives, continues investments including:

- Supporting new lifespan faith development approaches through the “Threshold Conversations;”
- The second year of design and development for the Virtual Hymnal project;
- Support for staff sharing across congregations and creating flexible roles;
- High-impact publishing through Skinner House Books;
- Online learning through the UU Institute and leadership program; and
- Resources to help congregations through different stages of their “life cycles.”

The 2024 US election cycle is crucial for determining the future of our democracy and our values, and UU the Vote has already launched its campaign this year to engage thousands of volunteers and millions of voters. With a focus on building skills to be advocates for liberatory UU values in the public square, and deepening partnership with UU issue groups and state action networks, UUtV 2024 will be an intersectional mobilization to show how all of the UUA’s justice priorities are at stake and on the ballot this November. Building on those intersectional threads, we will also be planning for a first-ever UU Climate Revival in September. We will continue our support for the UPLIFT Action campaign for bodily autonomy and the Pink Haven Coalition collaboration for direct support and ministry to and with our transgender/nonbinary community, including sustaining a new Trans Support Specialist role.

The UUA continues its commitment to implementing the recommendations from the 2020 *Widening the Circle of Concern* report from the Commission on Institutional Change. Support for one-time aspects of implementation, drawn from the FY20 operating surplus as authorized by the Board, will be \$374,000 for next year. Some of the highlights of this ongoing work include:

- First full year of operations for the Board-appointed Accountability Launch Team;
- Mosaic Hub of anti-racism resources for congregations;
- Hope 4 Us conflict transformation team and coaches;
- New UU Communities Fund, supporting the new Cultivators Collaborative cohort program for faithful innovators leading new approaches to serve historically marginalized communities;

- Supporting identity-based groups and communities, including the Finding Our Way Home retreat for BIPOC religious professionals, as well as DRUUMM, EqUUal Access and TRUUst;
- Freshly-staffed team for national approaches to ministry with Youth & Emerging Adults;
- Adding a grant-funded position to accelerate Our Whole Lives lifespan sexuality education curriculum publishing;
- Beginning deeper planning conversations on widening the pathway to credentialed and professional ministry; and
- Preparing to resource UUs based on the potential passage of amendments to Article II at General Assembly 2024.

To make this transformative work possible, the FY25 budget proposal invests in a new Executive team structure by adding a new Vice President for Programs & Ministries as well as a Governance Manager role. These are supported by funds approved by the Board in August 2023, funded at \$555,000 for this coming year, to invest in the first half of this presidential term.

Pressure on travel, labor, benefits costs continue to rise, another impact of the pandemic. Travel costs have increased modestly from FY24, in part due to a multiplatform rather than all-virtual General Assembly in 2025. Health care premiums will continue to see substantial premium increase of 8-10%, following the trend of the past year. We have retained all current staff positions, though will be holding a few open positions and delaying filling them. Our budget proposal includes a modest cost-of-living adjustment in alignment with previous years, as well as a pool to begin the first phase of implementation of our newly revised compensation grade system. This grade system benchmarks UUA job descriptions to the market of comparable organizations and ensures staff continue to be paid a living wage, as defined in Board policy. The phase in of the new system will take multiple years; the approach to the phase-in is still in development, and will prioritize equity and the greatest areas of need.

The budget proposal also includes the bylaw-required 3% operating contingency of roughly \$430,000.

### **Long Term Planning**

The UUA has experienced a long-term budget structural deficit going back at least the past decade, in which costs tend to go up faster than income. This has been managed in the past through targeted reductions, unpredictable relief in certain areas such as increased lease income or bequest income, relying on one-time funds like PPP, and other incremental approaches. However, given the notable increase in expenses for the

coming years paired with anticipated decreased income, we are committed to taking the coming year to establish a truly sustainable financial path.

First, we will focus in the coming year on moving past legacy systems and commitments. IT investments are key to this in our digital-first organization, making progress with upgrading and knitting together our core data systems. We have made significant progress in this area in the past year, both moving away from our historic Raiser's Edge customer relations management (CRM) platform, as well as implementing new human resources modules through ADP. Financial systems need to be upgraded and streamlined well, both for our complex accounting organizational and endowment accounting as well as financial processing and integration with fundraising streams from Stewardship & Development.

We have begun asking all our staff for programs that they would recommend sunsetting, because they have moved past the time of greatest impact but continue to drain capacity and resources. We have also asked them to search for new opportunities for creative resourcing, such as grant funding or increasing self-funded services to help congregations with administration.

We recognize we will need to reduce our core staff count over the coming years, taking advantage of natural transitions. We will need improved internal planning and evaluation systems to become clearer about staff workloads and expectations. We will continue to implement the new grade system while right-sizing our staff, to ensure we are compensating them fairly. We will also consider where we can shift work from consultants to staff for savings.

This will begin by modeling the changes required to be on a sustainable trajectory in 3-5 years. It will require sustained planning and accountability to benchmarks over those years, led by our executive team. We will be regularly engaging the Board alongside our staff about this financial planning process during the next twelve months.

Finally, these kinds of in-depth conversations on sustainability and exploring new approaches which we are going to have internally at the UUA are reflective of the ones we know our congregations are having, as well. By modeling this engagement, we hope to support local congregations in this discernment over the coming several years. This is fundamentally an opportunity for all of Unitarian Universalism to be in faithful conversation about how to adapt to the changing political and religious landscape of these times, and how we will meet the moral imperative to meet this moment nimbly, faithfully, grounded in our values.