

Board Follow-up Packet

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APF Formula History

1967

The first reference to APF in the UUA Directories appears: “Full requested shares are defined as 12% of a church’s net operating budget, or \$12 per member for fellowships.” This language is repeated in each annual Directory through 1974.

1973

The Board changes the name from “Annual Fund” to “Unitarian Universalist Association Annual Program Fund.” They write, “The new name more clearly conveys the fund’s primary function of making possible the continental programs of the Association in the major areas of the ministry, religious education, social concerns, extension and leadership development, and publications aimed at serving local congregations.”

The Board decides on a new method of determining the Suggested Share for each congregation:

- Minimum Floor: \$6 per member
- Full Share: \$6 per member and 6% of operating budget
- Specific request set by three-person committee: VP for Development and Fundraising; chair of the APF Committee for the District or Area concerned; and the Interdistrict Representative.

Translated into 2015 dollars, \$6 in 1973 would be \$33.15. Therefore an equivalent Fair/Full Share in 2015 would be 6% of expenses plus \$33.15 per member, resulting in a total combined APF and District ask of \$14,737,795. The anticipated income range would be \$6,991,005-\$7,923,143; this is on par with \$7,637,452 actual income in FY14.

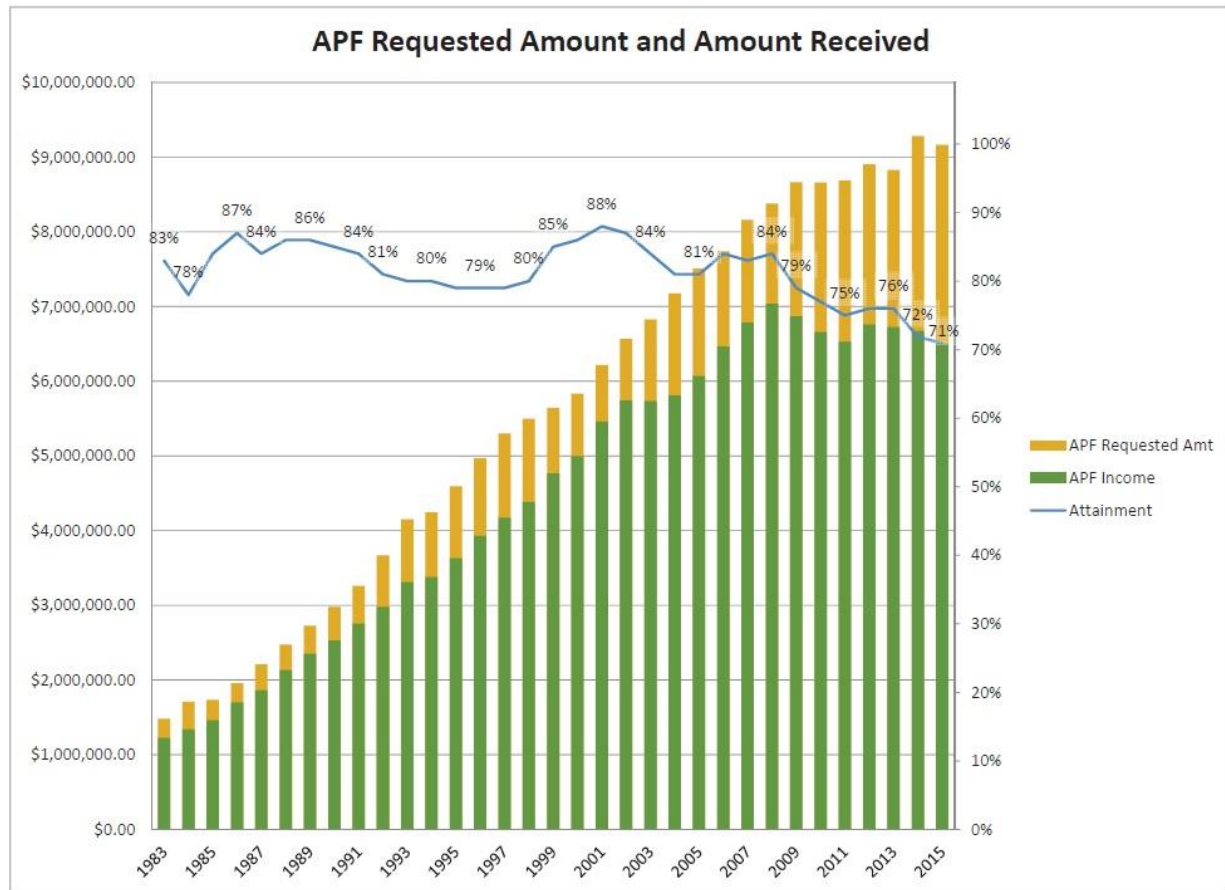
1978

The Board changes the formula for Suggested Fair Share for societal giving to:

- Minimum Floor: \$7 per member
- Maximum: \$16 per member
- Specific request to be set by a group of district and local representatives.

The 1978 formula lasted into the Schulz administration.

APF Attainment History

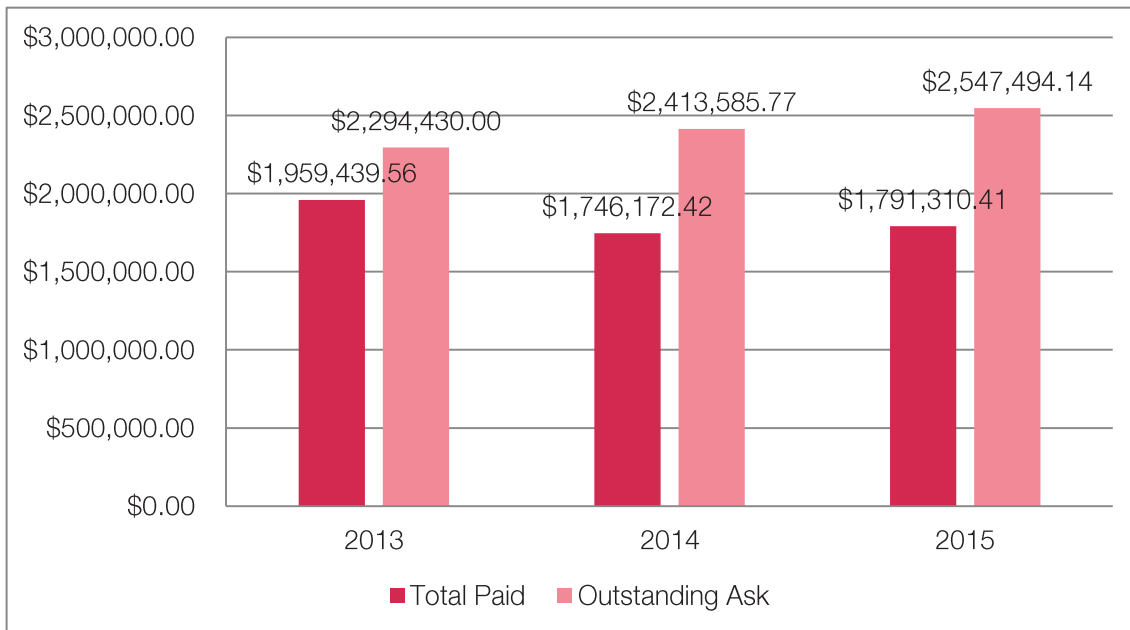


GIFT Learnings and Performance

- GIFT represents not only technical changes for congregations but adaptive ones as well. Adaptive change is difficult, and time is necessary for changes to truly take hold.
- A team of headquarters and field staff, lay leaders, and ministers is needed for the successful implementation of major change of this sort. The Congregational Giving Director is now in regular communication with Regional Leads and with a network of volunteers committed to communication and relationship building.
- Full participation is key:
 - The covenantal emphasis of GIFT means that the program will only succeed to the degree that all congregations fully participate. Participation is improved by greater education and connection with congregations and leaders, including ministers, large congregations, and lay leaders.
 - Our messaging needs to consistently emphasize that GIFT is what funds continental and regional services for congregations as well as district grants, and that congregations are depending on each other to support our connections.
- New messaging shifts to a covenantal focus, support of other congregations:
 - *Support of GIFT is the fulfillment of a promise that has already been made (see bylaws and principles/purposes).*
 - *GIFT benefits all of our congregations, and they depend upon your support, as you depend on theirs.*
 - *You are needed! Only together can we amplify the best of Unitarian Universalism.*
- Though GIFT eliminates the challenge of getting accurate membership numbers, it creates a new challenge as congregations settle on their certified reported expenditures.
- People tend to give at the lowest option presented. To support congregations in making the change, we offered Honor congregation status during the first year at 5%, and during the second year at 6%. (The request under GIFT has always been a full 7%.) What we found was that congregations were quite likely to pay the lower percentage rather than the full 7% ask. Even some congregations for whom the new formula was advantageous went to 5% in the first year even when the 7% was less than their previous APF and district dues total.
- The allowances made for the transition were complex and created confusion for congregational leaders. The right balance between fairness and complexity is difficult to find.

- Communication is always a challenge. An updated APF/GIFT webpage was introduced in the fall of 2015 with many helpful resources.
- A GIFT outreach project in the spring of 2015 taught us that the majority of congregations in the Southern Region perceive GIFT to be fairer than the previous funding model, even if their requested amount was higher.
- The results charted below were achieved despite a confusing roll-out formula, less than ideal communication, and lack of a coordinated team approach. As indicated above, these issues have been addressed with additional staffing and considerable attention to coordination and collaboration.

2013, 2014 AND 2015 REQUESTED AMOUNT AND CONTRIBUTION TOTALS



Modeling Philosophy

Summary

After reviewing the results of the GIFT pilot in the Southern region, a variety of potential formulas for a new APF formula for congregations in all regions were considered. Ten models, each with multiple variations were analyzed and considered. The three models with the most to recommend them were analyzed further and discussed by UUA senior staff. Further conversations including the Moderator, the UUA Financial Advisor, and the Finance Committee chair led to the presentation made by the Financial Advisor at the October 25 Board meeting.

Components of the formula: The Big Questions

- The existing formula is based on membership. Should the basis of the formula be expenses rather than membership?
- Large congregations (>550 members) currently have an option of paying a percentage of expenses rather than the per member rate. This creates an effective discount for many large congregations. Should there continue to be an accommodation for large congregations?
- Different districts (and regions) currently have different dues rates. As district/region dues are combined with APF into a unified request, should all congregations be asked the same rate?

Baseline for evaluating model results

- Southern Region congregations were excluded due to existing GIFT pilot with established formula (though lessons learned from Southern Region GIFT pilot were used in building models)
- International congregations were excluded, as they have no District Dues, nor APF requested amount; APF contributions by International congregations are voluntary
- For each formula the following factors were evaluated:
 1. Total requested amount
 2. Year 1 Potential Income
 - Income projected as a range
 - Lower end of projected income range assumes that each congregation pays the **least** of:
 - requested amount
 - The same % of requested amount as paid in previous years
 - The same \$ amount paid last year

- For congregations whose requested amount increased, 63% of requested amount¹
- Higher end of projected income range assumes that with proactive change management, each congregation pays:
 - If congregation has historically been an Honor congregation, and requested amount goes up by 5% or less (or goes down), congregation pays requested amount
 - If requested amount goes up by more than 5%, or if congregation has not historically been an Honor congregation, pays the **least** of:
 - The same % of requested amount as paid in previous years
 - 5% more than the \$ amount paid last year
 - requested amount
- 3. Average increase of requested amount
- 4. Number of congregations with increased, decreased requested amount
- 5. Number of congregations expected to pay requested amount
- 6. Patterns of increase and decrease of requested amount. (For each formula evaluated, congregations were selected at random, and their requested amount for each year of the transition was evaluated to see if the transition seems reasonable. *This will be done for all congregations if a determination is made that a new formula for APF will be implemented (after determining the exact parameters of the model.)*)
- For the purposes of evaluation, APF requested amount (including district/regional dues) was compared to the calculated requested amount for FY16. Excluding Southern Region and International congregations, **the total combined District and APF requested amount of congregations for FY 16 is calculated to be \$10,020,984** (down from \$10,192,492 in FY14).
- For the purposes of evaluation, potential income was compared to FY14, the last year for which full year payment data was available at the time of the evaluation. Excluding Southern Region and International congregations, **the total paid in FY14 by congregations was \$7,637,452 (compared to FY 14 total requested amount of \$10,192,492, a 75% fulfillment rate)**

Expenses and “Adjusted Expenses”

For the purposes of modeling possible formulas and outcomes, the following assumptions were made regarding expenses:

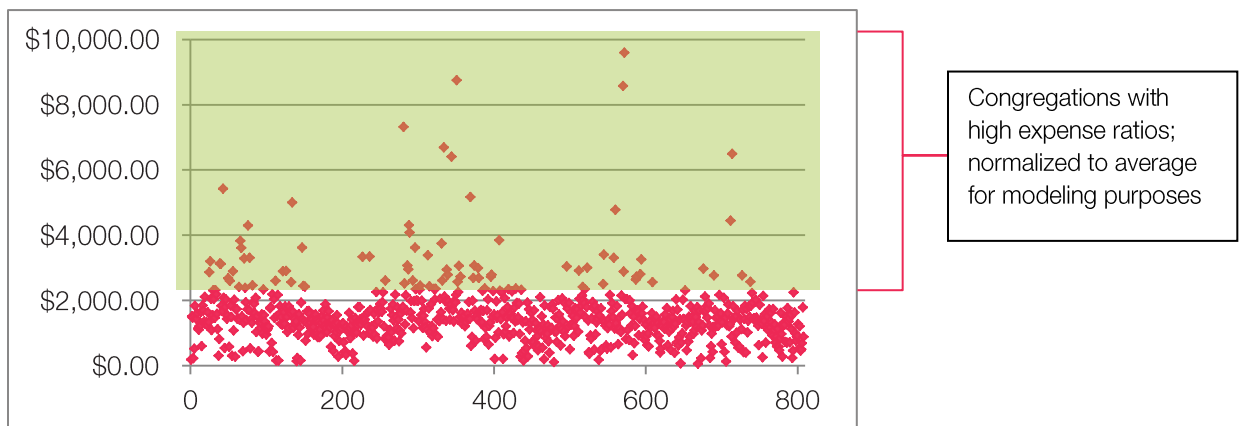
- Based on our experience with congregations in the Southern Region, we assumed that reported expenses will drop in the first year that expenses are used as a basis for calculating requested amount.
- We also assumed that some congregations will request adjustments to their reported expenses after seeing their requested amount calculated based on expenses.

¹ Based on results from Southern Region

- We assumed that new APF requested amount for federated congregations will be based on a ratio of UU identified members to total members.

$$\text{Federated Congregation Adjusted Expenses} = \frac{\text{UU Members}}{\text{Total Members}} \times \text{Reported Expenses}$$

- Adjustment for high expense ratio congregations.
 - There is a very wide range in expenses per member.
 - The average for congregations in the MidAmerica, Central East, New England, and Pacific West regions is \$1,678 per member, the median is \$1,410.
 - The actual expenses reported vary from a low of \$52 per member to a high of \$56,861.
 - *Congregations with very high expense ratios will need to be evaluated on a case by case basis to determine whether nonstandard expenses exist which should be excluded from calculating requested amount (very high expenses per member will otherwise result in significantly increased requested amount when changing from a per member formula to a percent of expenses formula for these congregations.)* Determining the best way to accommodate these congregations fairly will be part of the planning for the national rollout. In order not to exaggerate the potential results of formulas evaluated, congregations with expense ratios in the top 10% (82 congregations) were normalized to average expense ratios before calculating their requested amount. This is not intended as an actual solution for these congregations. It is a dampening tool applied to the model in order to prevent the congregations with exceptionally high expense ratios (many of which are likely to be adjusted) from distorting the results which were used to evaluate the models.



Mapping Congregational Expense Ratios

Based on district data and our assumptions, we assumed that mapping congregational expense ratios would support our assumption that higher expense ratios are associated with high cost of living areas.

To look at the data regarding variability of expense ratios and correlation to region and/or metro area, we've put the congregations on a map, with color coding by expense ratio. The data isn't entirely conclusive. It does show the clustering of high expense ratio congregations around known areas of high cost of living, but there are also enough exceptions to muddy the water (i.e. a yellow dot indicating low expense ratio in the midst of a sea of red dots indicating high expense ratios.) Looking at the individual dots does little to resolve the question: yes some are outliers, such as congregations too small for a fulltime minister, but many are not. In the end, the patterns on the map do not immediately suggest a more accurate pattern of expense ratios than by region.

The map is fully scalable and clickable. You can zoom in and out and move around as you normally would with Google maps. Click on a map icon and you will get the congregational info.

Link to the map:

<http://tinyurl.com/uuexpratiomap>

The key in the lower right is a little bit confusing- unfortunately there is no way to edit it. Here is the key:

●	Expense ratio Quintile 1 (lowest)
●	Expense Ratio Quintile 2
●	Expense Ratio Quintile 3 (midpoint)
●	Expense ratio Quintile 4
●	Expense Ratio Quintile 5 (highest)

Three Finalist Models:

Of the formulas determined to be potentially viable, each has its strengths and weaknesses. The following are the three most viable models analyzed while determining whether to change to a new formula for APF, and if so, to which formula.

Model 1 – Straight Percent

- 7% of expenses
- Transition evenly over 3 years

For each congregation, calculate the projected amount to be requested as 7% of adjusted expenses, but for all congregations, spread the increase or decrease over 3 years.

Model 2 – Percent with Large Congregation Accommodation:

- 7% of expenses
- 6.75% for large congregations
- Transition evenly over 3 years

This model uses the same formula as Model 1, however, allows for the % of expenses to be set differently for large congregations (over 550 members).

Model 3 – Metered Transition to Percent:

- 7% of expenses
- 6.75% for large congregations
- Unlimited transition time; cap each year's change to +/- 10%

This model is similar to Model 2 (and Model 1, though with the addition of differential rates for large congregations) with the difference that instead of moderating the impact by spreading the change over a pre-determined number of years, the change is moderated by capping the annual increase or decrease for any congregation to be no greater than + 10% (or less than -10%) of the requested amount the previous year.

Expense Based Formulas: Pros and Cons

All of the expense based formulas presented here share certain common pros and cons compared to the current membership based formula.

Pros

- Expense based models are more fair. This was the intent behind the GIFT pilot in the Southern Region, and follow-up with congregations in that region confirm that the expense based model is perceived to be considerably more fair than the membership based formula, even by congregations whose requested amount increased.
- More inclusive membership; not penalized for growth. Congregations report a desire to be more inclusive in their membership rolls, which is often in conflict with the concern that increases in membership increase the amount requested by the UUA.

Cons

- These formulas effect congregations in different regions differently.

Table 1: Congregations seeing Increase or Decrease in Requested Amount

	Model 1		Models 2 & 3	
	Increase in Amount Requested	Decrease in Amount Requested	Increase in Amount Requested	Decrease in Amount Requested
Southern	104	111	104	111
MidAmerica	90	96	90	96
Pacific Western	122	66	121	67
New England	188	46	188	46
Central East	124	75	123	76

- Reduced number of congregations projected to be Honor congregations (without special accommodation)

Accommodation for Large Congregations

Large congregations (>550 members) currently have an option of paying a percentage of expenses or the per member rate. The APF requested amount is the lower of the two.

- Currently 31 congregations have 550 or more members; for only 16 of those is the APF requested amount based on a percentage of expenses; for the other 15, the \$ per member rate is favorable.
- Of the 31 congregations with 550 or more members, only one has reported expenses of less than \$600,000 (the lowest is \$574,770)

Two questions to be asked:

1. If moving to an expense-based formula for requested amount, should the accommodation for large congregations be a part of the new formula?
2. If there is to be an accommodation, should the basis of determining qualification for the accommodation also be based on expenses rather than membership?

Observation: If changing the APF formula to be based on expenses, changing the accommodation for large congregations to be based on expenses greater than or equal to \$600,000:

1. Increases the number of congregations qualifying to 61
2. Has very little impact on the projected financial performance of the model (compared to accommodation based on >550 members)
3. Aligns the basis of the accommodation with the basis of the requested amount (reducing the temptation to creatively count membership numbers)

Accommodation for Maintaining Honor Status

Based on the likely payment patterns used in the model, projections for Model 1 are that up to 165 congregations may lose Honor congregation status; 163 congregations may lose Honor status in Model 2; 170 may lose honor status in Model 3. We need to consider a plan to allow historically Honor congregations to maintain that status while increasing their New APF payments and making progress towards paying full requested amount again. If so, the recommended minimum would be:

- If congregation was Honor last year
 - **and** increase in requested amount is greater than 10%
 - **and** congregation increases payment by at least 10%
 - **and** congregation negotiates a plan for 5 year transition to paying full requested amount
- Congregation maintains Honor status while meeting all of the minimum standards above, for a maximum transition period 5 years, after which the congregation must pay full requested amount.