MEMORANDUM

TO: UUA Board of Trustees and Finance Committee

FROM: Tim Brennan

RE: UUA Budget for fiscal year 2014

CC: Peter Morales, Kay Montgomery, Harlan Limpert, Terry Sweetser

DATE: April 2, 2013

Summary

I certify that all expenditures proposed in the budget are in furtherance of one or more of the Ends of the Association, as specified in Policies 1.1 through 1.3, and as demonstrated in the document entitled FY14 Budget Linked with Ends. Furthermore, I certify that the allocation of expenses among the programs set out in the budget has been determined in accord with the President's judgment concerning the priority of each End, as required by Policy 1.4. The strategic priorities of the Administration that shaped the budget are described in "UUA Strategic Plan: Our Strategic Vision and the FY 2014 Budget" sent separately.

The budgeting process began with an estimate of available resources for the year. We started the last fiscal year with optimism that the pall that had hung over the general economy and the finances of the Association had begun to dissipate. However, as has been reflected in the quarterly forecasts, giving from our congregations and small donors has not revived. We attribute this to continuing fiscal challenges in our congregations, especially in the largest of them.

With relatively stagnant revenues and upward pressure on costs in some areas, the initial draft of the FY14 budget showed a deficit of $1.7 million. The most significant changes necessary to bring the budget into balance are as follows:

- Reduction in force of 10.15 full-time equivalents saving $762,000. (Resulting severance costs have been charged to the current fiscal year.)
- Launch of the next comprehensive campaign focused on the new headquarters, projected to yield $550,000 in additional major gift donations.
- Increased fees from the insurance and retirement plans to fully recover the costs of operating the programs and a fee charged on legacy gifts. About $100,000.
- Beacon Press to pay $100,000 towards its occupancy expenses.
- Program reductions across the board of approximately $200,000.

Therefore, in order to devote resources to programs that help to achieve the Global Ends through the President's priorities, resources had to be reallocated within the budget. See the Strategic Plan for additional details. The Fiscal Year 2014 budget is shaped by the following key priorities:

- Direct service to congregations: We protected our field operations that consult directly with our congregations. In spite of the fact that 10 positions were cut from the staff, we maintained the staffing level in the field. In addition, we are committed to proceeding with the regionalization of services throughout the Association.
- Reaching beyond our membership: While we had to find economies in a number of areas, we preserved our efforts to create a communications strategy designed to reach beyond the walls of our current congregations.
- Strategic Review of Professional Ministries: We are in the process of implementing the recommendations of this review. Further implementation this year involves dissemination of the "Beyond the Call" professional development initiative, completing design of a program for developing entrepreneurial ministry, and the Panel on Theological Education's work to develop a recruitment program.
- Comprehensive Campaign: We will launch a comprehensive fundraising campaign in this budget year.
- A 2% cost of living raise for staff starting January 1, 2014. (The previous raise was January1, 2013.)

Transition to the New Headquarters

The budget as presented ignores the effects of the transition to the new headquarters. The following analysis starts with the bottom lines of FY 14 and FY 15 and makes adjustments for the following:

- Additional endowment payout from the proceeds of the sale of the Beacon Hill properties.
- Lease income from the tenants on the upper three floors of 24 Farnsworth Street.
- The elimination of depreciation and operating costs from the BH properties.
- Addition of higher depreciation and lower operating expenses from the Farnsworth building.
- Additional lodging costs after the closing of P&E.
- Lease payments on Farnsworth through December 2014.

Analysis of HQ Transition on Budget (in $000s)	**FY14**	**FY15**
Net surplus (deficit)	-	-
Plus: add'l endowment payout	481	612
Net lease income	-	431
Plus: BH depreciation	163	207
Plus: BH operating costs	179	179
Less: Lease payments	(1,265)	(775)
Less: Addl lodging cost		(150)
Less: 24Farnsworth depreciation		(404)
Less: 24Farnsworth operating costs	-	(88)
Net effect	(442)	13

The net effect is that during FY 14 there will be transition costs of approximately $442,000, depending on the timing of the sale of our buildings. By FY 15, there should be no net effect.

Variance Analysis: 3rd Quarter FY13 Forecast to FY14 Budget

The following analysis explains significant changes from the 3rd quarter FY13 forecast to the FY14 budget.

Overall income – down 3.1%

Annual Program Fund – up 2.2%
The Annual Program Fund is projected to grow modestly next year due primarily to an increase in the per member fee.

Friends of the UUA – up 11.8%
Friends of the UUA is expected to grow due to improving economic conditions and investment in a new donor acquisition effort.

Unrestricted Gifts – up $230K
This line represents anticipated revenue from a direct congregational appeal which will be reinstated following a one-year hiatus.

Bequest Income – down 25.9%
Bequests during FY 2013 have declined significantly from last fiscal year. For next fiscal year, we forecast an amount well below the 10-year average.

Endowment Income – up 1.3%
This is the spending from the unrestricted portion of the endowment. This modest increase reflects the UUA's spending policy under which allowable spending for the upcoming year is based on the current year's spending increased by inflation weighted 70% and the change in asset value for the four quarters ending December 31 weighted 30%. So while the endowment fund was up significantly in 2012, spending increased modestly due to the weighting of the inflation factor at 1.7% for calendar year 2012.

Other Current Fund Income – up 4.1%
Small increases in several revenue sources including book sales and lodging income at P&E, which will remain in operation for the entire fiscal year.

Campaign Income – down 13.3%
During this current fiscal year, two extraordinary items added to campaign income. One was the repurposing of a gift from the Handing on the Future Campaign, and the other was a one-time gift for FY13. Together these totaled $500,000. These gifts will not be repeated in FY14. The projection also assumes the launch of a new comprehensive campaign featuring the new headquarters facility. Note that income from campaigns included in the operating budget includes funds that will be expended during the fiscal year, not the total amounts pledged or collected.

Ministerial Aid Funds – down 5.3%
Some carryover from previous years was used in FY13 to meet extraordinary aid needs. Restricted endowment income actually increases slightly.

Holdeen and International Trusts – down 1.1%
Some carryover from previous years was used in FY13 to fund transition to new director and establishment of the India office. Restricted trust income actually increases slightly.

Income for Other Purposes – down 44%
Reflects the removal of $900,000 in General Insurance Program (GIP) income from the operating budget. The corresponding expenses have been removed from Ministries and Faith Development below so there is no net effect on the budget. In FY 2014, the GIP will be treated as a separate business segment. Partially offsetting that decrease is a contribution to occupancy expenses from Beacon Press of $100,000.

Overall Expenses – down 4.2%

Board and Volunteer Leadership – down by 7.5%
Decrease due to the reduction in the size of the board of trustees.

Multicultural growth and witness – down 12.7%
Two full-time positions eliminated.

International – down by 5.7%
Grant of $70,000 to LRCS from the Designation Trust will not be renewed.

Ministries and faith development – down 18.8%
Reflects the removal of $900,000 in General Insurance Program expense from the operating budget. The corresponding income has been removed from Income for Other Purposes above. In FY 2014, the GIP will be treated as a separate business segment.

Crisis Relief – down by 3.3%
Slight decline in the occupancy allocation for Beacon Press.

Contingency/Salary Increase
Contingency is set in the by-laws as 3% of unrestricted income. Assumes a 2% cost of living salary increase in January 2014, 12 months after the previous increase.

Administration – down 5.6%
Reflects the elimination of one position and reductions in consulting and legal fees.

Stewardship and Development – up by 4.5%
Includes an allowance for a possible shortfall in the Southern Region as the GIFT program is piloted.

Information Technology Services – up 7.2%
We are investing in a disaster recovery system that will enable us to have our major IT systems in operation within hours of a serious incident.

Internal Services – down 3.8%
A part-time position will be eliminated in financial services. One position is also eliminated in operations.

Overview of Report Format
The accompanying report has six columns as follows:

- FY12 Results: the actual income and expense from last fiscal year.
- FY13 Forecast: this is the forecast of the FY13 budget that is being presented to the board at its April meeting.
- FY14 Budget: this is the budget that the Administration is submitting for consideration by the BOT.
- FY15 Budget: this is the “out-year” budget for consideration by the BOT.
- Percent Inc/(Dec): this shows the percent increase or decrease from the FY13 3rd quarter forecast to the submitted FY14 budget.
