Budget Narrative Accompanying the FY 2023-24 UUCF Budget

This narrative summarizes the current financial standing of UUCF and presents a budget approved by the Board of Directors for the congregation's consideration and approval for the 2023-24 fiscal year beginning Jul. 1, 2023.

1. **Reflections on the Budget for the Current Fiscal Year** (Jul. 1, 2022-Jun. 30, 2023)

The current year's budget projected a deficit for another consecutive year, to provide time and opportunity to recover from the pandemic, optimize revenues (pledges, rentals, fundraising and plate) and grow membership. The budget realized some gains this year, as increases in pledges, plate collections and Auction revenue combined brought in approximately $30,000 more than projected. At the same time, careful stewardship by the Coordinating Team (CT) and staff have maintained the overall reduced expenses as budgeted. As a result, we project that the budgeted deficit of $67,051 for the current fiscal year will be $37,665, approximately $30,000 lower than the amount budgeted.

2. **Fund Balances**

UUCF has a number of unrestricted and restricted funds for various purposes. Balances maintained in accounts, to the nearest $1,000, are as follows:

Operating reserves:	Unrestricted	$224,000
Capital reserves:	Unrestricted	$36,000
Operating account:	Unrestricted	$37,000
Custodial account:	Pass-through	$92,000
Special projects reserve:	Restricted	$133,000
Reach capital campaign:	Restricted	$111,000
Endowment funds:	Restricted	$476,000

Endowment Fund management responsibility was shifted directly to the Board of Directors beginning in the current fiscal year. The Board of Directors adopted an Endowment Fund Management Policy that maintains the fund as a principal-protected fund consisting of legacy and other planned giving gifts. The Board's policy maintained the prior policy that income withdrawn shall be between 4% and 6% of the Average Market Value (AMV) of the Endowment Fund, making such withdrawal subject to the recommendation of the Finance Manager and approval by the Board. Endowment Fund income continues to be available for projects that enhance the purpose and strategic goals of the congregation apart from its general operation, including projects that promote social justice, strengthen UUCF's mission or meet unanticipated essential needs of the congregation. Endowment Fund proceeds are available as grants requested by members and may also be applied by the Board to address unanticipated essential needs of the congregation.

The Board authorized the withdrawal of $31,000 in Endowment Fund proceeds for this fiscal year. Any Endowment Fund withdrawals not allocated by the end of the fiscal year will be deposited into capital reserves. Endowment Fund withdrawals to date have been applied to member grants and congregational needs as follows:

Strengthening UUCF RE community for 4th-6th Grades	UUCF RE	$1,000
Teaching English to Speakers of Other Languages	UUCF ESOL	$1,820
Food Justice: feeding children	NCGH	$2,000
Modeling climate action among six UU congregations	ACT!/FACS	$6,000
Computer replacement for UUCF staff	UUCF CT	$7,500
Total Allocation of Endowment fund withdrawals:		**$18,320**

3. **Budget Proposed for the Upcoming Fiscal Year** (Jul. 1, 2023-Jun. 30, 2024)

Background. The financial challenges facing UUCF are similar to those confronting congregations throughout the United States. The trend of declining membership, declining pledge revenues and increasing inflationary costs continues. While revenues remain essentially flat, expenses are increasing significantly. Preliminary budget scenarios considered by the Board would have incurred an unprecedented third year of deficits, with no signs of abating. Personnel costs at UUCF have grown to occupy an unsustainable 85% of total income.

Income and Expense Details. Pledges comprise approximately 80% of UUCF revenues, followed by rental income, fundraising and plate collections. We are grateful that over 100 pledge units (households) raised their pledges significantly during the recent Annual Giving Campaign. These pledge increases, however, have been more than offset by several households that reduced their pledges or declined to pledge entirely. In sum, pledges for this upcoming fiscal year have declined from $832,000 for the current fiscal year to $812,000 for the upcoming fiscal year. While rental and fundraising (Auction) income are projected to increase, expenses are projected to increase significantly, driven in part by inflation. In addition, staff salaries have remained stagnant for several years (except for a 3% increase in 2021). Adjustments in staff compensation are long overdue, particularly considering inflationary trends in labor costs. This priority is reinforced by the recently revised congregational salary guidelines of the Unitarian Universalist Association (UUA) that strongly encourage member congregations to provide more equitable salaries.

Implementing Congregational Reorganization. The continuing trend of declining membership, flat income and increasing expenses led the Board to adopt a plan to realign staffing costs to reflect current revenues. This plan will implement a congregational reorganization during the first half of the upcoming fiscal year. The Board will charter a Congregational Reorganization Advisory Team (advisory team) to perform a thorough assessment of UUCF programs via a program and staffing analysis. The goals of this assessment are to restructure programs, reduce personnel costs and provide more equitable staff compensation. The advisory team will conduct its assessment during the first few months of the fiscal year. It will present recommendations to the Coordinating Team for additional input and then to the Board of Directors for approval and implementation beginning the second half of the fiscal year, effective Jan. 1, 2024.

Personnel costs in the proposed budget are outlined in two 6-month increments. During the first 6 months, staffing and personnel costs will continue at the baseline configuration and amount of $486,171. Reduced personnel costs, including salary adjustments (raises), will take effect beginning the second half of the fiscal year at a total cost for six months of $454,536. Under this budgetary framework, Total Personnel Costs as annualized – projected out for a full year – would equal $909,072. This plan presents an opportunity to streamline congregational staffing and programs to meet future congregational needs. At the same time, the advisory team will propose recommendations to the Board to achieve a total reduced personnel expense amount of $454,536 inclusive of staff raises for the second half of the FY 2023-2024 fiscal year. Therefore the likely impact – in addition to reducing personnel expenses – will be to reduce staff hours and/or positions and programs.

The Board will include the amounts below as part of its policy guidance to the advisory team to guide its work and recommendations. These amounts outline the Board's priorities to reduce personnel expenses and provide equitable raises for staff beginning Jan. 1, 2024. The Board of Director's guidance will provide flexibility as warranted by the Advisory Team's assessment, to recommend raises that may vary from the amounts outlined here, provided that the total personnel cost for the second 6 months remains at $454,536.32 ($909,072.64 annualized).

Note: The column of numbers to the left represents the *approved* budget for the current year (FY 2022-23), which differs from projected actual financial performance for the current fiscal year. The column of numbers to the right includes those contained in the proposed budget for FY 2023-2024, with details about the payroll expense.

175	income		1,107,703.42	1,154,148.51
176	non payroll expenses		230,444.18	245,075.87
177	target payroll expenses	(whole year) Note 1	877,259.24	940,707.34
178	first six months with no change (at the current staffing level)			486,171.02
179	available for the second six months (after staff adjustments), including raise			454,536.32
180	base pay roll for second half of year, prior to raise			424,319.36
181	reduction in 01/01/2024-06/30/24 payroll			**61,851.66**
182	**actual cut in terms of yearly payroll**			**123,703.32**
183	**Net FY 2023-24 (6/30/2024)**			**(31,634.70)**

Overview of FY 2023-24 Budget. Total Operating Income is projected to be $1,154,148, a net increase of $16,147 over the current fiscal year. This includes a small projected decrease in pledge revenue, and small projected increases in rental income, fundraising (Auction), Share the Plate collections and reimbursements. Total Operating Expense is projected to be $1,185,783, a net increase of $10,117 over the current fiscal year. This includes an increase in Music and Religious Exploration programming, Buildings and Grounds expenses, and a decrease in Personnel expenses, as discussed above. Total Personnel Costs of $943,207 for the entire year comprise $486,171 projected to be incurred during the first 6 months of the fiscal year, and $454,536 projected to be incurred after the congregational reorganization plan is implemented during the second 6 months of the fiscal year. As noted earlier, Total Personnel Costs as annualized – projected out for a full year – would equal $909,072. This amount will include staff raises proposed and approved by the Board of Directors effective Jan. 1, 2024. The excess of Total Operating Expense over Total Operating Income is projected to result in a one-time deficit of $31,634, which is also the difference between the budget payroll expense for the first 6 months (at current salaries and staffing), and the budget payroll expense for the second six months (taking into account the anticipated restructuring.

If Total Operating Income and Total Operating Expense remain unchanged in the next fiscal year following implementation of the congregational reorganization (FY 2024-25), UUCF will have achieved a congregational reorganization that lowers personnel costs and provides equitable raises, while reaching a balanced budget.