

Board of Trustees Meeting Minutes

All Souls Church, Unitarian

Specially called finance and budget meeting

October 23, 2016 (NOTE: Regular October Board meeting is Wed. October 26, 2016)

1:00 pm

Trustees, Officers, and Staff in Attendance:

Peg Barratt, President

Chuck Dulaney, First Vice President

Anne Bradley, Second Vice President

Ken Ambrose, Trustee

Rev. Rob Hardies, Senior Minister

Vickie Lindsey, Trustee

Katie Loughary, Executive Director

John Strongman, Treasurer

Tracy Zorpette, Trustee

Not in attendance: Erin Boeke Burke, Board Secretary; Laurie Lester, Membership Secretary; Rev. Susan Newman Moore, Associate Minister; Phyllis Caldwell, Trustee; Whitney Cooper, Trustee; Cledwyn Jones, Moderator

Peg called the meeting to order at 1:06pm

Chalice lighting and reading: Peg Barratt (text from Policy Governance document)

The Board shall maintain a clear distinction between the roles of the Board and the Staff, encourage diversity in viewpoints, focus on the future rather than the past, and be proactive rather than reactive.

c) GOVERNANCE PROCESS (discussion and decisions): FINANCE

Peg offered some **Opening remarks to the effect:** To reflect on how we got here: we have a new Finance Committee assembled this year, most recently focused on 2017 at the numbers and detail level. We also had some things we wondered about our personnel budget, so we had the president and two V-Ps act as an ad hoc personnel committee.

In addition there have been meetings with board leadership, ET, Finance, and Investment committees to say that we are now building on a lot that has happened to this point. In other words, we now have a draft budget about which to have a conversation as a Board. We will not

be voting on it today. First it will go to the congregational budget meeting, come back to us for approval, and it will then go to be approved by the congregation at the annual meeting.

Peg then asked Katie to walk through the budget.

Draft Budget for 2017 – Katie Loughary (45 min)

Katie first reviewed the procedure for budget approval, noting that, as of this meeting, the next step would be a congregational meeting on Sunday November 13. That meeting is usually attended by about 20-30 people, then the draft budget will come back to the Board for approval at the November BoT meeting, before going back to for approval by the congregation at the Church annual Meeting on December 4.

Katie explained that the budget document presented here is very similar to what is on staff report every month.

The big changes from last year to this to note are that mortgage interest starts in April 2017, AND we do not yet have in place the school rental for the full year - at this point we are only confirmed through June. There is also a decrease in expected distributions from our investment portfolio, especially in the Pfeiffer Trust.

Core donations: assumes a 1% increase for 2016 over 2015, but about 4% over 2014.

Contributions: we received a gift for Reeb for \$50,000 which will probably be spent over 3 years, \$20,000 of which is in the budget for 2016. The other contribution funds are given for social justice, thanksgiving, etc. but does not include plate collections which are listed above in core donations.

Investment: we benefit from, but don't control these investments. We've already been notified that the distribution for Pfeiffer has changed.

Rental revenues: we've done a great job increasing rentals, but we still don't have the full year contract for the school. We're trying to get that, but we won't know until March maybe. We also get rental money from weddings and nonprofits that use our space for meetings.

Regarding RE: we're proposing doing away with the RE fee because it does not cover costs and may actually discourage other pledging.

Other revenue includes Silver Souls crab fest, WOB, and the picnic. But this income is offset by other expenses so we don't see big gains here.

Fundraisers: we expect an increase here over last year.

Grant revenue: we receive \$30,000 from Beckner each year, Shively presently has a 5% distribution (85% of that comes to operating budget, 15% goes to Beckner Fund use) interfund transfers (that is distributions from the Church endowment) are also included with a 5% distribution.

Having reviewed the draft of expected incoming funds, some discussion ensued.

Peg reported an email from Laurie Lester that it's demoralizing to have high goals for fundraising that we never meet. Peg agreed that the fundraiser goals seems unduly optimistic. John noted that we've had two inaugural events 2005 (which raised \$38,000) with a second in 2009 (which raised \$24,000). Laurie had suggested that for budget purposes we should use the 2009 number because we don't expect this inaugural ball to be as successful as Obama's first. John suggested then that we might bring down the total for fundraising by \$14,000.

Katie noted that we've already made some reductions to the fundraising estimate, but she agreed to make the further reduction.

Tracy had a question about the endowment: it seems there has been a lot of back and forth about the endowment distribution rate: is the investment committee recommending 5% distribution and why?

Anne responded: yes, because we can do it without disturbing the principal, and in fact, the returns this year have been even better than expected, so that we will not disturb the principal at all taking the 5% using the Harvard calculation (averaging 13 quarters).

Vicky wondered how we solicit for rentals. Katie answered that specifically for schools we work with the organization Building for Hope who manage real estate for charter schools in DC. The rest of our rental folks come to us mostly through word of mouth, and we're not advertising anywhere else. We're trying to rent only to nonprofits.

Vicky asked whether we see a potential for another congregation. Katie answered that we would love to, but it's difficult to find a group, but apart from synagogues (who we can't afford to renting because of friday weddings etc.), but we are not opposed to having board seek renters for us.

Tracy asked a question about whether some of these endowments are restricted in use. Some discussion about restrictions ensued: Anne responded in the affirmative. Katie noted that the Homewood endowment is not restricted to how it's used. Shively is required to be used for building and grounds. Tracy read out a policy that seems to dispute what endowments are restricted. There was some confusion over whether this policy is in force. Peg noted that last year the board reviewed what endowments could be used for what purpose. The Audit Committee is responsible to review each year that we're in compliance. Ken found the revised policy of 2015 that clarified that the Homewood fund is restricted to church building and grounds and explained that the policy is in google drive > key documents > investment committee. Rob also explained that Shively is similar in that it goes into the general operating budget, but those funds are allocated to the expenditure items they're supposed to cover. Anne agreed, noting that the detailed line items show that all those Shively funds are being used appropriately.

John changed the subject to a discussion of Core Donations. He noted that for so far in 2016 so far core donations closely match those of 2015. John also noted that Chuck just circulated a note on actual pledges so far for 2017 and it seems the 2017 pledges are in line with 2016 pledges without much increase, meaning it's possible or even likely that 2017 core donations will be no higher than 2015.

Chuck expressed a bit more optimism, noting that more than $\frac{1}{3}$ of people are increasing by 10% or more. However the uncertainty is in how many people will stop pledging - and that's the uncertainty. But we'll know more within about three weeks.

John did explain that the Finance Committee felt comfortable including this number in the budget, but with a note of caution that in three weeks, we'll have a better idea of confidence or caution. Ken gave some context, noting that in 2015 lots of folks were still paying off capital campaign. And the ministers are mostly back now, so there's some opportunity for growth.

The general discussion was something along the lines of: it's not all rosy, but it's not awful either.

Having discussed the income, the group moved to discussion of expenses.

Personnel: CPO position eliminated, the draft includes no increases for 2017 for salaries over \$60,000 with exception of two positions. Also, staff support has been eliminated during the months the school won't be in session unless we get full year rental.

Building expenses: these have been flat, but Katie says think of 2017 building expenses as being reduced from 2016 because 2017 building expenses includes funding for a 2017 audit.

Denominational support: Katie proposed paying 100% to CER, and paying 40% to UUA.

Core expenses: This budget proposes more concerts and increase in Reeb voting rights project spending.

Other activities: expenses being held very flat because we're holding back on any budget increases for Committees.

Fundraising expenses: these are to support the auction and the inaugural ball, in addition to a fundraising consultant to support ambitions for donations this year and in future.

New mortgage interest: we are currently only paying the interest charges on a line of credit using TCC pledge income, but on April 1, 2017 the line of credit will convert to a mortgage which means we will then have to pay principal plus interest. It is expected that we will be able to take principal payments out of remaining TCC income, but interest will have to come out of operating expenses. Interest is likely to be about \$95,000 annually but the actual amount will depend on how much we are able to pay down before April 1 2017, which is the date that our monthly mortgage payment will be locked in.

The draft budget presently has an expected deficit of \$71,000 based on money we are obligated to pay, but there may be potential sources of increased income.

There was some discussion about expenses:

- Tracy requested clarification on sabbatical reserve from the sabbatical committee recommendation
- Anne noted that \$19,000 per year is the worst case scenario - but we thought we should pay as much as we can every year - so this budget recommends \$7,500, with the point that we at least start to do something
- Katie explained that this budget also includes sabbatical minister replacement and the sabbatical reserve fund.
- Chuck asked whether we have any line item for capital reserve.
- Katie gave an affirmative answer, and explained that she put a note at the bottom about that - the depreciation budget (\$10 million) divided by 40 years, gives the number of about \$250,000 (which is about 10% of our budget).
- Peg noted that it's important that we write down what we are or are not funding;
- Tracy pointed out that the Board did already pass that we MUST pay our depreciation budget.
- Chuck thought well, it's like sabbaticals: the Board should do something, BUT it's not going to be 250K for sure. He suggested that we can we either enter a line item, with at least a note or an asterisk explaining the aspiration. Anne agreed.
- Ken explained that this was something the Finance Committee just talked about - with the recommendation that we shouldn't take these things out of the budget because we need to have it there so we see it and have a conversation. (for example: the UUA fair share discussion)
- Tracy asked if the Board could at least have a conversation about putting some kinds of funds into this line item, to be followed by conversations about rental income and building maintenance and repair.
- Anne suggested that a maintenance budget could be entered under building expenses, including heating and electricity.
- Katie explained that no, the BoT probably doesn't want to do that.
- Rob pointed out that we have \$35,000 from Shively for those smaller repairs.

A discussion on the deficit ensued:

Katie noted that we might address it by:

1. making use of potential 2016 operational surplus (22-50k maybe)
2. increasing pledges
3. increasing rental income (if we can get school for second half of 2017)
4. taking a higher distribution from endowment.

Tracy asked if we had some trouble with the wifi in the basement?

Katie explained that yes, but that it was fixed via a deal with the school.

John argued that the Board should not assume a higher pledge number when we present the budget to the congregation, even if things improve over the next few weeks, nor should the budget include any increase in rental, unless one is confirmed. before the time the budget is approved on December 4. One potential solution would be to increase the endowment distribution, but he suggested the board stay away from that option.

Anne noted that rental income 2017 could improve

John reiterated the view that the budget should only include rentals we have confirmed not rentals we aspire to

Anne explained that she doesn't feel comfortable presenting something different than what we plan to do.

Peg asked for clarification if the Board is required to present a balanced budget.

Rev. Rob noted that small deficits had been presented before.

John requested that Katie look again at what the operational deficit might be in 2017. He also noted that we will be faced with the same questions in 2018 as 2017 and that we're still going to be very tight then.

Report on Personnel Expenses – Peg Barratt, Chuck Dulaney, Anne Bradley (10 min)

Anne noted that the church wants to align our personnel expense with our goals and values.

She went on to present the following report:

“We want to note that we invested more in social justice with people's time (Rob K and Leo) but a piece of their salary is not reflected here.

The recommendation is not to look at just the salaries, but look at the program budgets UUA salary guidelines, and there were two senior folks paid below the minimum - and we upped those

Two folks didn't have comparable job descriptions in UUA, and we did a spot check of marketplace, UUA jobs, conversation with Rob H, and are now comfortable that these two positions are paid appropriately.

The next bullet points discuss the increase or decrease between this year and proposed year (ministers' salaries down %4), and show 2017 personnel budget that these salaries represent Program salaries line item should include the chief program officer”

Ken asked for confirmation of a shift from contract to salaries -

Anne answered in the affirmative: right - there's a shift in payment from contract to salary,

Tracy asked about the salary cost as of 2017 and since this budget anticipates that we won't have rental income for second half of year, asked if related salary costs are already out?

Katie confirmed that this had been already done

Vicky asked where we reflect payments for extemporaneous staff payment:

WENT INTO EXECUTIVE SESSION FOR A FEW MINUTES

Tracy asked a question about benefits and whether this has been looked at yet? (response: no), and she asked why we don't use the UUA health plan

Katie answered - correct, we do not use the UUA health plan because they're more expensive
Tracy asked: we're striving to make sure salaries match UUA guidelines but not really following the UUA benefits, is that true? UUA guidelines suggest that we pay 80% of premiums for employees and 50% for dependents. We pay 90% for employees and nothing for dependents.
Katie responded that we're informed by the UUA guidelines but ours are different- we choose to pay higher for individual, but we don't cover dependents at all
Tracy wondered if this decision not to cover dependents at all is in line with our values and supports reproductive justice (which includes the right to raise children in healthy and safe environments) as it benefits people without dependents. Also it should not be as expensive to cover dependents if they are children as premium pricing is based on age.
Ken also asked whether we go through national or state exchanges?
Katie answered that we DO go through the exchanges, and get subsidies from us
Ken noted that he'd heard that All Souls is a great place to be a congregant, but not a great place to work. He urged the Board to be thoughtful about how to restrict salaries - because that so deeply affects how folks work and are productive or not.
Chuck noted too that the budget is at some point the senior minister's budget and that he is trying to balance vision and reality. Chuck noted that the Board can raise great questions about salary and benefits and their place in the budget, but that's the minister's call, not the Board's.
Rev. Rob noted on the point about All Souls being a hard place to work that others have said the same thing. He noted too that we've just eliminated a position and it's difficult to justify raises when we're eliminating a position. "it's a hard question."
Peg urged the Board to move on despite this being an important discussion.

d) MONITORING: REPORTS FROM EXECUTIVE TEAM

Initial discussion on change in Gift Policy (no vote) -- Rev. Rob Hardy (10 min)

Peg gave a note of introduction to the topic by explaining that there's a \$190,000 gift that has come into the church. Rev. Rob noted the bequest policy normally says that we should move it directly into the endowment. However, we have not yet actually moved the gift there. Rev. Rob argued that we should consider our capital needs between now and 2021 and asked the Board to consider revising the policy so that instead of placing gifts in the endowment, we instead direct unrestricted gifts to a capital fund that may include paying down principal, OR other projects like the steeple, or CAP improvements, etc. Rev. Rob noted that the most urgent need at this time seems to be the need to pay down the loan principal.
Peg asked Rev. Rob whether anyone had spoken against this idea to him yet.
John noted that the idea was informally discussed by members of the Finance Committee, but that he and two others in the committee said yes to it without qualifications, and two more (Ken and Cheryl) said yes with a question of whether it would be a permanent or limited change.

Ken explained that he thinks there is value in saving the mortgage interest, but argued that we should ask those who are most likely to make bequests what they think about the proposal. Peg did note that anyone who wanted to make an "endowment only" bequest should simply note that down. Tracy and Rev. Rob disagreed with Ken's suggestion to ask future likely-bequest givers what they think.

Rev Rob noted that our last gift policy was only reviewed by the Board and Finance Committee, not other parties, and that we needn't change that approach. Peg noted too that an advisor working with someone will ask the folks what their preferences would be.

John recommended taking the decision in a timely manner, and Peg asked the Finance Committee to review the question formally.

Peg did wonder whether it was appropriate to "change the rules in the middle of the game" but Anne pointed out that the rules weren't restricted to begin with. Chuck agreed that the current rule is our own, and that the shift is perfectly in line with the sorts of transactions we make. The only real problem is that once money is in the endowment, it's difficult to remove. Ken urged the group to remember the question of whether it's a permanent rule change or temporary. Peg closed this discussion by referring question to the Finance Committee

e) GOVERNANCE PROCESS (discussions and decisions):

**Proposal for a revised Sabbatical policy
(and report on policies and practices) -- Anne Bradley (15 min)**

Anne presented the redlined policy that is in the Board Google drive for this meeting, and noted that the current UUA sabbatical policy says nothing about connecting sabbatical to vacation. She also noted that the executive director position would no longer receive sabbatical, but would be given vacation. She explained that, "This policy is about the person, not the position." Some discussion followed.

- Rev. Rob noted that the sabbaticals for ministers are required by contract: but senior staff should be allowed. Additionally, called ministers are required to have sabbatical, but hired ministers are not.
- Chuck noted that not giving sabbatical to a hired minister but to a program officer would challenge the consistency of our thinking - saying that the Board needs to think about who's a "religious professional" and that's as much about an individual person's background as their title. However, he doesn't believe we need to change the policy now.
 - Anne disagreed, saying that the Board should change it now.
 - Chuck argued that the Board would be defining existing staff.
 - Rob noted that the Church does not know who's going to be here and or who or what staffing may be.
 - Chuck asked if Rob was comfortable with the redlines, to which he received a positive answer.
- Peg wondered whether sabbaticals are supposed to be for the spring only.
 - Rev. Rob explained that he'd rather not change the sabbatical policy regarding when ministers take sabbatical (point 3), because that's the beginning of the

- program year.
- Katie asked about the expectation of one-year advance notice - and Anne agreed that the notice requirement is in the staff contracts. Anne also noted here that the Board does have to approve the RE and music director's sabbaticals.
 - Tracy: some policies do explicitly require some kinds of communications.

Peg asked whether a motion could be forwarded or whether the Board should leave it for Wednesday, noting the existence of a quorum.

MOTION: Anne: I move that we accept the changes to the sabbatical policy as presented.

- Tracy seconded
- The Motion passed

The meeting adjourned at 2:39PM

i) ADJOURNMENT and Prayer
Keep alert, stand firm in your faith, be courageous, be strong.
Let all you do be done in love.

Respectfully submitted,
Allison K Ralph,
Assistant Secretary