



**TO:** 2018 Executive Committee

**FROM:** Lori Doerfler, 2018 President  
Jan Leighton, 2018 Treasurer

**SUBJECT:** 2018 Budget Meeting

**DATE:** July 28, 2017

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This is a reminder of our meeting, **Friday, August 25, 2017**, from 1:00p.m. – 4:00p.m. at AAR to prepare and approve the AAR 2018 budget for recommendation to the Board of Directors.

The budget portfolio contains:

1. Budget Meeting Agenda
2. AAR Structure Chart
3. 2018 Executive Committee Roster
4. 2018 Executive Committee Primary Committee Assignments
5. 2018 Strategic Plan and Primary Committee Business Plans (68 pages)
6. 2018 Leadership Meetings and Events Calendar
7. Membership History (2000-2017)
8. Reserve Accounts Summary
9. 2018 Proposed Operating Budget (50 pages)
10. 2018 Proposed Capital Budget

The proposed Operating Budget is based upon the 2018 Strategic Plan and the 2018 Primary Committee Business Plans. Each Primary Committee Chair will present their portion of the draft budget. The following is an overview of the proposal.

**The Operations & Strategic Initiatives area budget reflects a \$141,888 net increase in income** primarily due to dues and rental income offset by expenses, including increased expenses for Operations and Issues Mobilization Reserve funding, Region XI dues; EFT/Credit Card Fees; and Promotion/Homelessness initiative expenses. The details are as follows.

### Income:

The dues income is based upon the projected 2018 membership. **Dues income (430) was calculated anticipating 48,683 fully paid members (FPUs), which is a 4% increase from the 46,811 budgeted for 2017.** This projection will require membership dues of **\$155 per member**, which has been unchanged since 2011. As you can see from the Membership History AAR's membership peaked in 2007 at 55,349 and then dropped over 29% in the following five years to 39,235 before beginning to rise again in 2013. We have 46,975 FPUs through June this year.

Rental income (415) reflects all current leases. AAR's building is 100% leased:

- The Arizona Hispanic Chamber of Commerce's lease expires on August 31, 2018. (*Note: The lease contains a 30-day termination option and we do not anticipate lease renewal.*)
- The Southwest Institute for Families and Children with Special Needs lease expires October 31, 2018. (*Note: We anticipate lease renewal.*)
- Dr. Sun's lease expires on June 30, 2019. (*Note: The lease contains a 30-day termination option.*)
- The Urban Fabric Builders lease expires on June 30, 2019.
- The Association of Golf Merchandisers lease expires on April 30, 2020.

### Capital Depreciation/Reserve Funding:

- Depreciation (700): We have **allocated the capital depreciation of \$303,622 from the 2016 audit to the Capital Reserve.** The Bylaws state in pertinent part: *"CAPITAL RESERVE. AAR shall maintain a reserve fund, (Capital Reserve) for capital expenditures . . . AAR's annual budget shall acknowledge depreciation per Generally Accepted Accounting Principles. The depreciation amount shall be considered as a cash expense credited to the Capital Reserve."*
- Reserve Funding (750): **We have proposed an allocation of \$2.00 per member to the Operating Reserve, which totals \$97,366.** The Bylaws state in pertinent part: *"OPERATING RESERVE. AAR shall maintain an operating reserve fund (the "Operating Reserve") for legal, special and unbudgeted operating purposes. The Board of Directors shall annually determine an allocation (the "Allocation") of the annual dues which shall be placed in the Operating Reserve. . . The Allocation shall continue each year until the Operating Reserve fund balance exceeds an amount equal to the operating expenses from previous fiscal year, at which time the Allocation shall cease."* The Operating Reserve total for May 30<sup>th</sup> was \$6,802,951 which is \$381,787 less than the actual audited expenses for 2016, which were \$7,184,738.
- Issues Mobilization Fund: Reserve Funding (750): **We have proposed an allocation of \$2.00 per member to the Issues Mobilization Fund, which totals \$97,366.** AAR has allocated no funds to Issues Mobilization since 2010, and past allocations were contained in the Legislative and Political Affairs budgets (2010, 2007, and 2005). However, the Bylaws state in pertinent part: *"REALTORS® Issues Mobilization Fund (RIMF): AAR shall maintain a reserve fund to support or oppose federal, state and local issues that impact real*

*property and real property owners in Arizona. . . A per member amount of the annual dues shall be placed in the fund as determined by the AAR Board of Directors. . . The amount established by the AAR Board of Directors shall be credited to the fund each year until the fund attains a total of ten million dollars (\$10,000,000). If the fund is depleted to less than five million dollars (\$5,000,000), the AAR Board of Directors shall reinstate a per member contribution amount to the Fund at the inception of the next budget year.”* The May 30<sup>th</sup> balance in the Issues Mobilization Fund is \$6,386,656. (Note: There is also still \$1,000,000 in the Protecting the American Dream Fund.)

- Arizona Homeownership Alliance: **The proposed Budget contains no allocation to the Arizona Homeownership Alliance.** The Bylaws state in pertinent part: *Arizona Homeownership Alliance. AAR may maintain a fund (Arizona Homeownership Alliance) to support or oppose candidates running for elective office or as otherwise expressed in this section. Funds designated for this fund are to be used as allowed by state law in corporate independent expenditures, polling and grassroots activities. Monies placed in this funds may come from a variety of sources including but not limited to AAR’s annual operating surplus, the National Association of REALTORS®, Arizona local associations of REALTORS®, AAR Annual Budget or by contribution.* The May 30<sup>th</sup> Alliance Budget is currently \$100,004.

#### **The Primary Committee Budget Highlights are as follows:**

Legislative & Political Affairs **reflects a \$319,534 increase in expenses** primarily due to:

- Fundraising/Grassroots Support (1560): **A \$3.00 per member allocation to the NAR REALTOR® Party Political Survival Fund, which totals \$146,049** (and will be credited towards the state RPAC goal);
- Fundraising/Grassroots Support (1560): The addition of the REALTOR® Party Plus contract, which was funded this year by the Strategic Initiatives Fund and increased RAPAC related activities and Major Investor recognition.
- Federal Liaison Support (1575): Increase in reimbursement for FPC travel to Mid-Year.
- Legislative Advocacy (1510): Increase in membership costs of the Phoenix Chamber of Commerce, Arizona Chamber of Commerce costs transferred from Operations and the cost to cover expenses related to sending the REALTOR® Party Director to the GAD institute.

Risk Management **reflects a \$1,323 net decrease in expenses** due primarily due to:

- Professional Standards Enforcement (1605): Increase in projected income due to increased number of arbitration filings and ethics complaints, partially offset by a reduction in catering/hotel expenses.
- Legal Hotline (1655): Anticipated increase as the current contract expires in 2017 and an extension will be renegotiated.
- Legal Support (1602): Reduction in County/State Bar Dues/CLE/ACC expenses.

- Professional Standards training (1610): Budgeted for a videographer to prepare training exercises for the 2019 Professional Standards Workshop.

Business Services & Technology **reflects a \$347,923 net increase in expenses due primarily to:**

- Business Services (1770): Income has been reduced due to a reduction in the forms licensing vendors. Expenses have increased due to:
  - Increased membership projections affect those programs that are charged on a per-member basis, such as zipForm<sup>®</sup>, AAR eSign, and TechHelpLine.
  - The cost of bulk emails sent through ClickDimensions at a rate of over 400,000 emails per month.
  - **A placeholder expense for Clarity Single Sign-On implementation and license of \$218,000, which would be a new expense, pending BS&T recommendations.**
- Business Services and Technology Support (1701): Decreased charging station and staff expenses.
- Software Development (1710): Decrease in expenses due to the elimination of the forms server project offset by increased expenses for outsourced technology vendors.

Professional & Business Development **reflects a \$23,191 net increase in expenses due primarily to:**

- Broker University (1875): Reduction in number of BMCs offered.
- Education Development (1871): Increased projected revenue from affinity partnerships.
- Education Outreach (1870): Increased subsidy, reduced live offering of REBAC classes, reduced speaker expense for annual Trends Summit.
- Leadership Training (1840): Increased subsidy, increased leadership conference registration fee, increase in production costs and added in room rental for the conference, a nominal increase in LTA guest speaker expense.
- CRPM (1825): Increased projected income and added income and expense for a new program: property management summit.
- Professional Development Support (1801): Eliminated marketing consultant and reduction in video editing.
- CRMS (1820): Increase in income due to increase in the number of classes to be offered.
- REALTOR Institute (1815): Minor adjustments based on 2017 actuals.
- Convention (1860): Increased subsidy, increase in speaker fees, in production costs and catering offset by increased convention registration fees.
- Instructor Development (1872): Eliminated course in a box and added in REEA and ATD conference attendance.



### Capital Budget

The proposed Capital Budget is currently \$256,180 in Capital expenditures:

- \$127,650 in computer equipment
- \$12,250 in furniture and equipment
- \$116,280 in building improvements, including updating landscaping and security features in the parking lot area. This number may increase because I have not yet received all estimates for the work proposed.

We would appreciate your review of the entire proposed budget; however, we are asking you to make a careful review of your assigned Primary Committee, as set forth on the meeting agenda, for any questions, concerns and suggestions.

**If you have any specific questions or concerns, please contact us, CEO Michelle Lind, the Primary Chair and/or Staff Liaison before the meeting.** This will help us get through this process as quickly as possible at the meeting.

Thank you!