

TO: 2019 Executive Committee

FROM: D. Patrick Lewis, 2019 President
Gary Nelson, 2019 Treasurer

SUBJECT: 2019 Budget Meeting

DATE: August 21, 2018

This is a reminder the 2019 Executive Committee Orientation will be held on **Friday, September 7, 2018 at 10:00 a.m. at the Arizona REALTORS® building.** The 2019 Budget Meeting will follow from **1:00p.m. – 4:00p.m.** to prepare and approve the 2019 budget for recommendation to the Board of Directors.

The budget portfolio contains:

1. Budget Meeting Agenda
2. Arizona REALTORS® Structure Chart
3. 2019 Executive Committee Roster
4. 2019 Executive Committee Primary Committee Assignments
5. 2019 Strategic Plan and Primary Committee Business Plans (82 pages)
6. 2019 Leadership Meetings and Events Calendar
7. Membership History (2000 - 2018)
8. Reserve Accounts Summary
9. 2019 Proposed Operating Budget (33 pages)
10. 2019 Proposed Capital Budget

The proposed Operating Budget is based upon the 2019 Strategic Plan and the 2019 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 budget overall reflects a \$68,844 net increase in income over 2018.

The Operations & Strategic Initiatives area budget reflects a \$48,295 net increase in income primarily due to increased membership dues and no Operating reserve funding, offset by expenses, including increased expenses for Operations and Issues Mobilization Reserve funding and Region XI dues. The details are as follows.

Income:

The dues income is based upon the projected 2019 membership. **Dues income (430) was calculated anticipating 50,143 members which is a 3% increase from the 48,683 budgeted for 2018.** This projection will require membership **dues to remain at \$190 per member.** As you can see from the Membership History, 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 48,963 members through June this year.

Rental income (415) reflects all current leases. The Arizona REALTORS® building is 100% leased:

- The Arizona Hispanic Chamber of Commerce's lease expires on August 31, 2018 and a renewal is still being negotiated.
- Dr. Sun's lease expires on June 30, 2019. (*Note: The lease contains a 30-day termination option.*)
- The Association of Golf Merchandisers lease expires on April 30, 2020.
- The Southwest Institute for Families and Children with Special Needs lease expires October 31, 2018 and a renewal will be renegotiated if possible.
- The Urban Fabric Builders lease expires on June 30, 2019 and I am unsure whether it will be renewed.

Capital Depreciation/Reserve Funding - 1100:

- Depreciation (700): We have **allocated the capital depreciation of \$300,912 from the 2017 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 - Issues Mobilization Fund (750): **We have proposed an allocation of \$35.00 per member to the Issues Mobilization Fund, which totals \$1,755,005.** 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 June balance in the Issues Mobilization Fund is \$4,659,856, however, in July we made an authorized 2.5 million transfer from Issues Mobilization to the Citizens for Fair Tax Policy account and additional transfers are anticipated.

- Reserve Funding - Operating Reserve (750): **We have proposed no allocation to the Operating Reserve.** 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 June was \$7,490,779 which exceeds the actual audited expenses for 2017, which were \$7,024,435.
- 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 fund 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 June Alliance balance is currently \$100,234.

The Primary Committee Budget Highlights are as follows:

Legislative & Political Affairs reflects a \$41,579 increase in expenses primarily due to:

- Legislative Advocacy (1510): Increase in new budgeted allocation to reflect the increase in membership cost to the Arizona Chamber of Commerce.
- Legislative Policy Development (1550): Increase in new budgeted allocation due to an expected increase in attendance at the annual REALTOR® Caucus resulting in an increase in catering expenses.
- Fundraising/Grassroots Support (1560): Increase in new budgeted allocation due to an expected increase participation for the Major Investor Rally Ride and an increase allocation from \$3 per member to \$6 per member for the REALTOR® Party Plus PSF to cover the National Association of REALTORS® goal.

Risk Management reflects a \$30,425 net increase in expenses primarily due to:

- Conferences (1601): Increase reflects the fact that the 2019 training to be attended by the Professional Standards Administrator will be more days than the 2018 training.
- Outside Legal (1602): As a result of the copyright infringement lawsuit filed by the association, outside legal fees were increased.
- PS Workshop Instructor Travel Fees (1610): Instructor travel fees have been added to the 2019 budget because, unlike 2018, a national speaker will be retained for the Workshop.

- Professional Standards Workshop Registration (1610): Decrease due to the use of RAMCO at no cost in place of RegOnline.
- Legal Hotline (1655): Pursuant to the Legal Hotline contract with Manning & Kass, LLP, the 2019 fees will increase.

Business Services & Technology reflects a \$214,449 net decrease in expenses due primarily to:

- Business Services and Technology Support (1701): Elimination of Inman Connect conference expenses and elimination of RAMCON Conference hosting fees.
- IT Resources and Security Management (1730): Elimination of consulting fees.
- Business Services (1770): Elimination of implementation fees for Clareity SSO.
- Communications (1780): Elimination of social media management; PR firm retainer, annual special report, media monitoring/clips moved to Operations, and elimination of NAR Expo for one staff.

Professional & Business Development reflects a \$121,896 net increase in expenses due primarily to:

- Support (1801): adjusted dues/commitments costs based on 2018, increased printing slightly, increased Facebook ads/posts to support sub programs.
- rCRMS (1820): reduced number of live streamed classes and related costs from 5 classes to 4 classes, reduced number of live classes from 11 classes to 9 classes and number of students from 45 to 35 based on 2018 actuals, adjusted instructor fees based on less students, increased shipping costs based on 2018 actuals (note: SAAR indicated they will not be offering rCRMS classes in 2019).
- CRPM (1825): reduced number of students for Property Management bootcamps and reduced number of classes from 7 to 5, reduced webinars from 4 to 2 and related costs, increased shipping costs for live streaming classes based on 2018 costs, added 1 additional 3-hour live class and related costs, reduced live streaming classes and related costs from 9 to 5 based on 2018 actuals.
- Leadership Training (1840): increased production costs for conference, increased table centerpieces for installation dinner, increased catering costs for LTA.
- Convention (1860): reduced registration fee and eliminated single day registration option, increased vendor income based on 2018 actuals, reduced number of attendees from 675 to 550, added all day meal package for day 1 vs. single breaks, reduced food and beverage for BOD meeting day, increased printing costs, added marketing firm expense, increased production costs, added DJ and photo booth expenses, eliminated REBAC class fees (not offering REBAC classes at convention), eliminated meme and snapchat, increased Facebook ads, increased keynote speakers.

Capital Budget

The proposed Capital Budget is currently \$168,280 in Capital expenditures:

- \$119,050 in computer equipment
- \$8,450 in furniture and equipment
- \$40,780 in interior and exterior building improvements and HVAC repairs/upgrade.

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!