

TO: 2020 Executive Committee

FROM: Mary Roberts, 2020 President
Eric Gibbs, 2020 Treasurer

SUBJECT: 2020 Budget Meeting

DATE: August 19, 2019

The 2020 Executive Committee Orientation will be held on **Friday, September 6, 2019 at 10:00 a.m. at the Arizona REALTORS® building.** The 2020 Budget Meeting will follow from **1:00p.m. – 4:00p.m.** to prepare and approve the 2020 budget for recommendation to the Board of Directors.

The budget portfolio contains:

1. Budget Meeting Agenda
2. Arizona REALTORS® Structure Chart
3. 2020 Executive Committee Roster
4. 2020 Executive Committee Primary Committee Assignments
5. 2020 Strategic Plan
6. 2020 Primary Committee Business Plans (56 pages)
7. 2020 Leadership Meetings and Events Calendar
8. Membership History (2000 - 2019)
9. Reserve Accounts Dashboard and Summary
10. 2020 Proposed Operating Budget (38 pages)
11. 2020 Proposed Capital Budget

The proposed Operating Budget is based upon the 2020 Strategic Plan and the 2020 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 Operating budget overall reflects a \$63,302 net income, which is a \$16,603 net increase in income over 2019.

The Operations & Strategic Initiatives area budget reflects a \$159,491 net increase in income primarily due to increased membership dues, offset by a \$36,166 increase in expenses, including increased expenses for Operating and Issues Mobilization Reserve funding and Region XI dues. The details are as follows.

Income:

The dues income is based upon the projected 2020 membership. **Dues income (430) was calculated anticipating 51,145 members which is a 2% increase from the 50,143 budgeted for 2019.** 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 50,720 members through June this year.

Rental income (415) reflects all current leases:

- The Association of Golf Merchandisers lease expires on April 30, 2020. We only budgeted for 4 months' rent, although a renewal will be renegotiated if possible.
- The Southwest Institute for Families and Children with Special Needs lease expires October 31, 2020, but we anticipate renewal and budgeted for the entire year of rent payments.
- Dr. Sun renewed his lease which now expires on June 30, 2022. (*Note: The lease contains a 30-day termination option.*)
- Urban Fabric Builders renewed their lease which now expires on June 30, 2022.
- 2,744 sq. ft of space remains available for lease upstairs:
<https://www.loopnet.com/Listing/255-E-Osborn-Rd-Phoenix-AZ/13891820/>

Reserve Funding - 1100:

- Capital Reserve (700): **We have allocated the capital depreciation of \$276,760 from the 2018 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.”*
- Issues Mobilization Fund (750): **We have proposed an allocation of \$35.00 per member to the Issues Mobilization Fund, which totals \$1,790,075.** 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 was \$3,692,224.
- Operating Reserve (750): **We have proposed budgeting one dollar per member totaling \$51,145 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 \$8,242,404, however pursuant to the 2018 audit and due to the Prop 126 campaign, the total operating expenses for 2018 were \$13,909,635.

- **Strategic Initiative Fund: The proposed Budget contains no allocation to the Strategic Initiative Fund.** The Bylaws state in pertinent part: *AAR may maintain a reserve fund ("Strategic Initiative Fund") to support initiatives designed or dedicated to the support of our REALTOR® members' business practices. Such initiatives may include, but are not limited to, new member benefits, technology enhancements, communication enhancements, or other efforts that benefit the REALTOR® membership.* The June Strategic Initiative Fund balance was \$2,173,470.
- **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 was \$100,594.

Changes to the Generally Accepted Accounting Principles (GAAP) now require the allocation of overhead expenses to each of the Primary Committee area budgets according to their usage, as opposed to all expenses reflected in the Operations Budget where they were previously allocated. This allows for the evaluation of the true cost of each area.

The Primary Committee Budget highlights are as follows:

- **Legislative & Political Affairs reflects a \$96,902 increase in expenses,** primarily due to:
 - Governmental Area Support (1501): Increase due to expenses now being allocated in the LPA budget rather than the Operations budget as a result of the changes to GAAP.
 - Legislative Policy Development (1550): Increase due to an expected increase in catering expenses for the annual REALTOR® Day at the Capitol Luncheon.
 - Fundraising/Grassroots Support (1560): Increase due to an expected increase in participation for the Major Investor recognition and the newly created Hall of Fame recognition.

- Federal Liaison Support (1575): Increase due to the creation of the Hill Visit Reception during the NAR Mid-year visits.
- Governmental Communications (1585): Increase due to the production of the REALTOR® Party video.
- **Risk Management reflects a \$30,701 net increase in expenses**, primarily due to:
 - Risk Management Support (1601): Increase due to expenses now being allocated in the RMC budget rather than the Operations budget as a result of the changes to GAAP, offset by a reduction of expenses in the following areas.
 - Professional/Contract Fees (1602): Reduction in Outside Legal expenses due to resolution of Copyright Infringement lawsuit.
 - PS Enforcement (1605): Reduction in anticipated PS Enforcement income based on the expectation that there will be fewer PS cases as a result of WeMAR leaving the Statewide PS Agreement.
 - Professional/Contract Fees (1605): Reduction in court reporter expenses based on the expectation that there will be fewer PS cases as a result of WeMAR leaving the Statewide PS Agreement.
 - Professional/Contract Fees (1650): A reduction in forms related costs as we will not incur fees from zipForm® for revising existing forms and creating new forms.
- **Business Services & Technology reflects a \$54,145 net decrease in expenses**, primarily due to:
 - Business Services and Technology Support (1701): Increase due to expenses now being allocated in the BS&T budget rather than the Operations budget as a result of the changes to GAAP, offset by a significant reduction in Business Services (1770) expenses.
 - Software Development (1710): Increase expense due to an increase in outsourced consulting.
 - IT Resources and Security Management (1730): Increase in expenses due to the Managed Services Provider, increase in RAMCO cost, and a network layer vulnerability scan, slightly offset by a decrease in video conference fees.
 - Business Services (1770): Net decrease of \$207,075 in expenses due to the discontinuation of zipForm® MLS Connect and zipForm® Mobile, decrease in Abacus Law expenses, and decrease in expenses for Clarity SSO, and an increase in forms licensing fees.
 - Communications (1780): Net increase in expenses due to an increase in website maintenance, hosting, programming costs & consulting partially offset by a decrease in other expenses.

- **Professional & Business Development reflects a \$69,431 net increase in expenses, primarily due to:**
 - Professional & Business Development Support (1801): Increase due to expenses now being allocated in the PBD budget rather than the Operations budget as a result of the changes to GAAP; and an increase in professional contract fees for a stand-alone convention/event website.
 - REALTOR® Institute (GRI) (1815): Net decrease to income and expenses reflecting an increase in number of students; a reduction in live streamed classes; and an increase in income from the online partnership for the business planning class.
 - rCRMS (1820): Net increase in income and expenses reflecting an increase in number of students in the live streamed classes.
 - Leadership Training (1840): Net increase due to conference catering expenses, anticipated hotel pricing, increased A/V costs, increased speaker fees for the LTA program, offset by reduced production costs and catering expenses.
 - Convention (1860): Net increase in expense. Adjusted income to reflect the addition of an early bird registration option and single-day registration option based on 400 paid attendees. Increased catering expenses, added printing, postage and professional contract fee expenses for two promotion mailers as printed onsite program. Added expenses for professional photographer and videographer as well as increased speaker expenses.

Capital Budget

The proposed Capital Budget is currently \$306,580, due to the following:

- \$72,800 in computer equipment
- \$63,000 in furniture and equipment
- \$170,780 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!