

TO: 2021 Executive Committee

FROM: Jan Leighton, 2021 President
Shelley Ostrowski, 2021 Treasurer

SUBJECT: 2021 Budget Meeting

DATE: August 19, 2020

The 2021 Executive Committee Orientation will be held on **Friday, September 4, 2020 at 10:00 a.m. via Zoom**. We will break for lunch at noon and the 2021 Budget Meeting will follow from **1:00p.m. – 3:00p.m.** to prepare and approve the 2021 budget for recommendation to the Board of Directors.

The budget portfolio contains:

1. Budget Meeting Agenda
2. Arizona REALTORS® Structure Chart
3. 2021 Executive Committee Roster
4. 2021 Executive Committee Primary Committee Assignments
5. 2021 Strategic Plan
6. 2021 Primary Committee Business Plans (53 pages)
7. 2021 Leadership Meetings and Events Calendar
8. Membership History (2000 - 2020)
9. Reserve Accounts Dashboard and Summary
10. 2021 Proposed Operating Budget (40 pages)
11. 2021 Proposed Capital Budget

The proposed Operating Budget is based upon the 2021 Strategic Plan and the 2021 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 \$51,082 net income, which is a \$11,420 net decrease in income over 2020.

The Operations & Strategic Initiatives area budget reflects a \$82,870 net decrease in income primarily due to an anticipated decrease in rental, law book, and miscellaneous income and a \$27,377 increase in expenses. The details are as follows.

Income:

The dues income is based upon the projected 2021 membership. **Dues income (430) was calculated anticipating 51,145 members which is the same number of members budgeted for in 2020 (no change).** 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 almost 30% in the following five years to 39,235 before beginning to rise again in 2013. We have 51,468 members through June this year.

Rental income (415) has changed dramatically from 2020:

- The Association of Golf Merchandisers lease expired on April 30, 2020 and are currently on a month-to-month tenancy due to an uncertain future of that association. We do not anticipate its continued tenancy and have budgeted no income for 2021.
- The Southwest Institute for Families and Children with Special Needs lease expires on October 31, 2020 and it has given notice that it will not be renewing its lease due to the COVID pandemic. Therefore, we have budgeted no income for 2021.
- Dr. Sun's lease expires on June 30, 2022. (*Note: The lease contains a 30-day termination option.*) Although he has not utilized the space for many months, we budgeted for 12 months of income.
- Urban Fabric Builders expires on June 30, 2022, however, they have requested rental concessions due to the COVID pandemic and we are currently negotiating with them in this regard. We anticipate a breach of lease and budgeted for only 6 months of income.
- 2,744 sq. ft of space remains available for lease upstairs:
www.loopnet.com/Listing/255-E-Osborn-Rd-Phoenix-AZ/13891820/

Reserve Funding - 1100:

- Capital Reserve (700): **We have allocated the capital depreciation of \$259,128 from the 2019 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." The June balance in the Capital Reserve was \$4,811,135.
- 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 \$6,305,017.33.

- **Operating Reserve (750): The proposed Budget contains 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.”* Pursuant to the 2019 audit the total operating expenses for 2019 were \$7,238,843. The Operating Reserve total for June was \$9,104,811.
- **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 \$2,225,792.
- **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 \$100,739.

The Generally Accepted Accounting Principles (GAAP) 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 \$70,646 increase in 2021 expenses, primarily due to:**
 - Governmental Area Support (1501): Increase due to higher utility expenses, general supplies and work group lunches.
 - Legislative Policy Development (1550): Increase due to higher Catering/Hotel Expenses for the REALTOR Caucus/Training.
 - Fundraising/Grassroots Support (1560): Increase due to REALTOR® Party PSF Allocation fee and expenses for an online auction event.
 - Federal Liaison Support (1575): Increase due to higher Catering/Hotel Expenses projected for Hill Visit Reception and in-district events.

- **Risk Management reflects a \$7,088 net increase in expenses, with the largest changes primarily due to:**
 - Risk Management Support (1601): Increase due to higher utilities expenses.
 - Risk Management Support (1601): Increase in Conference expenses as two staff members are budgeted to attend Professional Standards training at the AE Institute in Houston as opposed to no budgeted staff travel for this event in 2020.
 - PS Enforcement (1605): Increase in anticipated PS Enforcement income based on high volume of cases.
 - PS Enforcement (1605): Increase in Professional/Contract Fees due to the cost of Abacus and Abacus training now allocated to the RMC budget.
 - PS Enforcement (1605): Reduction in Professional/Contract Fees court reporter expenses based on hearings being conducted via Zoom, which records the proceedings.
 - PS Enforcement (1605): Reduction in Travel and Staff Travel due to the increased number of hearings being conducted via Zoom.

- **Business Services & Technology anticipates a \$181,165 net decrease in expenses, primarily due to:**
 - Business Services and Technology Support (1701): Decrease due to lower Building expenses now being allocated in the BS&T budget due to GAAP.
 - Software Development (1710): Decrease in expenses due to outsourced consulting accounted for in (1780) and the discontinuation of Microsoft Azure Subscription.
 - IT Resources and Security Management (1730): Decrease in expenses due to Cisco Firewall expense not due until 2022 and Vipre Web root bit defender service now being included in the managed service provided by nVision.

- Business Services (1770): Decrease in expenses due to the expected discontinuation of Go Paperless® in 2021
- Communications (1780): 2021 Expenses are anticipated to be in line with 2020

- **Professional & Business Development reflects a \$31,981 net increase in expenses, primarily due to:**
 - Professional & Business Development Support (1801): Net increase due to addition of expenses for the Cvent registration platform and education mobile app.
 - Leadership Training (1840): Net increase due to addition of expenses for a Leadership Week webinar/zoom activities.
 - Convention (1860): Net increase in expense in the subsidy of \$33,526. Adjusted income and expenses to reflect a one and ¼ day convention and a platform for a hybrid delivery addition.
 - Education Outreach (1870): Net increase due to the addition of Direct-To-Member Education classes.
 - Education Development (1871): Net increase in expenses for curriculum material review and outline software

Capital Budget

The proposed Capital Budget is currently \$127,980, due to the following:

- \$60,400 in computer equipment
- \$35,200 in furniture and equipment
- \$32,380 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!