Here is the response to my questions that I received from Mark Rieck and Randy Williams.

From: Mark Rieck [rieck@irwaonline.org]
Sent: Friday, April 30, 2010 8:18 AM
To: Sholly, Kathie
Cc: 'Randy Williams'
Subject: Questions about the proposed FY 2010-11 Budget

Dear Kathie,

Thank you again for your thoughtful questions regarding this year's proposed budget. As I shared with you Monday afternoon, I wanted to review your questions and give them proper consideration and response, so I met with both our Treasurer, Randy Williams, SR/WA and staff this week, to review your information request and offer our responses below in blue.

I hope this information is helpful in sharing our business strategy. Please know that this budget was carefully prepared and reviewed by the Finance Committee, made up of IEC members and a region chair, then reviewed and approved by the full IEC and finally reviewed and approved by our region chairs in live teleconferences, before being presented in person at the region forums.

As always, please let us know, if we may provide additional information.

Best regards,
Mark

From: Sholly, Kathie [mailto:KSholly@GLENDALEAZ.com]
Sent: Monday, April 26, 2010 12:59 PM
To: Mark Rieck; Sandy Grigg, SR/WA; Ken Davis, SR/WA
Cc: Chris Banks; Renee Maruffo; Karen Williams; Mary A.M. Smith; Jason Foster; Vicki Chamberlin
Subject: Questions about the proposed FY 2010-11 Budget

Mark, as you know, I asked a few questions about the proposed 2010-11 budget for the IRWA at our Region 1 Spring Forum in San Diego in March. Since that meeting, I have looked more closely at the budget, as well as the available year-to-date figures (which only go as far as January 2010 on the IRWA website) and simply must ask more questions. I owe it to my chapter to cast my best vote possible in Calgary this June; answers to my questions would enable me to do so.

<u>INCOME:</u>
The proposed income from courses might be reasonable, since the accompanying narrative explains that, while classroom course income is expected to be less, online course income will increase and it's stated that there is some hope that marketing to those outside the association should help.

However, the first 7 months of FY 2009-10 indicates nearly 1/3 less income to date than budgeted, and it is acknowledged that both the number of classes held and the attendance at each class is down. This is more than likely due to decreased agency support, layoffs in the industry, and reduced income for our members. Presuming, however, that the online course income makes up the difference, the budget figure for courses could be achievable. Is it anticipated that the online course income will more than make up the difference in the reduction of classroom course income? **Even with a planned surge in online education revenue, our assumption is that total education income will decrease by $57,000 next fiscal year. This assumption is based on the actual course schedule of our chapters for next year, a first in terms of our budget process, which up until now had been based on past history alone.**

Of concern to us at the chapter level, however, is that, despite the large percentage retained by HQ, the course income is largely our "bread and butter". We can't rely solely on the $15 (roughly 7% of the total) we get from membership dues to sustain our chapter activities. Unless an online course participant is required to "align" with a chapter (so that we get a share of the course income) or an online course participant – including those that are not a part of the association - that doesn't enter a chapter is "assigned" to the chapter most likely to be that participant's home chapter, all chapter budgets will suffer considerably. The original thought of online courses wasn't that virtually every course be made available in online format … but I digress. This can be a topic for another day. Back to the budget questions. **Participant alignment and payout is based on chapter designation for members. Non-member income is placed in a general pool, to be shared by chapters based on their % of member participation. Therefore, if Chapter 28 member online participation is 10% of all member participation, your chapter will receive 10% of all non-member funds. Those chapters who best market the program to their own membership will benefit the most. Distribution of non-member funds has not been an issue to this point, because the online program was small. I expect us to revisit our current practice as the program grows and there is justification for the programming cost that would be required to assign income by for instance, zip code of the non-member.**

Also, let me clarify our business strategy for online programming. Our objective is not to place all our courses online, rather it is to place all our core courses online, making them easily accessible to those members and other customers most likely to use them, new ROW professionals, as well as those who cannot or choose not to participate in classroom courses, because of travel and/or budget restrictions. Our goal is to get new professionals up to speed fast, so they can build their body of knowledge and then participate in more advanced classroom courses, delivered by the chapter. We plan to place 20 core courses online by the end of calendar year 2010, then reevaluate our program, to see if our strategy is effective and meeting the needs of our members.

I question the anticipated increase in advertising income, but I am not familiar enough with the loyalty and consistency of current advertisers, or with the effectiveness of marketing to non-advertisers, to comment in a meaningful manner. **Year to date advertising income is up 25% over budget. Our projections are based upon what we are experiencing in our marketplace. Like the IRWA, advertisers are aggressively marketing themselves, to maintain market share during this challenging economic time and position for growth in the future.**

I question the increase in merchandise sales income. While the proposal is to transition to high quality wearables, I am not sure that our industry members, with their overall reduced individual incomes, will be paying more for or purchasing higher quality items just because they are higher quality items. Merchandise sales as of January 2010 – 7 months (nearly 60%) into the fiscal year – have generated less than 49% of the amount budgeted for FY 2009-10 … and the FY 2009-10 budget figure is 25% less than the budgeted figure for upcoming FY 2010-11. I would like to know what data supports an increase in merchandise sales is warranted. I don't believe it is the quality of merchandise that has realized less-than-anticipated sales in FY 2009-10, but, once again, the overall reduced income of our members. What data/information can be provided that says my belief is misdirected? **Discussions with region leaders have led us to believe that there is demand, if we can supply quality product. We will be using Land's End as our supplier so our quality will be improved. We will also be expanding our product line to include all Land's End products, but will bear no cost for maintaining inventory.**

As I brought up at the Region 1 Forum, I seriously question the anticipated increase in membership income due to an increase in members – nearly a 6.5% increase in membership. The budget detail states, "We anticipate that income will increase from last year's budgeted amount, ***despite down-sizing within agencies and Right of Way companies***." [emphasis added] The detail goes on to explain that dues amounts will remain unchanged; it is only the number of members (new and renewing) that will increase. The narrative also indicates that, as of December 2009, membership stood at a figure of 9,000 and the proposed FY 2010-11 budget was based on an anticipated addition of 540 more members. As you will recall, I questioned why, in a time when agency support has been withdrawn, paychecks are slimmer, and many have to leave the industry altogether, (1) we would not lose existing members, and (2) we would gain additional members. You explained that the projections for membership growth are predicated on two beliefs: (1) existing members, particularly certified and designated members, will “find a way” to pay their dues rather than lose their standing, and (2) there are places outside of the Southwestern United States (to which, of course, my knowledge must obviously be limited) that are improving, economically speaking, and many new members will come from that.

I still don’t understand what data supports existing members – who are losing income, losing jobs, losing homes, and leaving the industry all together – retaining their membership. Please provide what data supports this. **We acknowledge that these are very difficult economic times, particularly in the Southwest and Florida. We are monitoring our membership renewals closely and indications are that even in this very difficult period, it is likely that we will retain up to 90% or our current membership.**

Also, I would still like to know where this place is that will generate sufficient jobs to warrant an additional 540 new members joining. Strike that. Based on the January 2010 figure of 8,504 current members, we now need to obtain 1,036 new members to make the projected “new member” figure and appurtenant income. From where will these new members come? **We expect our new IRWA Generalist Professional Career Path to generate new interest in the association as we provide a deliberate path for new members to pursue at the beginning stages of their career. We intend to market the career path heavily to DOT’s and public agencies, of which there are literally thousands. We are also pursuing high growth areas, like Pennsylvania, where our members in the pipeline industry cannot add staff fast enough to meet project demands. Between our new career path and high growth areas, we believe we can add to our overall membership.**

This, of course, also presumes that existing members will renew as projected and it won’t be necessary to add even ***more*** new members. Is the $20,000-plus drop in membership income realized in January 2010 normal and expected? I am merely performing basic calculations, and could be unaware of some factor – this is where I need to ask you and the HQ staff to fill me in. I calculated that, between July 2009 and December 2009, the average monthly membership income was around $144,000; the January 2010 figure was $120,550. Does this drop normally occur every January? Am I not accounting for something that isn’t readily apparent in the available figures? **The income figures reflect actual timing of receipt of membership dues. When comparing January 2010 membership income with January 2009 membership income, we are up $13,000.**

<u>EXPENSES</u>
Overall, I found the projected expenses to be reasonable, particularly considering the move to the new building. Many line items demonstrate proactive cost cutting, with most segments very much in line with past years, adjusted where one might expect to see adjustment, given the current state of our economy.

One area in the budget that caught my attention – and which I asked you about in San Diego - involved payroll for the staff at HQ. The budgeted amount for FY 2010-11 is proposed to increase by nearly 9%. The detail for that item does not suggest new bodies would be added to the current 22 fulltime staff members, but does acknowledge that part of the increased budget amount accounts for “a 28% increase in healthcare benefits for staff in 2011”. I broke out my calculator and subtracted the benefits costs to compare just the payroll and pension plan figures.

My calculator said that the proposed budget indicates about a 6% increase in payroll – a smidgen over $80,000 in all - an annual average of almost $3,700 per staff member – about $300 more per month per staff member. Of course, that presumes that the pay increase will be shared equally among the 22 staff members at HQ.

I asked about the payroll increase at the Region 1 Forum. When so many of us are seeing pay reductions, furloughs, and layoffs, what would warrant a pay ***raise*** for HQ staff? Your answer was strictly about retention of current staff. Without a raise, staff might leave and couldn’t be replaced. <u>No one</u> is irreplaceable, especially in today’s economy. As you will recall, I argued that, if even one staff member left because he or she didn't get a raise, there would readily be 50 or more persons knocking on HQ's door the next day to interview for the open position. Others in the room openly agreed. Has the media been deliberately misleading us, falsely reporting a 12% to 20% unemployment rate in the Los Angeles/South Bay area of California and therefore staff know they could leave and easily find employment elsewhere, or am I missing something? I would like to have more detail about the proposed payroll increase – the part that doesn't reflect the increase in cost of benefits. As I write this on one of my mandatory furlough days – an unpaid day by my employer - it just doesn't make sense to me. **Part of the increase is a full year of our curriculum manager on the payroll. She was hired as a temp last year and made a full-time employee in August, 2009. The position is not an increase in head count, but rather the redeployment of our previous webmaster position, which did not appear on the TO in 2009. Our budget does contain a merit pool of 4%. Any merit increases will be based on performance, but I maintain that our ability to dramatically shorten cycle times for processing memberships and designations, increase the quality of our education program delivery and improve customer service at a noticeable level is due in large part to retaining a well trained, motivated workforce, albeit a small one. I also believe that the economy will improve next year, but slowly. I think it is imperative that we are positioned to take advantage of it, with a proven workforce, rather than training a new one, while trying to provide quality member services.**

Another question involves a new line item for "Car Expenses" of $8,400. What does this represent? It's a topic of particular interest to others and me in the Phoenix metro area. One of our local newspapers, The Arizona Republic, recently reported the salaries and exorbitant car allowances given to various Valley city managers, city attorneys, city clerks, and others, amid pay reductions, furloughs and layoffs of the frontline staff. Locally, it is still a topic of heated conversation. So I have to ask, what does the "Car Expenses" line item represent? Is it an annual car allowance amount for only one or two of the top personnel at HQ or is it the sum total of mileage reimbursements for all office staff over the course of the entire year when, say, they have to run out for emergency office supplies, or what? I'd like more detail, please. **This is part of a contract extension for the EVP. That extension included a leased car.**

As I said before, I owe it to my chapter (as the other International Directors owe it to their chapters) to cast my best vote possible in Calgary this June, and I don't feel I can do that without these questions being answered. I'm sure you can understand my concern and reasons for asking: according to the Key Measures, instead of being more than $46K positive in net income per the budget, as of January 2010, the IRWA is actually more than $77K in the red; instead of 9,000 members (reported at the Forum as being the membership count as of Dec 2009) we now stand at 8,504 members; income from courses appears to be down by nearly a third from where it should be; merchandise sales haven't been as brisk as expected; membership income appears to be down, both overall, and in the most recent month reported. **As you point out, this has been a challenging year and given our strong financial position, leadership felt it important to be aggressive in supporting our members and the profession. This year we invested in our membership with online course development, leadership development and external advertising, to build recognition of IRWA regular, certified and designated members among hiring organizations.**

The proposed FY 2010-11 budget is based primarily on the monies paid in by our members for dues and courses. If the projected increase in membership does not occur, or if any of the income estimates fall short, how will the rest of the expenses – particular the pay raises, which do not seem to reflect current trends in the right of way industry and are not likely to be retracted after they are given – be supported? What necessary expense item in the budget will have to "give" in order to make up the difference? If you can offer any "contingency plan" thoughts for these "what if" situations, I would greatly appreciate it. **The Finance Committee and IEC review all our key measures, every 30 days and feel we can make adjustments in our budget as needed, depending on economic and industry trends. This year we chose to invest. Next fiscal year we intend to harvest and if we find we are unable to harvest, we will likely make adjustments.**

Thank you, in advance, for your and other HQ staff's prompt assistance in providing me with information that will enable me to better understand these budget items and the proposed FY 2010-11 budget as a whole.

I look forward to seeing you all in Calgary!

Kathie Sholly SR/WA, R/W-AMC
IRWA Chapter 28 International Director
http://www.irwachapter28.org/
623-930-3652

P.S. If I didn't direct this email to all the appropriate people, please forward it on to them. Thanks!

_ _