

TO: 2022 Executive Committee

FROM: Gary Nelson, 2022 President
Sindy Ready, 2022 Treasurer

SUBJECT: 2022 Budget Meeting

DATE: August 16, 2021

The 2022 Executive Committee Orientation will be held on **Friday, September 3, 2021, at 10:00 a.m.** We will break for lunch at noon and the 2022 Budget Meeting will follow from **1:00 – 3:00 p.m.** to review and approve the 2022 Strategic Plan, Business Plans, Operating and Capital Budgets for recommendation to the Board of Directors.

The budget portfolio contains:

1. Budget Meeting Agenda
2. Arizona REALTORS® Structure Chart
3. 2022 Executive Committee Roster
4. 2022 Executive Committee Primary Committee Assignments
5. 2022 Strategic Plan
6. 2022 Primary Committee Business Plans (55 pages)
7. 2022 Leadership Meetings and Events Calendar
8. Membership History (2000 - 2021)
9. Reserve Accounts Dashboard and Summary
10. 2022 Proposed Operating and Capital Budgets (39 pages)

The proposed Operating Budget is based upon the 2022 Strategic Plan and the 2022 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 \$627,541 net income, which is a \$553,701 net increase in income over 2021.

The Operations & Strategic Initiatives area budget reflects a \$440,609 decrease in income primarily due to the proposed decrease in dues and a \$879,942 decrease in expenses primarily due to a reduced Issues Mobilization allocation and no Operating Reserves reserve funding. As a result, the net **Operations & Strategic Initiatives net income reflects a \$439,332 increase.**

The details are as follows.

Income:

The dues income is based upon the projected 2022 membership. **Dues income (430) was calculated anticipating 53,190 members and represents a 4% increase in the number of members budgeted for in 2021.** This projection anticipates membership **dues to be reduced to \$175 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 54,399 members through June this year.

Rental income (415):

- Dr. Sun's lease expires on June 30, 2022. (Note: The lease contains a 30-day termination option.) We anticipate lease renewal and budgeted for 12 months of income.
- Prileo Healthcare signed a five year lease this year and budgeted for only 12 months of income.
- We have two vacant spaces downstairs: 2,400 sq. ft. and 1,416 sq. ft. We also have 2,409 sq. ft. of vacant space upstairs. All vacant space is available for lease for \$20.00 per square foot (with a 6 month special at \$15.00 per square foot):
www.loopnet.com/Listing/255-E-Osborn-Rd-Phoenix-AZ/13891820/

Reserve Funding - 1100:

- Capital Reserve (700): **We have allocated the capital depreciation of \$233,591 from the 2020 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 \$5,672,709.

- Issues Mobilization Fund (750): **We have proposed a \$10 per member allocation to the Issues Mobilization Fund for a total of \$531,900.** 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 \$9,417,620.

- 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 2020 audit the total operating expenses for 2020 were \$6,578,557.
 The Operating Reserve total for June was \$9,739,560.
- 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 \$2,478,288.
- Arizona Homeownership Alliance: **The proposed Budget contains no allocation to the Arizona Homeownership Alliance.** The Bylaws state in pertinent part:
“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 \$100,605.

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 \$23,898 increase in 2021 expenses, primarily due to:**
 - Governmental Area Support (1501): Increase due to higher building expenses and general supplies.
 - Fundraising/Grassroots Support (1560): Increase due to a larger annual Major Investor event as well as the REALTOR® Party PSF Allocation of \$6 per member times current member total of 50780.
 - Government Communication (1585): Increase due to new additional video production projects.

- **Risk Management reflects a \$2,490 net increase in expenses, with the largest changes primarily due to:**
 - Risk Management Support (1601): Increase in Repairs/Maintenance building expenses allocated to RMC such as HVAC Service Contract, Interior Repairs, Janitorial and Landscaping; decrease due to only one professional standards staff member scheduled to attend AEI.
 - Professional Standards Enforcement (1605): Elimination of Abacus training fees due to all of the training taking place in 2021, not 2022; increase in Abacus subscription cost as there will be a price increase; increase in travel/other in the event that some professional standards hearings are held in-person.
 - Professional Standards Training (1610): Elimination of PS Workshop instructor travel fees as no such fees were negotiated by the 2022 instructor.
 - Alternative Dispute Resolution (1615): Decrease in mediator travel with the increased use of Zoom.
 - Legal Hotline (1665): Increase is legal services as there will be a price increase.

- **Business Technology & Communications anticipates a \$158,876 net decrease in expenses, primarily due to:**
 - Business Services and Technology Support (1701): Decrease due to lower Janitorial/Window Cleaning, property management fees and travel expenditures.
 - IT Resources and Security Management (1730): Decrease in expenses due to less Desktop/Laptop Maintenance & support, Zoom licenses as they are split by department, GMI decrease as tech salary is expensed under operations, IVCI expenses changed to Conference Tech 2025 renewal, A Quick Books consultant is not expected, Go To Webinar not renewed, TransWest Warranty not renewed as covered by Nextiva.
 - Business Services (1770): Overall decrease in expenses due to less Catering and Promotional expenses planned, discontinuation of Go Paperless®. A yearly increase is expected for Transaction Desk and Tech Helpline. Income increased due to 2 new Licensees.

- Communications (1780): Decrease due to less expenditures for Member Benefit Booklets and video production.
- Diversity Committee (1781): Increase in expenses due to Training Seminars, DEI/Fair Housing Event, Copying, Scholarship/Essay contest, Diversity Committee Speakers and Outreach Travel (miles, meals).
- **Professional & Business Development reflects a \$18,117 net increase in expenses, primarily due to:**
 - Leadership Training (1840): Net increase of \$23,836 due to anticipated increase in hotel expenses, addition of room rental/parking costs and staff expenses to accommodate Tucson location for the conference.
 - Partners Conference (1850): Net increase (\$268) due to anticipated hotel catering expense increases.
 - Professionalism Program Outreach (*formerly MRES Society*) (1855): Net increase of \$5,995 due to addition of expenses related to the new Education Achievement program, New Agent Training program and Smart Start Video production.
 - Convention (1860): Increased early bird registration fee from \$125 to \$129 and standard registration fee from \$175 to \$199, removed PPE expenses, eliminated videographer expense.
 - Education Outreach (1870): Added catering expense for a collaborative event such as the women's conference this year.
 - Instructor Development (1872): Net increase of \$880 speaker expense for Instructor development focusing on new instructors, bringing in the Bob Pike Group for the training.
 - rCRMS (1820) CRPM (1825) and REBAC (1870): one-day class registration fees increased from \$59 to \$69 to stay in line with GRI one-day class fee.

Capital Budget

The proposed Capital Budget is currently \$142,480 due to the following:

- \$58,900 in computer equipment
- \$21,300 in furniture and equipment
- \$62,280 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!