

TO: 2023 Executive Committee

FROM: Eric Gibbs, 2023 President
Mandy Neat, 2023 Treasurer

SUBJECT: 2023 Budget Meeting

DATE: August 17, 2022

The 2023 Executive Committee Orientation will be held on **Friday, September 2, 2022, at 10:00 a.m.** We will break for lunch at noon and the 2023 Budget Meeting will follow from **1:00 – 3:00 p.m.** to review and approve the 2023 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. 2023 Executive Committee Roster
4. 2023 Executive Committee Primary Committee Assignments
5. 2023 Strategic Plan
6. 2023 Primary Committee Business Plans (55 pages)
7. 2023 Leadership Meetings and Events Calendar
8. Membership History (2000 - 2022)
9. Reserve Accounts Dashboard and Summary
10. 2023 Proposed Operating (46 pages - Legal Sized Paper)
11. 2023 Proposed Capital Budget

The proposed Operating Budget is based upon the 2023 Strategic Plan and the 2023 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 \$795,113.51 in net income, which is a \$174,071.77 net increase in the projected income for 2022.

The Operations & Strategic Initiatives area budget reflects a \$64,346.96 increase in income primarily due to new tenants and membership exceeding what was budgeted for in 2022, along with a \$346,286.60 decrease in expenses primarily due to no Issues Mobilization allocation and no Operating Reserves reserve funding. As a result, **Operations & Strategic Initiatives net income reflects a \$410,633.56 increase.**

The details are as follows.

Income:

The dues income is based upon the projected 2023 membership. **Dues income (430) was calculated anticipating 53,190 members and represents a 0% increase in the number of members budgeted for in 2022.** This projection maintains dues at \$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 then experienced a large increase in membership between 2018 and 2019 and membership has increased in each year thereafter. The Association has 55,703 members through June this year.

Rental income (415) in which all leases were budgeted for 12 months of income in 2023:

- Dr. Sun's lease was renewed and expires on June 30, 2025. (*Note: The lease contains a 30-day termination option.*)
- Prileo Healthcare signed a five-year lease in 2021 which expires on March 31, 2026.
- We signed two new leases in 2022:
 - Easy Financing, LLC signed a three-year lease which runs through January 31, 2025; and
 - Enhanced Bodies signed a three-year lease which runs through April 30, 2025.

Reserve Funding - 1100:

- **Capital Reserve (700): We have allocated the capital depreciation of \$202,471 from the 2021 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 \$6,095,949.44.

- **Issues Mobilization Fund (750):** The proposed Budget contains no allocation to the Issues Mobilization Fund. 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 \$10,541,962.10.

- **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 2021 audit the total operating expenses for 2021 were \$6,907,934. The Operating Reserve total for June was \$10,386,884.92.

- **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 \$2,835,121.61.

- **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 \$100,479.98.

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 \$65,245.59 increase in expenses, primarily due to:**
 - Governmental Area Support (1501): Increase due to higher building expenses and general supplies along with new line items for GoVenda, Swoogo, and Allied Security.
 - Legislative Advocacy (1510): Increase due to two staff members scheduled to travel to conferences as opposed to one staff member, as well as increased cost of Phoenix Chamber of Commerce membership.
 - Legislative Policy Development (1550): Increase due to anticipated higher costs for Caucus such as audio/visual and catering expenses.
 - Fundraising/Grassroots Support (1560): Increase due to new line item for RAPAC Hall of Fame reception, and higher cost for annual audit, but the REALTOR® Party PSF Allocation has been lowered from \$6.00 to \$5.50 a member.
 - Federal Liaison Support (1575): Slight increase due to anticipated higher costs associated with the D.C. Hill Visit Reception.

- **Risk Management reflects a \$22,983.75 net increase in expenses, with the largest changes primarily due to:**
 - Risk Management Support (1601): Increase due to allocating funds for a new member meeting management platform, industry increases for food, hotel and travel, and an increase in subscription-based services.
 - Professional Standards Enforcement (1605): Decrease in income from Professional Standards ethics and arbitration hearings as administrative fees are only assessed when members are found in violation of the Code of Ethics.
 - Professional Standards Training (1610): Industry increases for food, hotel, and travel for the annual training, and an increase for recording videos explaining the Professional Standards processes.
 - Alternative Dispute Resolution (1615): Increase due to higher industry costs for food for the annual mediator/ombudsman training.
 - Forms Development (1650): Increase to translate Professional Standards forms into Spanish.
 - Legal Hotline (1665): Increase is legal services due to annual price increase.

- **Business Technology & Communications reflects a \$107,747.45 net increase in expenses, primarily due to:**
 - Business Technology & Communications Support (1701): decrease due to a reduction in Staff Technical training, lower RAMCON travel expenses and decreased telephone expenses.
 - IT Resources and Security Management (1730): Decrease in expenses due to Global Management Innovators (GMI) costs now being split by departments with Alex's salary allocated to operations, reductions in the cost of Adobe subscription and Adobe pro license, and elimination of SSL licenses, Network Layer Vulnerability scan, and Exagrid due to new use of Microsoft Azure cloud services.

- Business Services (1770): Overall increase in expenses due to additional promotional fees for video production, an increase in the costs of TransactionDesk and the Tech Helpline, a new line item for Zendesk, a new line item for Photofy, and a new line item for the Breeze Platform that will be utilized to provide members with access to a fillable SPDS.
- Communications (1780): Increase due to costs for the production and distribution of Member Benefits booklets, video production, and social media ads.
- Diversity Committee (1781): Increase in expenses due to new line items for Swoogo, Govenda, and the use of a videographer, along with an anticipated increase in statewide diversity outreach for travel (miles, meals).
- **Professional & Business Development reflects a \$40,585 net increase in expenses, primarily due to:**
 - Leadership Training (1840): Net increase due to anticipated increase in hotel expenses and speaker fees.
 - Partners Conference (1850): Net decrease due to reduction in registration numbers and related catering.
 - Professionalism Program Outreach (1855): Net increase due to addition of expenses related to the RISE program and StartSmart Video production.
 - Convention (1860): Net decrease due to reduction in anticipated hotel cost from moving event to Prescott.
 - Education Outreach (1870), rCRMS (1820), CRPM (1825): Net decrease due to adjusting budget to reflect AAR-sponsored classes and eliminating budgeting for anticipated partner-sponsor classes.
 - Education Development (1871): Net increase due to elimination of REBAC Affinity partnership income.
 - Broker University (1875): Net increase due to addition of a live Broker Summit event.
 - REALTOR Institute (1815) Net decrease due to adjustment to number of classes and students.
 - Support (1801) Net increase due to increase in social media event advertising, event registration platform changes and additional contract fees related to building operations.

Capital Budget

The proposed Capital Budget is currently \$658,376 due to the following:

- \$ 93,000 in Computer Equipment
- \$117,559 in Furniture and Equipment
- \$447,817 in HVAC and Interior/Exterior building repairs & improvements.

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 CEO Scott Drucker, CFO Kristen Page, and/or the Primary Committee 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!