

TO: Arizona REALTORS® Board of Directors

FROM: Shelley Ostrowski, 2024 President
Shane Cook, 2024 Treasurer

SUBJECT: 2024 Proposed Budget

DATE: September 28, 2023

The proposed Operating Budget is based upon the 2024 Strategic Plan and the 2024 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 \$438,401.25 in net income, which is a \$356,712.26 net decrease in the projected income for 2023.

The Operations & Strategic Initiatives area budget reflects a \$300,795.63 decrease in income primarily due to a 3% decrease in projected membership from 2023, along with a \$34,322.00 increase in expenses primarily due to the addition of Equity, Diversity, & Inclusion to the Operations & Strategic Initiatives area budget and an increase in contracted services for IT (GMI). As a result, Operations & Strategic Initiatives net income reflects a \$335,117.63 decrease.

The details are as follows.

Income:

The dues income is based upon the projected 2024 membership. **Dues income (430) was calculated anticipating 51,590 members and represents a 3% decrease in the number of members budgeted for in 2023.** 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 increased in each year thereafter through 2022. The Association has 54,844 members through June of this year which represents a 1.54% decrease in paid members for the same period in 2022.

Rental income (415) in which all leases were budgeted for 12 months of income in 2024:

- Prileo Healthcare signed a five-year lease in 2021 which expires on March 31, 2026.
- Easy Financing, LLC signed a three-year lease which runs through January 31, 2025.

Reserve Funding - 1100:

- **Capital Reserve (700): We have allocated the capital depreciation of \$180,362.00 from the 2022 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 \$6,872,895.17.

- **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 \$11,322,314.55.

- **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 2022 audit the total operating expenses for 2022 were \$7,502,221.
The Operating Reserve total for June was \$11,310,098.89.

- **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 \$3,785,984.29.

- **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 \$411,794.63.

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 \$20,459.55 net increase in expenses, primarily due to:**
 - Government Area Support (1501) - added GAAP items not included in the 2023 budget.
 - 786-1510 – 2 new Aristotle platforms were added to create and manage a new statewide Legislative Key Contact Program and efficiently track bills and voting records of elected officials on a weighted scale to enhance our endorsement and contributions to candidates.
 - 810-1510 – Increase to the legislative and political consulting contract for the Willetta Partners firm as they are spending exponentially more time advocating on behalf of our industry amid longer and more complex legislative sessions.
 - 860-1510 – Additional conferences have been added to increase the professional development opportunities for this department.
 - 630-1550 / 630-1560 / 630/1575 810/1550 – All of these categories pertaining to legislative events have increased as the cost of creating professional and impactful events are annually increasing due to inflation and higher attendance.
- **Risk Management reflects a \$22,608.75 net decrease in expenses, with the largest changes primarily due to:**

- Risk Management Support (1601) added GAAP expenses and the restructuring and removal of General Counsel costs for meeting registrations, travel and food which has been moved under Operations.
 - Legal Support (1602) Legal publications and outside Legal fees shifted to Operations.
 - Alternative Dispute Resolution (1616) increased slightly due to increased training costs. speaker fees and meals.
 - Legal Hotline (1665) increased slightly due to Legal Hotline contract fee increase.
- **Business Technology & Communications reflects a \$53,360.61 net increase in expenses, primarily due to:**
 - Business Technology & Communications Support (1701) Due to added GAAP service line items not included in the 2023 budget.
 - IT Resources and Security Management (1730) Due to managed service provider (GMI) increased cost, Azure cloud service storage line item and a scheduled 2024 IT system vulnerability and penetration testing.
 - Business Services Department (1770) Due to increased managed service provider Transaction Desk and an expected increase with our email marketing platform, Higher Logic.
 - Communications (1780) Due to added postage costs to mail our 2024 Member Benefits Guide and added expenses for the development of an Arizona REALTORS® app and an Arizona REALTORS® podcast.
- **Professional & Business Development reflects a \$29,616.78 net decrease in expenses, primarily due to:**
 - Support Budget: Added in additional GAAP items, adjusted number of videos to be created, adjusted hotel and airfare costs, added additional staff person to attend education conference.
 - REALTOR Institute Budget: Expenses: Increased website enhancement expenses to allow for refresh/redesign of azGRI.com.
 - rCRMS and CRPM Budgets: Minor adjustments based on anticipated number of classes and students.
 - Leadership Training: incorporated income and expense for new Leadership Journey event and Leadership Path videos.
 - Industry Partners Budget: reduced anticipated number of attendees, increased registration fee from \$89 to \$99.
 - Professionalism Budget: Replaced StartSmart classes with Quarterly Value Proposition Workshops (income and related expenses) and increased video production expenses based on 2023 task force recommendations.
 - Spring conference Budget: increased registration fees from \$129 to \$159; increased expenses for the Opening Reception; and adjusted expenses to eliminate 1 keynote speaker and breakout speakers.



- Education Outreach: eliminated vendor income for Women's Conference and added \$25 registration fee for the Trends Summit.
- Education Development: increased video production expense.
- Instructor Development: adjusted catering to allow for 2 IDW's vs. 1 IDW.
- Broker University: adjusted to reflect 2 live Broker Summits vs. 1 live Broker Summit; and increased video production expenses.

Capital Budget

The proposed Capital Budget is currently \$450,980 due to the following:

- \$ 50,200 in Computer Equipment
- \$ 27,500 in Furniture and Equipment
- \$373,280 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!