



Arizona Real Estate Advisory Board
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Janice K. Brewer
Governor

Arizona Real Estate
Advisory Board

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February 13, 2013

The Honorable Janice Brewer
Governor of Arizona
1700 West Washington Street, 9th Floor
Phoenix, Arizona 85007

Dear Governor Brewer,

I count it an honor and a privilege to submit another annual report outlining the 2012 Arizona Department of Real Estate (ADRE) Advisory Board activities. We all appreciate working closely with your Commissioner Judy Lowe, and her capable and knowledgeable staff. We are all too aware of the challenges and the opportunities in all sectors of our communities to do the right thing and make a difference. The talents and abilities of your Advisory Board are significantly helping to create thoughtful, detailed oversight of the 87,000 plus licensed agents and brokers across our Great State.

Commissioner Lowe continues to apply the tenacious, consistent work ethic and attitude that has always set her apart. With the significant number of agents and brokers in our State, it is imperative that we continue to dig deep and carefully examine every area of opportunity, including the constantly changing and expanding technological world and all its possible applications. Also important is constant vigilance in enforcing regulations in critical areas of property management, broker fiduciary responsibilities, unlicensed real estate activities, educational courses and looking at all inter department policies and procedures. Constant vigilance in of all of these areas help us to keep our Department moving toward our annual goals.

As our housing industry begins to revive and lead us forward, out of our long and difficult economic recession, our responsibilities at the ADRE are expanding. Commissioner Lowe maintains a vigilant eye on her Department each day with a balanced leadership perspective. Everywhere I go, throughout our State, she is respected and admired for what she continues to do for the real estate industry.

Respectfully Submitted,

Charlie Bowles
Chairman 2012

**Arizona Department of Real Estate (ADRE)
Summary of Accomplishments
2012**

In 2012, Commissioner Lowe and the ADRE TEAM continued to implement the 2011-2015 ADRE Strategic Plan and developed the ADRE 5 Year Strategic Plan (2013 – 2017). Strategic issues addressed were: increased protection to the public; enhanced quality of license real estate education; streamlined/ efficient delivery of ADRE services; maximized ADRE technology platform; an accountable, skilled and committed ADRE TEAM; and adherence to ADRE fiscal guidelines.

The following reflects the 2012 individual division accomplishments:

Commissioner's Office:

- Developed and distributed the 'Real Estate Licensees – Duties to the Client' brochure
- Implemented Personnel Reform. Performance measures were developed and are now in use for all ADRE employees; the entire ADRE TEAM has been trained in MAP; All of ADRE's Supervisory staff attended the Personnel Reform-Supervisor Training at the Coliseum on September 27, 2012; raised the bar on requirements for new employees. The ADRE TEAM will continue to participate in personnel reform related trainings and program implementation.
- In partnership with the Arizona Mexico Commission and the AMC Real Estate Committee, hosted a Cross Border Real Estate Symposium at the June 2012 Summer Plenary that was attended by over 140 real estate professionals from both the State of Arizona and the State of Sonora.

Business Services Division:

- Updated procedures for human resources and procurement.
- Implemented new processes for tracking vehicle usage, records management, inventory control and employee attendance.

Information Technology

- Implemented a real-time Candidate Importer Module so real estate test result information can be transmitted to the Department, at the time they have been taken.
- Upgraded server and storage infrastructure to support high availability of internal and external services and provide high capacity storage for digital storage initiatives.
- Implemented a Work Management module for the online systems to help employees manage tasks related to online activity.
- Improved upon the online payment module so fees can be collected online for any Department process.
- Began development of an Original License Application Module to automate the license application process.

HUB

- Two Customer Service Representatives in the HUB, ADRE's first point of contact for the public, monitored approximately 7,000 calls per month while achieving the following work product:
 - Processed on average 40 License Certifications and Broker Experience Verifications monthly with less than a 48-hour turnaround period;
 - Responded to over 20 Division e-mails daily on average with less than a 24-hour turnaround period;

- Reviewed an average of 30 criminal conviction disclosures per month from licensees and tracked them for timely submission of statutorily required follow-up information.
- Established a bi-weekly Q&A meeting with HUB staff. Information from these meetings is being used in the development of a comprehensive ADRE call script for HUB employees.

Education Division

- Established a system for the granting of authority from the primary sponsoring school for any changes filed by a secondary sponsor school for a particular instructor.
- January 2012, incorporated new legislation (SB 1292), as part of instructor application review process to accommodate the affected instructors to complete Instructor Development Workshops (IDW) emphasizing instruction methods, techniques and skills.
- May 9, 2012 - the Real Estate Advisory Board established a Continuing Education Committee, composed of Stakeholders from the entire real estate industry to recommend a standard, as well as guidelines for course approval and for Broker Management Clinic instructor qualifications per ADRE education statutes, including the 2012 legislation in House Bill 2357.
- May 30, 2012 – Enhanced the communications using the ADRE web-based messaging system and integrating with the Online Education System.

The Real Estate Instructor Approval/Renewal Application was updated in May 2012 to clarify initial Prelicensure Instructor qualifications based on Commissioner Lowe’s acceptance of a recommendation from the Real Estate Advisory Board at its May 9, 2012 meeting.

- Real Estate Salesperson Arizona State Specific Examination Content Outline - Pre-licensure Review Committee recommendations for minor revisions to the Real Estate Salesperson Arizona State Specific Examination Content Outline were accepted for topic/subtopic clarification and accuracy of formatting, as well as bibliography accuracy, as published 6/1/2012, and effective for salesperson examination 7/1/2012.
- August 1, 2012 ADRE issued Substantive Policy Statement NO. 2012.01: Broker Management Clinic Course/Instructor Requirements, as well as “Course/Instructor Frequently Asked Questions” as a result of the Stakeholder Committee recommendations.
- Commissioner Lowe extended her sincere gratitude to the legislative group, the Real Estate Advisory Board and the BMC Stakeholder Committee for their time and work with the new legislation related to the Broker Management Clinic (BMC). The time and dedication given by this multi-talented group of professionals exemplifies their support of ADRE’s mission to increase the knowledge level and raise the bar, through education of the real estate licensee. These groups also recognized the important obligation to promoting professionalism and consumer protection! ADRE looks forward to reviewing the new BMC course and instructor applications!
- August 1, 2012- Implemented a process for course and instructor approvals, to accommodate the new legislation (HB 2357) requiring Designated Broker and certain Associate Broker licensees to complete 30 hours of Continuing Education instead of 24 hours every two years, with the additional 6 hours in Broker Management Clinic content.
- IDW (Instructor Development Workshop) Courses related to Broker Management Clinic were reviewed and approved.
- September 25, 2012, ADRE held a Prelicensure Instructor Industry Day with Pearson VUE, ADRE’s testing vendor.

- Implemented online viewing of new Broker Management Clinic course/instructor subject area approval(s) by expanding the search criteria to help locate online courses and scheduled live course events and approved instructors.
- October 15th and 16th, 2012 Pearson VUE (ADRE's testing vendor) held Subject Matter Meetings with industry representatives to review real estate examination content.
- In late November 2012, issued notices to Schools and those instructors without a primary sponsor school, listing the preceding BMC course and/or instructor subject area approval terminations effective December 31, 2012 due to (HB2357)
- 125 Volunteer Monitor Reviews completed in 2012 - monitors assist ADRE in monitoring the many pre licensure and continuing education courses.
- 2.5 years of careful review of course applications based on enhanced application.
- 2 years of careful review of all instructor applications based on enhanced application.
- Issued five (5) Informational Alerts to schools to ensure effective communications.

During 2012, the Education Division maintained an average of 49 pending applications, while continually conducting a complex review of course and instructor qualifications with a staff of 3 employees. The increase in pending applications at the end of December 2012 was based on a law change requiring new course and instructor approvals to be in place prior to the new law effective date of January 1, 2013, which would implement a fee schedule for all applications.

Education Applications	<u>As of 12/31/2011</u>	<u>As of 12/31/2012</u>	<u>Increase/Decrease</u>
New Applications Received During Year	1512	2313	53%
Applications Closed During Year	1437	2328	62%
Open Pending Applications	47	68	45%

Customer Service and Licensing Division:

- Launched the online Message Center in May of 2012—furthered utilization of ADRE's technology platform
- Business address change capability added to the Online System
- Completed the process for scanning older applications (300 minimum)
- Began cross-training all staff on the process for Broker application packets; staff members are now trained in all aspects of the licensing process
- Updated and scanned name change documents
- Worked with IT on the Original Sales application process for the Online System
- Updated licensing forms as well as information on the Department's website

Real Estate Licensing	<u>As of 12/31/2011</u>	<u>As of 12/31/2012</u>	<u>Increase / Decrease</u>
Original Licenses (Sales & Broker)	3965	3935	-1%
Renewals (Sales)	10906	19647	80%
Renewals (Broker)	3171	5989	89%
Renewals (Entity)	1666	3158	90%
Walk-in Customers	12363	7365	-40%
Total Number of Transactions Processed	11241	7142	-36%

Investigation & Development Services Division:

During 2012, the Division’s Investigators and Auditors continued to work together to increase Auditing activities throughout the State. The Development Services staff has continued to provide customer service to developers and title companies in the filing of public reports.

<u>Real Estate Investigations</u>	<u>As of 12/31/2011</u>	<u>As of 12/31/2012</u>	<u>Increase / Decrease</u>
Open Pending Cases	99	151	+ 66%
New Cases Received During Year	708	846	+16%
Cases Closed During Year	860	794	-33%
Average Age of Open Cases (Days)	137	105	-25%
Average Case Closure (Days)	37	67	+55%

The number of pending Real Estate Investigations was as low as 81 cases in June 2012. The increased number of open cases at the end of CY 2012 is partially due to a 68% increase in the number of new cases during the last quarter of 2012 (221) as compared to the number of new cases received in the same period in CY 2011 (151), as well as an increase in complaints filed in CY 2012.

<u>Subdivision Investigations</u>	<u>As of 12/31/2011</u>	<u>As of 12/31/2012</u>	<u>Increase / Decrease</u>
Open Pending Cases	25*	15	-40%
New Cases Received During Year	60	54	-9%
Cases Closed During Year	83	64	-23%
Average Age of Open Cases (Days)	550	217	-61%
Average Case Closure (Days)	269	289	+7%

The Subdivision Investigative staff significantly reduced the average age of pending subdivision cases during CY 2012. (*NOTE: Error found in 2011 report and corrected.)

<u>Auditing</u>	<u>As of 12/31/2011</u>	<u>As of 12/31/2012</u>	<u>Increase / Decrease</u>
Open Pending Cases	37	82	+45%
New Cases Received During Year	216	256	+16%
Cases Closed During Year	209	216	+3%

During CY 2012, the Department Auditors conducted and/or completed 115 onsite and/or electronic broker audit reviews resulting in disciplinary actions taken against 28 brokers and/or entities; 5 audit cases referred to the Attorney General’s Office; 44 brokers found in substantial compliance; and, trust account deficiencies of approximately \$3.4 million.

<u>Development Services</u>	<u>As of 12/31/2011</u>	<u>As of 12/31/2012</u>	<u>Increase / Decrease</u>
Regular Public Reports Issued	49	29	-41%
Expedited Public Reports Issued	128	162	+21%
Amendments Issued	263	207	-21%
Exemptions Issued	249	253	+2%

The Development Services Staff has experienced a decline in regular public report filings and requested amendments, but an increase in both expedited filings and exemptions issued.

Enforcement & Compliance Division (E&C):

In 2012, E&C continued to effectively and efficiently process cases, with a continued emphasis on consistent and stronger disciplinary actions based on proven violations. The number of cases closed continued to be more than the number of new cases received, as well as a decrease in the average amount of time to close cases. Additionally, civil penalties increased over 2011.

<u>Enforcement</u>	<u>As of 12/31/2011</u>	<u>As of 12/31/2012</u>	<u>Increase/Decrease</u>
Open Cases	234	119	-97%
In House	36	41 ¹	12%
AGO	198	78	-154%
New Cases (Year-includes multiple respondents)	699	515	-36%
Closed Cases (Year-includes multiple respondents)	772	676	-14%
Average Age of Open Cases (Days)	338	261	-30%
Average Case Closure (Days)	196	168	-17%
Civil Penalties	\$486,761.00	\$515,125.00	6%

Cases referred for Compliance increased from 2011 to 2012, primarily due to increased closed cases from Enforcement involving continuing compliance monitoring, with a marked increase in cases referred to Enforcement for further action and/or noncompliance.

<u>Compliance</u>	<u>As of 12/31/2011</u>	<u>As of 12/31/2012</u>	<u>Increase/Decrease</u>
Open Cases	207	240	14%
New Cases	188	124	-52%
Closed Cases	240	91	-164%
Referred for Further Action/Noncompliance	71	84 ²	15%

Regarding personnel, E&C continues to cross-train staff in order to maintain a continuity of services/duties performed, as well as provide support to other areas as needed.

Legislative

The Arizona Department of Real Estate (“ADRE”) continues to obtain feedback from real estate stakeholders regarding possible legislative issues and emerging industry concerns. It remains a priority of ADRE to regularly meet with association and industry groups throughout the year. These stakeholder meetings have included, but are not limited to the following: Arizona Association of Realtors, National Association of Realtors, Central Arizona Homebuilders Association, Southern Arizona Homebuilders Association, National Association of Hispanic Real Estate Professionals, Tucson Association of Realtors, Arizona Multi-Housing Association, Scottsdale Association of Realtors, Arizona School of Real Estate, Arizona Mortgage Lending Association, Pima County Real Estate Council, Arizona Mexico Commission, and many more.

Legislation signed by the Governor during the 2012 Legislative Session pertaining to the real estate industry included:

- **SB 1085** – Sponsored by Senator Gail Griffin, this bill continued the ADRE for ten years. The agency termination date is now extended to July 22, 2022.
- **SB 1154** – Sponsored by John Kavanagh, this bill repealed the Condominium Recovery Fund.
- **HB 2026** – Sponsored by Representative Jack Harper, this bill allows a real estate broker licensee to renew as a real estate salesperson by paying the salespersons’ renewal fee and without having to meet the statutory educational requirements.
- **HB 2195** – Sponsored by Representative Jerry Weirs, this bill specifies that a developer may elect to prepare an amended public report for the use in the sale of a timeshare plan.

¹ A substantial number of new case (45) were received during the last two (2) weeks of December 2012.

² Fifty-four (54) of the Compliance cases indicated include referrals to the Bankruptcy, Collection and Enforcement Section of the Arizona Attorney General’s office for collection of civil penalties.

- **HB 2357** – Sponsored by Representative Karen Fann, this bill increased the amount of continuing education credit hours for designated brokers or associate brokers with delegated contract authority by a designated broker. The bill also revised the requirements for a broker management clinic.
- **HB 2513** – Sponsored by Representatives Brophy McGee, Steve Urie, and Heather Carter, this bill allows a condominium owner or community member to use their unit or property as a rental.
- **HB 2855** – Sponsored by Representative John Kavanagh, this provision exempted the department from rulemaking requirements to allow the Commissioner to set fees for the following: certificates of approval or renewal for operating a real estate school, instructor or school official approval or renewal, live classroom continuing education and pre-license education course approval or renewal; and CE distance learning course approval and renewal. The beginning implementation of education fees will be in early 2013.

Rules

ADRE staff has taken significant strides toward amending the administrative rules that govern the agency. Pending an exemption from the Executive Branch, the department expects to open a rules docket in 2013 for Governor's Regulatory Review Council ("GRRC") consideration.