



Arizona Real Estate Advisory Board
2910 N. 44th Street, Suite 100
Phoenix, Arizona 85018



Douglas A. Ducey
 Governor

Arizona Real Estate
 Advisory Board

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 Commissioner

January 24, 2018

Dear Governor Ducey,

It has been an honor for me to serve as the Department of Real Estate Advisory Board Chairman in 2017. Please consider this my formal evaluation pursuant to A.R.S. § 32-2104 (F).

The Arizona Real Estate Advisory Board was established by the Legislature to provide the Real Estate Commissioner "with such recommendations as it deems necessary and beneficial to the best interests of the public. The board shall also provide recommendations on specific questions or proposals as requested by the Commissioner."

Your appointees to the Real Estate Advisory Board represent many diverse Arizona Real Estate professionals, as well as public members, which provide valuable information.

There were 84,202 total licensees at 2017 calendar year end, a 3.6% increase from the previous year, and a 7.6% increase since January 2015, with new license applications continuing to be processed in 1 day. Public Disclosure Reports issued to builders/developers for the purpose of marketing the sale of homes have increased 15.5% from January 2015 to 2017.

Topics that the Advisory Board has considered and worked to address include new real estate brokerage models, real estate teams, education standards, and distance learning course content quality for continuing education. The Advisory Board has encouraged stakeholder workgroups to discuss and report findings for recommendation. The Department has continued to share their journey of implementing the Arizona Management System and the success stories that have resulted from policy and process improvement.

The accomplishments provided in the following pages reflect the steady leadership of Commissioner Judy Lowe, and the focus placed on continuous improvement and demonstrable value to real estate professionals and the protection of the public. Her experience and commitment to the Department's mission, "to protect the public interest through licensure and regulation of the real estate profession in this state", is respected throughout the real estate industry.

Pursuant to A.R.S. § 32-2124 (K) there was one applicant in 2017 who met licensing requirements by an equivalent alternative.

I am proud to say with resounding support that the Arizona Department of Real Estate continues to be one of the best in the nation. I look forward to the continued success of the Advisory Board and Commissioner Lowe in 2018.

Respectfully,

Bill Gray
 2017 Chairman ADRE Advisory Board

Cc: Kirk Adams, Chief of Staff
 Gilbert Davidson, Chief Operating Officer



ARIZONA DEPARTMENT OF REAL ESTATE (ADRE)
Summary of Accomplishments
Calendar Year (CY) 2017

In CY2017, Commissioner Lowe and the ADRE TEAM continued to implement the Department's Strategic Plan goals including: increasing protection to the public; enhancing the quality of license real estate education; streamlining efficient delivery of ADRE services; maximizing the ADRE technology platform; creating and maintaining an accountable, skilled and committed ADRE TEAM; and adhering to the state and agency's fiscal guidelines.

The ADRE continued to implement the Arizona Management System in all divisions. Weekly tracking of Scorecard goals and monthly review of performance measures for all staff is adhered to. The following reflect some of the many CY 2017 accomplishments:

COMMISSIONER'S OFFICE:

- Continued implementation of the Arizona Management System;
- Achievement of two key breakthrough measures in the Auditing Division and Investigations Division – key goals to reduce average time of audits and investigations;
- Implementation of two new breakthrough measures – key goals to reduce non-jurisdictional complaints and reduce average days to complete a trust account review;
- 90% of all ADRE eligible staff “Meeting Expectations” or “Exceeding Expectations” in FY 2017;
- Continue to identify costs savings in the areas reported to ADOA;
- Supported the passage of *SB 1060 HOAs; Dispute Process* which made technical and conforming changes related to the Homeowners' Association Dispute Process;
- Accepted the administration of the Homeowner's Association Dispute Process as of July 2016 when the Dept. of Fire, Building and Life Safety was consolidated in the FY2017 budget;
- Updated the ADRE Model Broker Policy and Procedures Manual;
- Updated “SPS 2017.01 Unlicensed Assistants”, relating to unlicensed real estate assistants;
- Submitted nine (9) *Success Stories* to the Governor's Office relating to agency process improvements that were implemented; and
- 180 Presentations by Commissioner to stakeholder and real estate professional groups.

BUSINESS SERVICES DIVISION:

- Continued Document Digitization Process
 - Increased access for the regulated community, the public and ADRE staff to electronic documents and records through this digitizing project;
 - Continued reduction in the annual ISA costs with Records Management Center (RMC) through digitization, and creating a sustainable workflow to continue digitizing Licensing and Investigations paper files;
 - Faster retrieval time and better access to records for agency operations and public records delivery - reduced cost in employee time to find physical records;



- The agency, public, and real estate licensees benefit from the speed and efficiency of license application/renewal and information/file retrieval. All done online; and
- Cost Savings in staff time, paper usage, copier costs, State Records Mgmt. cost.
- Implemented Remote Deposit, allowing for faster access to funds, electronic archives, efficient return check notification and fewer trips to the bank (time away from the office);
- Public records requests fulfilled w/in an average of 2 days from receipt – customer pay less or no charge depending on how records are requested;
- Acquired the HOA Dispute Petition Process: streamlined, reduced fees, and documented process, reduced the number of Message Center messages and phone calls by adding detailed landing page to the website; and
- Implemented new Complaint Review process, through Breakthrough Project, allowing for 1 day response for non-jurisdictional complaints, and providing additional time for Investigators to focus on Department complaints.

INFORMATION TECHNOLOGY

- Continued development of ADRE’s internal database “Realm 2” with enhanced features to streamline the internal system to manage caseload and data;
- Completed Investigations, Recovery Fund, Development Services, Timeframes, and Hearings phases of the new Realm 2 License Management System;
- Implemented a third Licensing Division Kiosk system with scanner for consumer use;
- Implemented all statewide cyber security controls; and
- Exceeded the statewide cyber security metric goal at calendar year end.

EDUCATION DIVISION

- Oversaw the delivery of approximately 683 education classes monthly
- Approved a monthly average of 135 applications for schools, instructors, and courses (2017 total = 1,620) **(6% increase in processed applications since 2016)**;
- Pearson VUE (ADRE’s testing vendor) held Subject Matter Expert Meetings with industry representatives to review real estate examination content;
- Volunteer Monitors completed approximately **114** Volunteer Monitor Reviews. The volunteer monitor reviews assist ADRE in monitoring the many precensure and continuing education courses;
- Issued two (2) Information Alerts to schools to ensure effective communications;
- The Education Advisory Committee’s 14 members held 4 public meetings at ADRE;
- One education staff employee averaged no more than 5 “pending” applications each month; and
- Pearson Vue administered approximately 13,877 license examinations, which includes 6,253 retakes. (13% increase in examinations since 2016)
- Held two stakeholder meetings with Distance Learning Continuing Education workgroup to recommend course improvement ideas to enhance the quality of continuing education courses and course content.



LICENSING

- Processed over 7,479 new real estate license applications; (8% increase in new licensees since 2016)
- Usage of the On-line Original license application, which allows a new license applicant to be licensed within 24 hours, or less, of passing the real estate licensing exam, is up to 85% since implementation (Online process includes application, approval, fee payment);
- Processed over 12,126 incoming messages in the Online Message Center System where the majority of the messages consist of all licensing application types, including processing of online payments;
- Licensing staff employees averaged 0 “pending” applications each month end; and
- Assisted approximately 5498 walk-ins at the Licensing Front Counter. (Decreased the number of walk-in customers by 9% since 2016 with availability of more online application options).
- Established online Professional Corporation/Professional Limited Liability Company (PC/PLLC) application process for new applicants.

DEVELOPMENT SERVICES

- Development Services staff issued approximately 649 public reports. (Supported the steady 13% increase in development/builder applications since 2015)
- Development Services staff averaged less than 12 pending applications at each month end; (Decreased the average pending applications each month end over 50% since 2016)
- Conducted approximately **40** development inspections, as required by statute;
- Held four Learn and Lunch events for the Builder/Developer community, and their title representatives as partners, to foster the sharing of information and transparency around development services that ADRE provides, including guest speaker appearances from other organizations or government entities; and
- Average days to issue an expedited Public Report Filing have decreased from 4 days in January 2017 to less than 1.5 days in December 2017. Average days to issue an Amended Public Report have decreased from just over 9.3 days in 2016 to 8.97 days in December 2017.
- Established online application system for all development/builder applications; which reduced paper check payments and saved staff time in scanning large documents.

AUDITING and INVESTIGATION DIVISION

During Calendar Year 2017, the Division’s Auditors and Investigators successfully completed the Lean Breakthrough Projects to decrease the processing time from opening to closing of specified files. As a result, the Breakthrough Projects were deemed complete and the Breakthrough Projects were converted to a Sustainment Objective. The Auditing and Investigation Division is staffed by four (4) Investigators, four (4) Auditors, an Administrative Assistant and a Division Manager.



Real Estate Investigations	As of 12/31/2016	As of 12/31/2017	% of Increase / Decrease
Open Pending Cases	27	38	+29%
New Cases Received During Year	728	778	+7%
Cases Closed During Year	762	766	+1%
Average Age of Open Cases (Calendar Days)	25	13	-48%
Average Case Closure (Calendar Days) (All Files)	6	19	+315%
<i>Average Case Closure for Cases Requiring Full Investigation (Goal: 30 calendar days by 06/30/2017)</i>	25	25	0%

The original goal for Investigations was to decrease the processing time for complaints requiring further investigation. This process includes notifying the licensees of the complaint filed, obtaining responses and transaction records from licensees, their Designated Broker, and identified witnesses, including analysis of the documentation submitted to determine if evidence exists to support the allegation and warrant action against a licensee.

In December 2016, the goal was to complete “Investigate Further” complaint cases in 38 days. As the Investigators had been consistently meeting that goal, it was decided to decrease the goal in February 2017 to 34 days and continue to decrease the goal by one day each month thereafter until the goal was reduced to 30 days by June 2017. A total of 361 complaints were determined to be “Investigate Further” cases. Through continuation of the Lean Process, the Investigative staff sustained the amount of time to process “Investigate Further” cases in 30 days or less, with an average of 25 days in December 2016 and an average of 25 days in December 2017. Overall, the average for all “Investigate Further” files in CY 2017 was 27 days. Complaints filed involving allegations that do not fall within the Department’s jurisdiction, such as Landlord/Tenant Disputes, Commission Disputes between Licensees, Contract Disputes, etc., are addressed through a Complaint Review Process with notification to the complainant of the reason for the case being closed.

During 2017, the Complaint Review Process was transitioned from the Investigations Division to Constituent Services Division, and was established as a new Breakthrough Project for the Department. With this transition, the amount of time to process Complaint Reviews was reduced from an average of two (2) days in December 31, 2016 to an average of zero (0) days as of December 31, 2017.

Auditing	As of 12/31/2016	As of 12/31/2017	% of Increase / Decrease
Open Pending Cases	54	25	-54%
New Cases Received During Year	485	701	+31%
Cases Closed During Year	517	726	+29%
Average Age of Open Cases (Calendar Days)	22	27	+19%
Average Case Closure (Calendar Days) (All Files)	41	19	-54%
<i>Average Case Closure for Cases Referred to Enforcement and Compliance (Goal: 52 calendar days as of 06/30/2017)</i>	27	44	+39%



The original goal for Auditing was to decrease the processing time for Audits from initiation to Referral to the Department’s Enforcement and Compliance Division (“E & C”) for possible disciplinary action to 58 days. As the Auditors had been consistently meeting that goal, it was decided to reduce the goal in February 2017 to 52 days by June 2017. Through the Lean Process, the Auditing staff continued to exceed the goal by completing 41 E & C Referrals within an average of 44 days during CY 2017.

During CY 2017, the Department’s Auditing Staff completed 726 Auditing files including 426 Main Office Onsite Audits, 108 Onsite Audits of Branch Office Locations and 164 Compliance Reviews for the Enforcement and Compliance of Brokers on Consent Orders with the Department. All Auditing files were closed within an average of 19 days.

<u>Subdivision Investigations</u>	<u>As of 12/31/2016</u>	<u>As of 12/31/2017</u>	<u>% of Increase / Decrease</u>
Open Pending Cases	2	5	+60%
New Cases Received During Year (All Subdivision Related Cases)	46	58	+21%
Cases Closed During Year {Investigate Further Files vs. (Complaint Review Files)}	10 (41)	23 (35)	+57% (-15%)
Average Age of Open Cases (Calendar Days)	35	4	-91%
Average Case Closure (Calendar Days) for Calendar Year [Investigate Further Files vs. (Complaint Review Files)]	49 (6)	37 (3)	-24% (-50%)

Although the completion of Investigations involving Subdivision related cases is tracked separately for the purposes of Department statistics, Subdivision related cases requiring Further Investigation were included in the Investigators’ Breakthrough Project. A total of 58 Subdivision related complaints were received in CY 2017. In CY 2016, 10 Subdivision related complaints required Further Investigation. In CY 2017, 23 of the complaints received required Further Investigation. Through the Lean Process, the Investigators reduced the processing time from an average of 49 days in CY 2016 to an average of 37 days in CY 2017.

ENFORCEMENT & COMPLIANCE DIVISION (E&C)

There was a 24.5% reduction in the number of new cases leading to a reduction in cases closed during 2017. The reduction was primarily attributable to a reduction in the number of cases referred by the audit and investigation division. Application for original salespersons licenses increased during the year leading to an increase in the number of applicants disclosing criminal convictions. The time needed to close a “disclosure application” case was reduced from 52.1 days in 2016 to 33 days in 2017.



Enforcement	12/31/2016	12/31/2017	Increase / Decrease
Open Cases	32	54	-40.7%
In House	17	30	76.4%
AGO	15	24	60%
New Cases (case may include multiple respondents)	433	327	-24.5%
Closed Cases (case may include multiple respondents)	447	299	-33.1%
Average Age of Open Cases (Days)	124	119	-2.3%
Average Case Closure (Days)	52.1	33	-36.6%

2017 Enforcement Actions¹	2016	2017	% Change
Accelerated Settlement Agreement	135	81	-40%
Consent Order	249	118	-52.6%
Commissioner's Final Order	51	43	-15.7%
Cease & Desist Order	19	8	-57.9%
Advisory Letter Of Concern	51	20	-60.8%
License Granted after Review	70	47	-32.9%
Case Dismissed/Closed after Review	61	12	-80.3%
Case return for additional investigation	11	5	-54.5%
Surrender of License in lieu of hearing	19	7	-63.2%

The number of cases referred from Enforcement to Compliance decreased 41.4% during 2017, while the number of cases opened as of 12/31/2107 decreased by 5.6%. Original and renewing applicants that disclose criminal convictions may, after proper vetting, be issued 2-year provisional license during which time they are monitored by a Compliance Officer. During 2017, The Compliance division began implementing procedures to make the financial review of trust account records faster and more responsive. Compliance ensures that Property Management Trust Accounts are fully funded, and all required reconciliations are performed.

Compliance	As of 12/31/2016¹	As of 12/31/2017	Increase / Decrease
Open Cases	282	266	-5.6%
New Cases	222	130	-41.4%
Closed Cases	167	139	-16.7%
Referred for Further Action/Noncompliance	2	4	100%

¹ By respondent