“Promoting Mutual Respect”

Arizona Department of Real Estate
2007 Annual Report

Janet Napolitano, Governor
Sam Wercinski, Commissioner

January 11, 2008
Reflected on the past year, I am proud of the many successes we achieved at your Department of Real Estate. First and foremost, we are a Department known for Promoting Mutual Respect. We promote Mutual Respect among the “Three Entities”: the public we protect, the industry we oversee, and our fellow employees. Motivated by this new perspective, we shifted the focus of the Department in three significant ways: 1) We reduced unnecessary regulation on good practitioners to focus proactively on practitioners who harm the public; 2) We focused on education to prevent harm from occurring; 3) We focused more resources to combat illegal subdividers.

We are successful today because of our positive relationships with the Public and the Industry. New and continuing initiatives you can expect in 2008 include:

- Homebuyers’ and Renters’ Bill of Rights.
- Work with the Department of Public Safety to gather data on the sale or lease of homes used as drop houses.
- 2008 COEs focusing on Arizona real estate “Hot Topics” and proper development.
- PARTNERS (Protecting Arizona’s Realty Through New Efficiencies and Resource Sharing) – an ADRE led joint task force with the AG office, state and county agencies to combat illegal subdividers.
- Consumer Protection Forums on real estate with directors from the Departments of Insurance, Financial Institutions and Registrar of Contractors joining me.
- New online services to allow educators and licensees to submit continuing education information online as courses are completed. Completed work will be shown on the licensee’s Public Database page.
- New online services to allow developers to submit Subdivision Public Report applications online.
- A new Subdivision Public Report format that will be more consumer friendly and useable.

We remain committed to our mission of protecting the public and providing responsible oversight of real estate professionals. I believe we proved in 2007 that this can be accomplished best when the Three Entities work together. I look forward to these partnerships fostering a successful and prosperous new year.
The mission of the Department of Real Estate is to protect the public interest through licensure and regulation of the real estate profession in the State of Arizona.
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."

The board comprises of nine members appointed by the Governor. The term of office of each member is six years.

**2008 Meeting Schedule: 1/10, 4/10, 7/10 and 10/10.**

The meetings start at 10 am and are located throughout the state. Please check our website for locations.

**Advisory Board Members Assist the Public As Facilitators**

Contact information is available on our website: www.AZRE.gov

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**Gary Brasher**  
Chair  
1/03-1/09  
Developer  
Santa Cruz

**Lisa Suarez**  
Vice-Chair  
1/03-1/09  
Residential Licensee  
Pima

**Frank Dickens**  
Residential Licensee  
Maricopa

**Kathy Howe**  
Residential Licensee  
Yavapai

**Tom Pancrazi**  
Subdivision Member  
Yuma

**Ann White**  
Subdivision Member  
Pima

**Bruce Mosby**  
Public Member  
Maricopa

**Patti Shaw**  
Public Member  
Maricopa

**Contact Mary Utley at mutley@azre.gov if you are interested in filling the vacant Public Member**

**Vacant**  
Public Member
A Special “Thank You” to the Advisory Board Members who retired from the board in 2007

12 Years of Service—R. L. Brown was appointed to the Board in 1995. During his tenure with the Board, R.L. served as a public member as well as Chair.

His dedication to the citizens of Arizona and his contribution to the Department have been invaluable.

Vince Pellerito
Scottsdale
Public Member
2001—2007

Vicki Cox-Golder
Tucson
Real Estate Broker
2000-2007

Felipe Zubia
Tucson
Public Member
2003-2007

Chair Brasher and Commissioner Wercinski present a token of appreciation to outgoing board member Vince Pellerito.

Board member Ann White Co-Chaired the Development Statute Review Summer Workgroup.
We believe that good public policy is most successful when the department works collaboratively with the Public and the Industry. We welcome your feedback, ideas, and comments.
Commissioner Wercinski’s Focus

Sam Wercinski, as the new Commissioner, brought many ideas and initiatives to the Department of Real Estate. We have successfully implemented new programs, policies, and procedures.

Reduce unnecessary regulation on good practitioners and shift our resources to focus on those who harm the public.

The implementation of the four-year renewal license, the pairing of the Designated Broker (DB) and Entity licenses, and the use of Electronic License Certificates has reduced unnecessary regulation and allowed us to use more resources for protecting the public. These advancements, along with staff training and volunteers from the Arizona Association of REALTORS® and the Southern Arizona Homebuilders Association then led to two major achievements. By June 2007, the backlog of nearly 2,200 pending applications that existed when Sam arrived in January was gone, and we reduced license processing time from 63 days to same-day service. This allowed ADRE staff to focus on other customer service and consumer protection opportunities.

To better protect the Public, we hired three additional settlement officers and three new investigators. This enables us to better prioritize cases and focus on the ones that cause the most harm to the public. As a result, we’ve been able to conduct several significant enforcement and compliance actions in 2007. As an example, during the fall of 2007, Commissioner Wercinski issued a cease and desist order against Russell Bosworth for property management violations resulting in losses of over $365,000 to 90 property owners. We also helped over 50 consumers protect $378,000 of earnest monies in a Mexican development and established a protocol of cooperation with the Sonoran government that assists our citizens.

Focus on Education

Last year we estimate that we spoke with over 10,000 citizens at workshops and speaking engagements. In January, Commissioner Wercinski initiated “Commissioner’s Community Conversations” (Triple C). This open door policy facilitates regular dialog between the Three Entities and helps us stay current of trends in the industry.

In February, Commissioner Wercinski initiated our “Community Outreach and Education” (COE) program. COEs are workshops given every Spring and Fall in each of Arizona’s 15 counties. In 2007, we taught on subdivision public reports and who needs one. We also covered proper lot splitting and the impact of illegal subdivisions. Our March 2008 COEs will focus on Arizona real estate “Hot Topics” and more on development.

Focus on Illegal Subdividers

Through his travels around the state, Commissioner Wercinski met with officials, their staff, and the public. He heard a common concern and learned about the harm caused by illegal subdividers. For example, they typically put in substandard roads that erode with the first downpour. Then, access becomes limited for homeowners and improbable for a school bus or ambulance. The cost to fix the roads is shifted to taxpayers. Estimates indicate current illegal development will cost Arizona taxpayers roughly $100,000,000 – $200,000,000. This is the Department’s biggest challenge in protecting real estate consumers and 2008 will highlight our commitment to this effort.
Outreach

Sam Wercinski made it a top priority to engage the Public, the Industry, and the Department in meaningful dialog. On his first day with the Department, he spoke to staff and set the tone of “Promoting Mutual Respect”. Since that day, Commissioner Wercinski has been Promoting Mutual Respect across Arizona. He has made himself available through the Commissioner’s Community Conversations (Triple C), Public Speaking Engagements, Community Outreach and Education, and also through television and radio programs.

This year, Commissioner Wercinski...

...visited 33 Arizona cities
...traveled 8,714 miles
...spoke in person to 7,617 people
...completed 32 hours of airtime
...held 31 Triple C meetings

If you would like Commissioner Wercinski to speak to your group, please contact Robert Hall at rhall@azre.gov OR (602) 771-7771
2007 Highlights

Reduced Licensing Processing Time
Processing time for license applications waiting in the Department’s queue went from nine weeks in January 2007 to immediate processing by June 2007 due to Commissioner Wercinski’s initiatives:
1. Utilize volunteers in licensing through a public-private partnership
2. Cross-train employees
3. Streamline License Application Processing
4. Electronic license certificates
5. LEAD’EM (Licensee Expiration Alerts Distributed Electronically Monthly)

Commissioner’s Community Conversations— “Triple C”
Commissioner Wercinski opened the doors to the Department—literally— and invited both the Public and the Industry to attend open dialog meetings with him. The Department held thirty—one Triple Cs throughout the year. These meetings proved to be productive and educational for all attending. The Department benefitted by becoming aware of “hot topics” in the real estate industry impacting consumers and licensees.

Summer Workgroups
This summer, we hosted four workgroups to discuss major topics in the industry. Over 250 people from industry and the public applied to be on the four workgroups. We were thrilled with the response! The workgroups met five times during the summer to discuss the following topics:
1. Statute Review
2. Public Report Review
3. Department Technology
4. Lifetime License

Each of the four workgroups provided recommendations to Commissioner Wercinski on August 11, 2007. Many of the recommendations are being implemented, including: changing the look of the Arizona Public Report to make it more consumer-friendly and hiring a second program developer to advance our Technology. Several other recommendations that require legislative changes were considered and department staff will research them further before proposing legislation. Those recommendations include enhancing the continuing education requirements, implementing an apprenticeship program and streamlining the Public Report application process.

“Thank you to workgroup members for your commitment to excellence.”

New Technologies
The Department launched the second phase of the Online System in September which included new service features. For example, brokers can now hire/transfer/sever agents and entity renewals.
Our Online System has more capabilities and is better than ever.
Remember — SAVE TIME, RENEW ONLINE!

Legislative Advancements
SB 1349 passed the House and the Senate by overwhelming majority and was signed into law by Governor Janet Napolitano in May 2007.
This new law allows for many advancements, including:
• Four-year license upon renewal
• Pairing Designated Broker and Entity License Expiration Dates.

SB 1546—The Condominium Recovery Fund was established for the protection of consumers who purchase a condominium. The fund can help recoup losses from an unfinished condominium project.
2007 Highlights

Arizona-Mexico Commission Real Estate Ad-Hoc Committee

In January 2007 Governor Janet Napolitano appointed Commissioner Wercinski as a Co-Chair of the AMC Real Estate Ad Hoc Committee (REAHC). Gary Brasher also serves on the Committee as a Co-Chair and represents the private sector. The REAHC continues to recruit quality members who devote many hours to ensuring the successful completion of the Committee’s actions items. The REAHC has been a model committee and extremely successful in promoting consumer protection for the public conducting real estate transactions in Sonora and economic development in the Arizona-Sonora region.

This year, as a result of the strong relationship with the State of Sonora promoted by the REAHC, the Department of Real Estate issued a cease and desist order on Fiesta de Cortez, a development in Puerto Peñasco and successfully ensured compliance. By doing so, the Department acted to protect the public and served as the catalyst for the State of Sonora to intervene on behalf of the harmed parties.

Real Estate Recovery Fund

Historically, the Real Estate Recovery Fund received between 2-5 applications for payment per year. This year, the Recovery Fund received an unprecedented 16 applications and paid out on 8 applications. There are several more applications pending. The Department is able to help consumers who have suffered an actual and direct out-of-pocket loss due to the actions of a real estate agent or broker in a real estate transaction.

This year, the Recovery Fund made payments due to theft, forgery, and mismanagement of trust account funds. The Department received multiple applications from consumers who were harmed through a property management agreement. The Department also received multiple applications from consumers who were harmed by a licensee who was indicted by Attorney General Terry Goddard for forgery and theft of real property.

Inter-Governmental Agreements to Better Protect the Public

After open dialog with County officials, community leaders and industry, Commissioner Wercinski proposed the idea of an Intergovernmental Agreement (IGA) that he believes will set a new course of cooperation and strengthens the relationship between counties and ADRE. The IGA underscores the Department’s shift in focus and resources to combat illegal subdivisions across Arizona. The goal is for cases to be dealt with more efficiently and timely and also to deter new illegal activity. Cochise and Gila Counties were the first to join the effort!

“Working together, we can combat illegal subdivisions and better protect the citizens of Arizona.”
Consumer Protection Forum

The Department of Real Estate hosted its first Consumer Protection Forum in December. Commissioner Sam Wercinski invited Financial Institutions Superintendent Felecia Rotellini, Insurance Director Christina Urias, and Registrar of Contractors Director Fidelis Garcia to join him in the forum to answer questions and educate the public. The Department plans to host more forums in 2008.

Earth Fissure Workshops

On July 11, the Department hosted an Earth Fissure Maps training session together with the Arizona Geological Society (AGS). As a result of the tremendous response, the Department partnered with AGS and provided four additional training sessions in September and October. Classes were presented in Phoenix, Casa Grande and Tucson.

The Department partnered with Chicanos Por La Causa (CPLC) to provide employment opportunity and skill building to youth participating in CPLA program.

This was a positive effort of outreach and community service by the Department.

The Department teamed with the industry to join in the State sponsored campaign to gather donations of school supplies for needy children. We collected over $2,000 in school supplies for needy children.

Thank you for making this a success!
2007 was a great year for Licensing. At the beginning of the year, we had over 2,000 applications waiting to be processed. We cleared this backlog in total. We process applications the same day we receive them. This is a result of the efficiencies and changes we made in our division, including:

- Reserve Tuesdays for Rural Arizona
- Streamlined license application processing
- Send out electronic reminders automatically
- Electronic License Certificates
- Enhanced Online Services

Additional advancements in the Licensing, Professional Education, and Auditing Divisions include:

- Preventative audits offered to brokers
- Accept credit cards in the lobby
- Implemented a new disclosure form/checklist for reviewing applications
- Virtual Information Processing (VIP)
- Cross-training Education and Licensing staff
- Revised forms for ease of use—“Plain Talk”
- Worked with educators and instructors to improve pre/post licensure education requirements

“It’s crucial you have the RIGHT people on your team. According to my visit, it appears you do. Well done.”

Chad Barnett, Broker

Since the inception of the Online System in 2005, usage has grown tremendously. Now, 93% of all renewals are completed online. On average, 2,400 renewal applications were completed online each month in 2007.
New Education Legislation

The Department worked cooperatively with the Education community on the passage of HB 2110. This bill allows for courses to be provisionally approved automatically after thirty days after submission if the Department is still determining the course validity.

ADRE brings services to Northern Arizona!

We are very excited about this opportunity to serve the Public and the Industry in Northern Arizona. We have been bringing services to Northern Arizona since October 10, 2007 and will continue each second Wednesday of the month for a six-month pilot program. This pilot program ends in February 2008. Check our website for updates.

Location: Coconino County Administration Building - 219 E. Cherry Street
Time: 10am to 4 pm

Increasing the Quality of Real Estate Agents

Commissioner Wercinski heard a similar question at speaking engagement in 2007: “How can we increase the professional quality of real estate agents?” Some practitioners suggest raising licensing fees. Commissioner Wercinski considers that an unfair barrier and anti-competitive. Instead, he believes that the quality of real estate agents increases with active Broker supervision and through relevant education. The Department is focused on approving quality courses that meet the needs of today’s practitioners and consumers.

Preventative Audits Offered to Brokers

An auditor will review the records and processes of the broker without issuing citations for any minor violations that may be found. The procedure produces a customer-friendly atmosphere designed to encourage brokers to bring concerns and questions to the Department so remedial corrections can be made expeditiously. The public and consumers are the ultimate winners.

Education Advisory Committee

The Education Advisory Committee assists the Department in its mission of protecting the public interest by raising the level of professionalism in the Real Estate sector without creating undue barriers to entry into the profession.

The EAC meets every other month, with more frequent meetings from time to time as needed. The EAC members are volunteers and are not compensated for their time, nor reimbursed for expenses.

Who Do We Regulate? As of January 1, 2008:

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<thead>
<tr>
<th>Type</th>
<th>Quantity</th>
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<tr>
<td>Real Estate Schools</td>
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<tr>
<td>Real Estate Active-Status Courses</td>
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<td>Real Estate Brokers</td>
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<td>Real Estate Companies</td>
<td>9,392</td>
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<tr>
<td>Total</td>
<td>100,001</td>
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</table>
Advancements in Public Reports

Our Development Services team:
- Uploaded all available Public Reports from 1997 to present onto the Department’s website. This provides easy access to important information for real estate buyers.
- Minimum filing requirements were established for applications for subdivision public reports. This eliminated inefficient use of resources on incomplete applications.
- Encouraged the use of digital documents to reduce paper files.

Working Cooperatively with Cities, Towns, and Counties

Our Development Services Division gained an awareness of the extent of opportunities to assist the Public and the Industry by working cooperatively with local jurisdictions and other state agencies. Examples of Success:
- La Paz County, Parker—Assisted county staff in resolving a subdivision controversy with local residents.
- Graham County, Safford—Assisted county and city staff to overcome challenges each have with their local housing shortage by assisting local builders with the public report process.
- Coconino County, Flagstaff—At the county’s request, ADRE facilitated a meeting between ADWR, ADEQ, and the ACC relating to water issues.
- Pima County, Tucson—Provided a last minute special order of exemption for the Ventana de Mexico event for the City of Tucson, which benefitted the City, Developers, and the Citizens of Arizona.

Assisting the Public through Outreach

Our Community Outreach and Education program improved our ability to serve the public. Examples of Success:
- Assisted a group of property owners in Flagstaff with correcting boundary line encroachments onto the Coconino County National Forest by processing a Special Order of Exemption allowing for the correction.
- Held several education workshops for the benefit of the Public, including Lot-Split Workshops and Earth Fissure Workshops.
- Assisted home builders and real estate agents in the Rio Rico area to overcome infrastructure challenges that are impeding development.

Customer Service Survey Results: Development Services

![Customer Service Survey Results](chart)

Public Reports

![Public Reports](chart)
New Staff in Investigations

By shifting resources to reduce unnecessary regulation on good practitioners, the Department was able to increase the number of investigators dedicated to development violations (subdivisions, unsubdivided land projects, timeshares, membership campgrounds and cemeteries) from 3 to 6. The Division also includes 5 investigators who focus on regulating brokers and sales persons in all areas other than developments. This is an increase in the division from a total of 8 investigators to 11. This will enable us to complete more cases more timely, and to reduce our backlog. Additionally, the Division staff includes 2 Customer Service Representatives who handle incoming calls, emails, and walk-in inquiries on a wide range of real estate related questions. This provides licensees the opportunity to determine the legality of a proposed action before undertaking it, thus avoiding the initiation of an investigation as a result of an uninformed action.

New Efficiencies

- Development Investigators are assigned to specific counties to provide closer contact between the county officials and the Investigation Division, improving information flow.
- Investigators work more cases in teams of two or more to process more information more quickly and to have more than one set of eyes reviewing the evidence collected during the process of the investigation.
- Customer Service Representatives are trained in more areas of real estate law, making them better able to address incoming questions and provide accurate information to a wider range of inquiries.
- In addition to in-house training sessions provided by Department staff, Investigators have attended more external training than in the past, thus increasing their knowledge and skills.

The Division participates in an inter-agency task force on mortgage fraud and works in concert with several other state and federal agencies to address this growing problem.
**New Staff in Enforcement and Compliance**

By shifting resources to reduce unnecessary regulation on good practitioners, the Department was able to hire additional new settlement officers, legal assistants and Attorney General assistance for the Enforcement and Compliance Division. This allows us to complete more cases, and provide closure to consumer and licensees. Justice delayed is justice denied and Commissioner Wercinski is committed to fair and timely justice.

**Commitment to Consumer Protection**

The Department took actions to protect the public by issuing cease and desist orders against individuals or corporations that were in violation of Arizona Real Estate Laws. **Examples of 2007 Enforcement Actions:**

**Russell Bosworth:** The Department issued a Cease and Desist Order against Arizona High Performance Realty (AHPR) and its statutory agent Russell Bosworth. The Department received over 90 complaints from consumers that were alleging property management violations. The Department determined that Bosworth converted to trust funds for his own personal use, and failed to remit over $380,000 to 90 former clients. The Department ordered that Bosworth and AHPR immediately cease and desist from engaging in any real estate activity and that they make restitution to former clients.

**Heritage Homes:** The Department issued a Cease and Desist Order against an illegal subdivider in Greenlee County. The developer created an illegal subdivision that included 40 parcels in addition to creating a false public report. The Cease and Desist Order prevented the sale of any more parcels. The Department entered into a consent order with the Developer, and he agreed to comply with Arizona’s Public Report requirements and Greenlee County and the Town of Duncan’s subdivision requirements.

**Focus on Illegal Subdivisions**

The Enforcement and Compliance Division plays an intricate role in the Department’s new focus against illegal subdivisions. In 2007, E&C Division closed 33% more illegal subdivision cases than in 2006. The Department is being more proactive to ensure that illegal subdividers are complying with terms of their consent order.

**Fair and Credible Enforcement**

The Department developed policies which ensure settlement officers are consistent, fair, and reasonable. In 2007, the Department implemented a graduated fine schedule along with the use of community restitution and education in most consent orders. Last year we issued **3,050** hours of community restitution that benefited Arizona through organizations such as Habitat for Humanity.
Great news! With consumer and Industry support, the Department of Real Estate was approved for an increase in staff for FY 2008. Due to the State’s projected revenue shortfall, the Department expects the appropriation reduced before the end of the fiscal year. Even with this projected reduction, the Department is confident of our ability to protect the Public and serve the Industry.

General Fund Revenue and Recovery Fund Balances

The Department of Real Estate collects money from fees, fines, and grants. Grants deposited into our Education Fund and are utilized to educate the Public and the Industry. This year, we utilized the Education Fund to inform the Public and Industry of changes in Real Estate Laws and the Community Outreach and Education programs.

Most fees and all fines are deposited into the General Fund. We do not utilize this money in our operating budget.

Our two Recovery Funds receive money from fees collected from original license applicants and from condominium project developers.

<table>
<thead>
<tr>
<th></th>
<th>Real Estate Recovery Fund</th>
<th>Condominium Recovery Fund</th>
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<tbody>
<tr>
<td>Current Balance as of 01-01-08</td>
<td>$878,991</td>
<td>$1,780</td>
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<tr>
<td>Number of Payouts in CY 2007</td>
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</tr>
<tr>
<td>Amount of Payouts in CY 2007</td>
<td>$187,896</td>
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<tr>
<td>Number of Payouts in CY 2006</td>
<td>2</td>
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<tr>
<td>Amount of Payouts in CY 2006</td>
<td>$36,652</td>
<td>N/A</td>
</tr>
</tbody>
</table>

Fiscal Efficiencies

We took steps to save money in our operating budget. We restrict employee travel and promote efficient use of resources. As a result, we can hire temporary workers to help reduce our backlog and assist our staff. We also shifted postage resources from licensing to enforcement.

We processed 67,598 transactions last year that would have required printing of a paper license and mailing it to the brokerage. We saved time and money by utilizing electronic license certificates. Since we have new settlement officers and investigators, more certified letters must be sent, and we can utilize the postage savings from licensing for this very purpose!

Interesting Web Stats:
Number of visitors to ADRE website in 2007: 371,228.
Most popular pages on our site:
1. Homepage
2. Licensee information
3. Online Services
4. Public Information

Did you know that we receive over 5,000 phone calls and make over 7,000 outgoing calls each month?