

**Oregon Real Estate Agency
Budget Presentation
Joint Committee on Ways and Means – Subcommittee on
Transportation and Economic Development
February 20, 2013**

1. Agency mission, role, goals, and historical perspective:

Mission

To provide quality protection for Oregon consumers of real estate, escrow, and land development services, balanced with a professional environment conducive to a healthy real estate market.

Historical Perspective

Oregon passed the first effective real estate license law in the United States on February 14, 1919. The law required brokers to pay a \$5 licensing fee annually, furnish a \$1,000 bond, and submit recommendations signed by ten freeholders certifying that the applicant was “honest, truthful, and of good character.”

Role

The Oregon Real Estate Agency licenses and regulates over 18,000 real estate professionals, including principal brokers, brokers, property managers and escrow agents. The Agency maintains a strong relationship with the industry and actively seeks recommendations from the Agency’s nine member advisory board and collaborative workgroups.

Goals

#1. Improved service delivery

To continually assess the services we provide and make every effort to streamline and expedite the quality. The Agency will continue to collaborate with key stakeholders, including real estate professionals, Real Estate Board members, state government agencies and consumers to define services and identify areas of service delivery and improvement.

#2. Consumer protection through better education of licensees

The Agency has made significant progress to improve the education of its licensees during the 2011-13 biennium. Many of the Agency’s education-related goals were achieved. The Agency will continue to review and evaluate the feedback from licensees on the effectiveness of the Agency’s examinations.

#3. Promote workforce excellence

In a fast changing industry that deals with complex issues such as land development, property rights, mortgage terms and changing real estate laws, the Agency must continue to review the educational needs of its staff that carry out the licensing and regulatory issues authorized by statute. The Agency will identify current issues and appropriate training, as well as, continue to monitor changes in areas that directly and indirectly affect the real estate industry.

2. Summary of programs and target groups:

The Agency's primary program areas are Education, Licensing, and Regulations.

Education

The Education Division manages all pre-license education requirements for broker, principal broker and property manager license applicants, including developing course content, approving real estate schools and approving instructors. The division manages all requirements for continuing education including certifying continuing education providers, developing course outlines and approving specific required continuing education courses. The staff-members conduct educational compliance reviews of licensees and work with the Real Estate Board and the examination provider to develop up-to-date and effective licensing examinations.

Licensing

The Licensing Division manages the licensing of real estate brokers, principal brokers, and property managers. This includes processing license applications and renewals, criminal background check investigations and maintaining escrow license and surety bond files. Staff-members also respond to technical inquiries by licensees regarding the Agency's eLicense system.

Regulations

The Regulations Division investigates complaints from the public, licensees, other governmental agencies, against real estate brokers, property managers, escrow agents, and individuals engaged in unlicensed activity. After the investigation is completed, the Agency may engage in dispute resolution with the respondent through a stipulated order or take the case to a contested case hearing. Investigators work with the Agency's Assistant Attorney General to prepare contested cases for hearing and, if necessary assist other criminal justice agencies in investigations, court testimony, and case preparation. The Regulations Division also conducts mail-in clients' trust account and escrow audits.

Target Groups

- **General public** involved in or having an interest in real estate, property management, escrow, and land development activities.
- **Applicants** for licensure.
- **Licensees/registrants**, including real estate brokers, property managers, organizations, escrow agents, escrow branch offices, campground brokers, and telemarketing organizations.
- **Developers** of subdivisions, condominiums, timeshare estates, and membership campgrounds.
- **Attorneys** representing members of the public, licensees, developers with questions on application of law or in matters of complaint and/or administrative sanction.
- **Schools** offering pre- and post-license real estate courses.
- **Professional organizations** representing real estate, escrow, property management, home building, land development, timeshares, campground marketing, and educational interests.

- **Governmental organizations** including local District Attorneys, police, and land planning organizations; the Oregon Attorney General, Consumer Protection and Criminal Justice Divisions, State Police, Housing Agency, Department of Veterans' Affairs, Department of Administrative Services, and other state agencies, both in and out of Oregon; federal HUD, Department of Veterans' Affairs, Farm Home Loan Administration, FBI, FTC, IRS, and other enforcement agencies; and other state and provincial Real Estate Agencies.

3. Program delivery and agency organization:

Program Delivery

The Real Estate Commissioner provides the leadership and policy direction of the Agency's programs.

The Real Estate Board advises the Governor and the Commissioner on real estate industry matters, and the Agency's testing and examination of real estate applicants.

The Board meets 6 times annually to review the business of the Agency, hear requests for waivers and recommend new actions to the Agency and the Real Estate Commissioner.

The Deputy Real Estate Commissioner oversees the Agency staff and operations of the Agency.

The Program Managers report weekly to the Commissioner and Deputy Commissioner on the progress and direction of their program, and to the Board at each Board meeting.

Agency Organization

A copy of the Agency's 2013-15 organizational chart is included in the Appendix.

4. Overview of performance measures:

2013-15 KPM Discussion

In response to Legislative direction, the Agency is working with the Legislative Fiscal Office (LFO) and the Department of Administrative Services (DAS) to improve its key performance measures (*KPM*). Several new measures are being proposed that will allow the Agency to use performance data that is relevant to its business processes. The data will serve as a tool to be used by Agency management to shift or re-direct processes or staff efforts as needed to improve service, ensure internal efficiencies, and cultivate education directives.

KPM #1 - Audits Completed

Target – 425

Actual – 401 (2011)

This KPM targets mail-in audits and in-person reviews. LFO recommends the Agency work with DAS and LFO to monitor mail-in audits and in-person reviews separately. Also, with reassignment of audit duties to the Education Division, LFO recommends the Agency work with

DAS and LFO to create a measure that would assess the Agency's strategies for licensee improvement rather than simply audit count.

KPM #2 - Days to Complete Investigation

Target-100

Actual- 212 (2011) and 267 (2012)

The Agency indicates that the Average Number of Days to Complete Investigation varies depending on the complexity of the case, and other factors outside the Agency's control which impact performance. LFO recommends the Agency work with DAS and LFO to develop an improved investigation timeliness measure.

The Agency has recently implemented measures to reduce the average number of days it currently takes to complete an investigation. In 2012, the Financial Investigators within the Regulations Division were redistributed to focus solely on investigations. The Agency reallocated two positions from licensing functions to focus on administrative support for the Investigators. Other changes were also implemented in 2012. Lower level violations are now determined at the onset and an education letter is sent out if certain criteria are met. This prevents the need for time and resources for a full investigation with regard to cases that would most likely result in only an education letter. Finally, the Regulations Division implemented a "fast track cases" method in which cases that meet certain criteria are immediately followed by a brief investigation. The former process had a set order, cases were all worked in the order they were received. Under the current process, if the case is expected to be quicker or there is a threat of severe harm to the public, it is moved up in the order and completed.

KPM #3 - Contested Case Actions Resolved through Settlement

Target – 95%

Actual – 89% (2011) and 98% (2012)

The Agency is proposing deletion of its current key performance measures related to contested case actions. The contested case measurement measures the percentage of contested case actions that are resolved through the settlement process. The Agency is working with LFO and DAS to develop a more meaningful and valid measure.

KPM #4 - Successful Exam Applicants

Target-85%

Actual-80% (2011) and 78% (2012)

This measure is intended to capture the Agency's performance in preparing a licensee for real estate business and thereby reducing potential harm to the consumer.

The Agency proposes to measure the percent of principal broker and property manager licensees who rate the Board-administered exam as "good" or "excellent". Beginning in 2013, the Agency

will begin surveying principal broker and property manager licensees. Success will be a positive response rate of at least 90%.

During the 2011-13 biennium the Agency's Education Division implemented several key changes to both the educational requirements and examinations required to obtain a license. In July, 2012, the Agency introduced a new course approval process with new course content outlines for the broker, and property manager pre-license courses, and the Brokerage Administration and Sales Supervision course. Beginning January 1, 2013, the new pre-license courses were required and real estate schools had to stop offering the old course content. The examinations were also reviewed and re-developed in collaboration with the Agency's examination vendor, Psychological Services Inc., and the Real Estate Board and beginning January 1, 2013, the content of all license exams reflect the new course content outlines.

KPM #5 - Online License Renewals

Target-90%

Actual-40% (2011) and 77% (2012)

The Agency is proposing deletion of the Online License Renewals measure. It will no longer serve to provide the Agency meaningful data because all of the Agency's renewals are conducted online. The Agency implemented its eLicense system as of March 5, 2012. Nearly all of the Agency's previous paper licensing processes were shifted to online processes.

KPM #6 -Customer Satisfaction

Targets-85%, except for accuracy which is 90%

Actuals-

overall 91% (2012)

timeliness 88% (2012)

accuracy 93% (2012)

helpfulness 90% (2012)

availability of information 90% (2012)

expertise 91% (2012)

The Agency measures its delivery of effective and efficient services to licensees and other stakeholders. The Agency received high percentages of "good" and "excellent" responses across the categories. The Agency will focus its efforts to further build upon this positive response rate. The Agency also plans to send out an in-depth customer satisfaction survey in order to gauge, where the Agency can improve the customer service efforts.

Performance Measures as Management Tools

The Agency's management team tracks these performance measures quarterly and they are tracked by individual managers monthly. Performance measurement data is also shared with Agency staff-members through the Agency's Intranet. Management regularly solicits input from staff on performance goal achievement and uses the data as a performance tool for individual

employees. For example, the data relating to the investigation timeliness measure is broken down further and focused on each staff investigator. The Commissioner and Deputy Commissioner work regularly with the Regulations Division manager to improve these statistics. Managers make decisions to allocate resources, both staff time and budget, based on the key performance measure data. The managers also use the data to direct the efforts of staff, as well as, identify training resources to improve the performance of staff-members. The Agency will continue to closely examine its performance measures to determine if they are accurately measuring the impact of the Agency's business practices with the interest of government and key stakeholders. The Agency is open to exploring additional opportunities for the analysis of the performance of its programs and appreciates external input.

Annual Performance Progress Report

A copy of the Agency's complete Annual Performance Progress Report is included in the Appendix.

5. Major budget drivers and environmental factors:

Budget Drivers

The Agency has experienced a decline in activity associated with the real estate market, which has resulted in a reduction in the number of applications for real estate licenses and a reduction in the number of licensees. The Agency responded proactively to its decreased revenue stream. A cost-reduction plan was first implemented in 2010. Reductions in the Agency's services and supplies budget, as well as, personal services reductions have been implemented as needed (cost reduction plan detail is contained in the budgetary issues section below). The Agency concluded the 2009-11 biennium with a total of \$1,649,273 in unused expenditure limitation (\$334,486 was from personal services savings and \$1,314,787 was savings from the Agency's services and supplies budget). The Agency is projected to underspend its expenditure authority for the 2011-13 biennium by \$1,375,926 (\$489,870 is expected from personal services savings and \$886,056 is expected from the Agency's service and supplies budget).

Industry Environment

A number of factors have been affecting the real estate industry over the past several years, and will cause the industry to evolve over the next few years. License totals have been declining since the real estate market peak in 2007. However, the Agency has experienced the first upward movement in licensing statistics over the past few months, since the decline first began. Indicators in several local markets bear good news for the real estate industry. Rising home prices in several key markets and the continuation of low interest rates point toward resurgence in the industry. Although growth in licensees is expected in the next year, it will likely come at a gradual rate. The Agency's 2013-15 revenue projection is conservative, at \$5,623,695 Other Funds. The licensing statistics that have started to emerge in the last few months of 2012 provide evidence that actual revenue during the 2013-15 biennium will likely exceed this estimate.

Internal Environment

Job openings through retirements and turnover will continue to create challenges for the Agency in maintaining stable staffing levels in the next five years. The Agency is currently holding five positions vacant; however two Financial Investigator recruitments have been posted. The Agency has reorganized several times to decrease its spending levels and to ensure the coverage of existing workload. The implementation of the Agency's eLicense system allowed a relatively large reallocation of licensing staff to another area of the Agency. The Agency has been able to maintain some vacancy savings due to efficiencies associated with the online licensing system. Agency employees continue to fulfill the requirement to take unpaid time off throughout the 2011-13 biennium due to the recession which has necessitated mandatory furlough days. The Agency will continue to balance its current workload and customer service level with a reduced number of work days.

6. Major program changes and budget reductions:

The Agency hasn't implemented any significant program changes over the past several years. All of the major movement within the Agency has occurred within its already established divisions, as needed to cover workload and maintain fiscal prudence. In addition, the Agency hasn't had any major legislatively-mandated budget reductions over the past few years. The Agency's cost-reduction plan has been pro-active, and implemented in the form of cost-reduction strategies as opportunities have materialized. The Agency-initiated cost-reduction strategies are presented in detail in the following section.

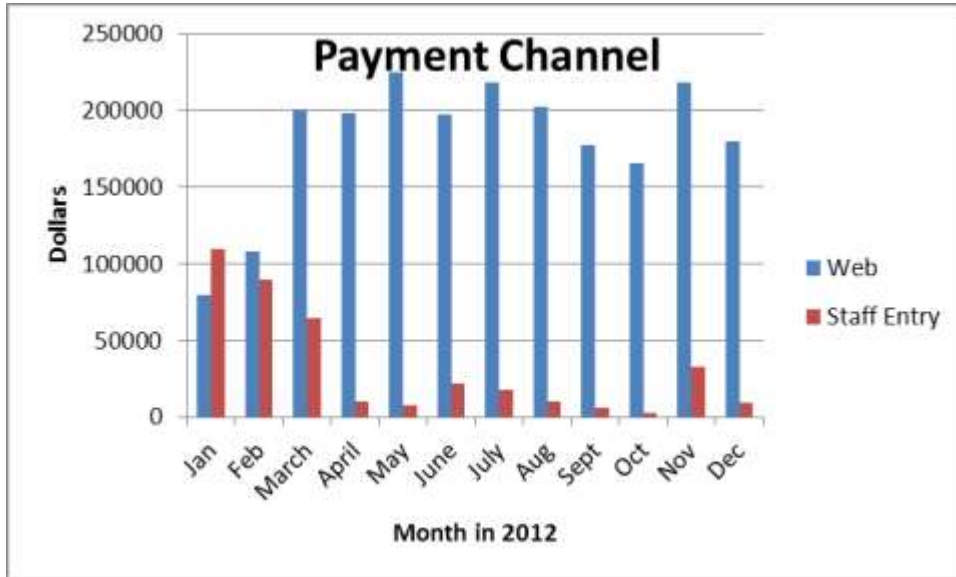
7. Major cost containing measures and improvements to service delivery:

eLicense System

In September 2010, the Agency entered into a contract with CAVU (Iron Data, Inc.) to purchase a new licensing database that would broaden the services offered electronically to licensees and consumers. The previous system only allowed for limited online renewals (within the same status) and the ability for the public to look up license statuses. The new system was envisioned to automate several processes and enhance the features that were available to licensees, such as initial applications, transfers and information updates. A workload reduction in back office transactions was expected, as was the allowance for some redistribution of staff resources as efficiencies were recognized.

The Agency's eLicense system was successfully implemented in March, 2012. Eleven months into using eLicense, the impact of the efficiencies has exceeded expectations. All of the Agency's business transactions have moved to eLicense, replacing the manual input of licensee information by staff. Applications and other business transactions are no longer coming in by mail. Previously, approximately 1,200 transactions were received per month by mail, requiring manual input into the licensing system by staff. The illustration below provides historical data on web

entered payments by licensees and applications and the associated payments that were manually processed by staff.



The workload reduction is abundantly clear. As licensees have embraced the new streamlined process, phone volume has also quickly declined. Calls focus less on system failure and error rates and more on technical support. A more thorough analysis of the call volume is expected to confirm the suspicion that a reduction in technically oriented calls will emerge as well.

The system now processes all business applications and all revenue for the Oregon Real Estate Agency, with the exception of fees for public records, condominium filings, and civil penalty payments. Condominium filings (legal documents and declarations) must be reviewed by Agency staff, and the amount of actual cost is not usually determined until the review. The Agency is working on an invoice application for eLicense that will allow individuals to submit the filing fees specified above online.

In addition to streamlining service for customers, the system has enabled the Agency to reduce spending significantly by reorganizing positions and maintaining vacancies in order to recognize major efficiencies. Most significantly, redundant data entry by licensees and staff is prevented and licensee information is kept current.

The following applications are now online and processed in eLicense:

- New applications
 - Broker
 - Principal Broker
 - Property Manager
- License Renewals
- License Transfers
- Change of Address/Update Personal Information
- Maintenance of Clients' Trust Account Information

- Activate/Inactivate License
- Registered Business Name Application
- Registered Branch Office Application
- Legal Name Change
- Requests of Certified License History

Online processing of all applications is required. The Agency accepts credit and debit card payment through Visa, MasterCard and Discover, and electronic checks. The Agency's business processes are now built exclusively around the acceptance of the online payments.

The savings from almost a year of efficiencies associated with the Agency's eLicense system are summarized in the chart below. It contains the Agency's actual spending in 2009-11 and a comparison to actual spending plus projected spending during the current biennium. The expected spending for the 2013-15 biennium is also included.

Oregon Real Estate Agency - Savings Associated with the eLicense System

	2009-11 Actual Spending	2011-13 Actuals and Estimates*	2013-15 (Expected)
Services and Supplies:			
Postage/mail services	\$44,810	\$15,102	\$6,150
Printing/distribution	\$109,300	\$8,200	\$1,350
Paper	\$26,700	\$10,200	\$6,130
Armored car to pick-up cash/checks	\$6,600	\$2,900	\$0
Symantec certificate for online renewals	\$10,000	\$5,000	\$0
Servers for renewals (decommissioned)	\$7,000	\$0	\$0
Sub-total	\$204,410	\$41,402	\$13,630
Personal Services:			
Office Specialist 2 - leave as vacancy	\$138,000	\$86,250	\$0
Investigator 2/Compliance Spec. 1	\$125,000	\$41,700	\$0
Compliance Specialist 3/PEM C	\$174,000	\$58,000	\$0
Sub-total	\$437,000	\$185,950	\$0
Total	\$641,410	\$227,352	\$13,630

*Note: eLicense launched in March, 2012 so the 2011-13 totals include 8 months of "pre-eLicense" expenditures. In addition, the Agency included 5 months of estimates in this column because the biennium hasn't yet ended.

During the 2011 Regular Legislative Session, the Legislature authorized \$500,000 in expenditure limitation to purchase the Agency's new licensing system. The total cost of the system was \$454,354. As the chart above shows, the Agency was able to recoup most of this cost over the course of the first year post-implementation due to efficiencies directly related to use of the eLicense system.

Services and Supplies: The costs for paper, printing, and postage significantly declined this biennium due to automation of the Agency's licensing functions. The Agency has been able to completely eliminate the expenses associated with having cash and check deposits picked-up and delivered to the bank, the purchase of a certificate to verify the Agency's identify in order to process online renewals, and servers for online renewals (the system is now hosted by the vendor).

Personal Services: The Agency has been able to leave three positions vacant: one Compliance Specialist 3, one Investigator 2, and one Office Specialist 2. These vacancies are possible because of a staff reallocation enabled by eLicense system efficiencies. The Agency's Licensing Manager was reallocated to cover the workload of the Compliance Specialist 3 position that was vacated due to a retirement. Due to the reduced licensing workload, the Agency's Administrative Services Manager is able to cover the workload associated with the eLicense system. The Compliance Specialist 1 was also reallocated to cover existing workload within the Agency's Regulations Division which enables the Investigator 2 vacancy. Finally, the reduction in data entry and fee validation due to eLicense enables the Office Specialist 2 vacancy.

Other major cost reduction efforts:

Restructured Agency Information Services.

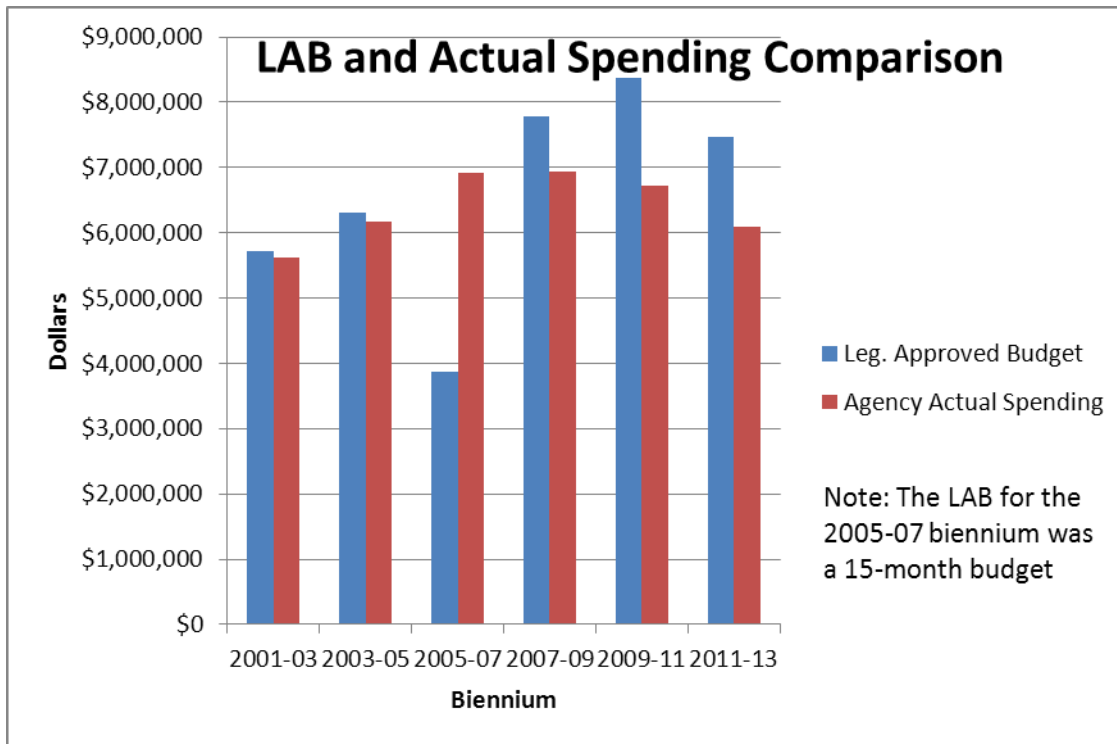
Program Impact: With the departure of the Information Technology Manager, the Agency had an opportunity to review the services delivered for communication, information technology, and Agency technical security. The result was that with increased program strength offered by Department of Administrative Services, 3rd party hosting services, and the hosting and securing of the new e-License application by the vendor, the Agency could achieve substantial savings by moving costly services to specialized contractors. The Agency also took the opportunity to realign the positions in Information Technology to reduce management service employees by 1, and reclassify both positions appropriately to support the Agency. The Agency's Information Systems Specialist 6 will be responsible for planning, controlling, monitoring and supporting the information system infrastructure for the Agency. The Agency's Information Systems Specialist 3 will assist in the operation, maintenance, and installation of information systems for the Agency, as well as, modify and enhance existing systems, and help users accomplish work and solve system problems. The primary focus of this position will be to provide customer service to users, specifically relating to software, hardware, and other data.

Fiscal Impact: Total monthly savings of \$3,906 Breakdown: \$1,747 (total monthly cost savings from net of position reclassifications) +\$2,159 (total monthly savings from other structural IT program changes)

Completion Date: All changes were implemented by September 30, 2011

8. Major budgetary issues:

The cost for a licensee to renew their license for a two-year period is \$230, for an active license, or \$110, for an inactive license. These license fees have not been raised in sixteen years. The Agency is committed to avoiding a fee increase during the 2013-15 biennium. Real estate licensees face the same challenges that are surfacing nationally: a struggling economy, sluggish housing market, and a strained mortgage industry. As described in detail above, the Agency continues to exercise cost-reduction strategies to reduce costs internally and externally in order to avoid increasing the costs for customers.



2013-2015 Governor’s Balanced Budget Summary

Revenue:

Beginning Balance – Other Funds	\$2,484,637
Projected Revenues*	\$5,623,695
Projected Transfer to General Fund	\$(66,381)
Total Available Revenues	\$8,041,951

Expenditures:

Current Service Level	\$7,276,950
Expenditures by Policy Package	
Package 091: Statewide Admin. Savings	\$(36,058)
Package 092: PERS Taxation Policy	\$(13,242)
Package 101: Other PERS Adjustments	\$(105,935)

Governor’s Budget: **\$7,121,715**

Ending Fund Balance \$920,236

* The Agency was conservative with its calculation of projected revenue for the 2013-15 biennium and didn’t assume an upward trend of license applications. However, since developing this revenue projection, licensing statistics have increased month-over-month for the past few months. Although the stability of this trend is unknown, the Agency does anticipate that the total actual revenues received during the 2013-15 biennium will exceed the estimate identified above.

Policy Option Packages

091: Statewide Administrative Savings - \$(36,058)

The Governor’s budget, which requires increased efficiency in the operation of state government, calls for additional savings in administrative expenditures, and allows for the reinvestment of some of the savings realized through efficiencies into agency programs or to other initiatives that will further improve the administrative operations of state government.

Package 091 was included in all agency budgets as a placeholder for administrative efficiencies to be found in Finance, IT, HR, Accounting, Payroll, and Procurement activities. The Improving Government subcommittee of the Enterprise Leadership Team will be identifying proposed efficiencies or changes in the delivery of service to meet the funding level in the Governor’s budget, and will work with individual agencies on the impact to their budget, along with reinvestment opportunities.

092: PERS Taxation Policy - \$(13,242)

This package developed by the Governor includes a policy change to limit tax relief calculations for PERS retirees that are Oregon residents. Non-residents will no longer receive the tax relief benefits.

093: Other PERS Adjustments - \$(105,935)

This package developed by the Governor includes another policy change that reduces the PERS employer rate by approximately 320 basis points.

9. HB 2020 and HB 4131 compliance:

Agencies subject to HB 4131 had until October 31, 2012 to lay-off or reclassify (if not attained through attrition) the number of supervisory positions necessary to achieve the 11 to 1 ratio. While the Real Estate Agency wasn't subject to the law due to its size, the message was very clear: Agencies should review their own management structures, determine the value of each position, and effectiveness of management. Based on these external forces, the Agency determined that reorganization with the intent of changing its structure of oversight and management within the Agency would be prudent.

Recognizing the intent of the legislation and acting on timely opportunities, the Agency proactively reduced the number of its management service employees by nearly 25%.

On June 8, 2012, the Agency's Information Systems Manager resigned. Agency management worked to determine what functions could be contracted out to the Department of Administrative Services (DAS) and which information services would be most cost-efficient to leave "in-house". Several key areas of operations that could be managed by DAS were identified. The need for a full-time Information Systems Manager was eliminated. This was the first reduction to the Agency's management service positions.

On September 30, 2011, the Agency's Compliance Specialist 3 retired. This position was a management service employee, who worked under the Regulations Division Manager coordinating the distribution of consumer complaints, drafting notices of intent, and participating in settlement conferences and contested case hearings. Recognizing an opportunity with the coming eLicense implementation, the Agency re-organized to combine the Licensing Division with another division, thus allowing the Licensing Division Manager to begin assuming some of the duties of the Compliance Specialist 3, while still maintaining oversight of the licensing staff. While it created an increased workload for the Licensing manager at first, once the new eLicense system was in place, there was less related manual processes and decision making, and eventually the workload reduced. This organizational change became effective October 1, 2011.

10. Secretary of State Audits - Not applicable

11. Position reclassifications and new hires:

The Agency plans to request the reclassification of three existing positions due to changing duties. These reclassifications are needed to address the major reorganization in the Agency that has occurred during the 2011-13 Biennium. The Agency has the permanent financing already established from other position actions to cover the full cost of these reclassifications (\$34,224).

The reclassification requests will be as follows:

To: Program Analyst 1 (salary range 23)
From: Public Service Representative 4 (salary range 19)

To: Public Affairs Representative 2 (salary range 29)
From: Program Analyst 2 (salary range 27)

To: Principal Executive Manager E (salary range 33)
From: Fiscal Analyst 3 (salary range 30)

A complete business case for this planned reclassification request can be found in the Appendix.

12. Proposed legislation and effect on Agency budget:

Senate Bill 23 is filed at the request of the Governor on behalf of the Real Estate Agency. The purpose of the bill is to make technical and housekeeping amendments to certain statutes within ORS Chapter 696, the Oregon Real Estate License Law. These amendments are for readability, to clarify certain provisions and to provide the Agency with specific rulemaking authority.

The Agency did a careful review of all the statutes in ORS Chapter 696, and determined that there were a number of technical amendments that were needed. The amendments are not controversial. The Real Estate Board and the Oregon Association of Realtors support these housekeeping/technical amendments.

The highlights to SB 23 can be found as detailed in the Appendix.

13. IT & Capital Projects - Not applicable

14. Updated Phase 2 buy sheets from the Governor's 10-year planning process:

The "Program Funding Request" document with an updated section on "Significant Proposed Program Changes" can be found in the Appendix.