

**GENERAL GOVERNMENT
JOINT SUBCOMMITTEE
CLOSING LIST #6
May 11, 2015**

<u>BUDGET ACCOUNT</u>	<u>EXECUTIVE BUDGET PAGE</u>
	<u>Volume II</u>
<u>Department of Business and Industry</u>	
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Title: B&I - REAL ESTATE ADMINISTRATION
 Account: 101 - 3823

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Revenues	2013-14 Actual	2014-15 WP	% Chg	2015-16 GOV REC	% Chg	2016-17 GOV REC	% Chg
BALANCE FORWARD	(23,836)					872,013	
GENERAL FUND	707,501	730,528	3.25				
INTERAGENCY TRANSFER	198,382	197,339	(0.53)	436,124	121.00	437,954	0.42
INTERIM FINANCE	23,836						
OTHER FUND	1,760,526	1,732,112	(1.61)	6,631,567	282.86	6,656,659	0.38
REVERSIONS	(79,075)						
Total Revenues	2,587,334	2,659,979	2.81	7,067,691	165.70	7,966,626	12.72
Total FTE		24.60		26.60		26.60	

Note: The Executive Budget reflects total FTE BASE count of 25.60. One Program Officer position was approved at the August 29, 2013, IFC meeting, which increased the count to 26.60.

Adjustments to Revenue

Dec Unit	Cat	GL	Description	2015-16	2016-17
E229	00	2501	Increase General Fund appropriations to correct building lease costs	600	
Sub-total				600	0
Line Item Changes to Revenues				600	0

Adjustments to Expenditures

Dec Unit	Cat	GL	Description	2015-16	2016-17
E229	04	7000	To correct building lease costs	600	
Sub-total				600	0
Line Item Changes to Expenditures				600	0
Total				0	0
Grand Total General Fund Impact of Closing Changes				600	0

Overview

The Real Estate Division regulates real estate brokers and salesmen, timeshare agents, property managers, appraisers, qualified intermediaries, and building inspectors. The division administers continuing education programs for real estate licensees in Nevada, and is responsible for the enforcement of the statutory and regulatory provisions regarding the sale of subdivided lands, timeshares, and campground memberships. The 2013 Legislature approved the Governor's recommendation to use one-time mortgage settlement funds for seven full-time equivalent positions and one part-time position; however, those funds are not recommended to continue in this budget over the 2015-17 biennium.

Major Closing Issues

1. Budget Amendments
2. Carson City Office Relocation

Discussion of Major Closing Issues

1. Budget Amendments (E-225, E-226, E-232, E-227, E-231, E-490 B&I – 164,165,166,167,168): In closing the Real Estate budget during the 2013 Legislative Session, the money committees issued a letter of intent (LOI) directing the agency to provide a business plan to the IFC, outlining a funding structure that would fund the ongoing staffing needs and support costs required to carry out the responsibilities of the Real Estate Division. The business plan was submitted at the August 27, 2014, IFC meeting.

The Executive Budget as Submitted (G01)

To comply with the LOI and the industry's demands for improved services, The Executive Budget proposed the following:

- Convert to a Fee-Funded Budget (E-225): Restructure the Real Estate Administration budget to a fee-funded budget that would retain revenues from all real estate transactions (including licenses, fees, registrations, and miscellaneous revenue currently deposited in the non-Executive Real Estate General Fund Account); maintain a 90-day Reserve; and transfer remaining funds (after operating expenditures) of \$6.3 million over the 2015-17 biennium to the General Fund;
- Revise License Renewal Period (E-226): Modify the Real Estate License Renewal Period from two years to one year for initial licensing, and from four years to two years for renewals with fee increases;
- New and Increased Fees (E-227): Increase and/or establish new miscellaneous licenses, fees and permits, including but not limited to new initial application fees for brokers and salespersons, new deficient application and transaction fees, new timeshare abbreviated renewal registration, and increases in timeshare sales agent and broker status change fees;
- New Developer Fees (E-231): Increase developer fees and establish new penalty and expedite fees; and
- Retain and Change Funding for 7.4 temporary positions (E-232 and E-490): Retain 7.4 temporary positions currently funded with one-time National Mortgage Settlement Funds and fund those positions with Fees.

The agency previously indicated that a fee-funded budget would maintain a stable and broad-based revenue source for the agency, and would allow the agency to respond to increased applications and filings as market activity accelerates and improves. In addition, the agency indicated the proposed fee increases and new fees would address the industry's demand for improved services. However, subsequent to the transmittal of The Executive Budget, the Executive Budget Office submitted an amendment which was later replaced by a second budget amendment. Staff provides descriptions of the previous and current proposals below.

Amendment # A150223823 (First Budget Amendment)

The Executive Budget Office submitted Budget Amendment # A150223823 (first budget amendment) on March 16, 2015, which was discussed when this budget was heard before the Joint Subcommittee on General Government on March 18, 2015. The first budget amendment proposed to revise the Governor's recommendation to convert to a fee-funded budget; Real Estate license renewal period change; Fee increases and new fees; and new developer fees. Specifically, The Executive Budget as submitted recommended 49 new or increased fees. The first budget amendment recommended reducing the 49 to 18 new or increased fees related to Real Estate Broker and Salesperson; Timeshare registration and sales agent fees; expedite fees and penalties; and developer fees. The first budget amendment proposed to transfer \$4.7 million to the General Fund, which is \$1.6 million less than the \$6.3 million transfer in The Executive Budget as submitted. The decrease in General Fund transfer was primarily due to the revised revenue projections for the 2015-17 biennium and the reduction in the number of fee increases or new fees from 49 to 18.

Both The Executive Budget and the first amendment include a "Transfer to General Fund" expenditure category, which is not typical in a fee-funded budget.

Amendment # A150853823 (Second Budget Amendment)

Prior to submittal of the second budget amendment, Fiscal staff, the Executive Budget Office and the agency met to discuss issues related to this budget and the various bills that recommend new fees and fee increases for the division.

On April 29, 2015, the Executive Budget Office submitted Budget Amendment # A150853823 (second budget amendment), which budgetarily maintains the Real Estate Budget at status quo, wherein General Fund appropriations fund the gap between revenues collected and expenditures in the Real Estate budget. The second budget amendment recommends the elimination of the following decision units from The Executive Budget and the first budget amendment:

- Convert to a Fee-Funded Budget (E-225): Fee restructure, 90-day Reserve, and General Fund Transfers;
- Revise License Renewal Period (E-226): Real estate license renewal period change (retained in A.B. 475);
- New and Increased Fees (E-227): Fee increase or new fees related to Real Estate Broker and Salesperson; and
- Retain and Change Funding for 7.4 temporary positions (E-232): Restoration of 7.4 positions funded with one-time National Mortgage Settlement Funds.

The table below shows a comparison between The Executive Budget as submitted, the first budget amendment, and the second budget amendment.

Comparison of The Executive Budget as Submitted (G01) versus the Budget Amendments						
	G01		Budget Amendment # 1 A150223823		Budget Amendment # 2 A150853823	
	FY 2016	FY 2017	FY 2016	FY 2017	FY 2016	FY 2017
General Fund Appropriations	\$ -	\$ -			\$ 451,176	\$ 729,175
Fees/Other Revenues	\$ 7,067,691	\$ 7,966,626	\$ 6,137,083	\$ 6,544,852	\$ 2,540,441	\$ 2,542,271
Total Revenues	\$ 7,067,691	\$ 7,966,626	\$ 6,137,083	\$ 6,544,852	\$ 2,991,617	\$ 3,271,446
Less Total Operating Expenditures	\$ 3,312,550	\$ 3,600,641	\$ 3,058,588	\$ 3,346,679	\$ 2,991,617	\$ 3,271,446
Less 90-Day Reserve Balance	\$ 872,013	\$ 952,171	\$ 764,647	\$ 836,670	\$ -	\$ -
Proposed General Fund Transfer	\$ 2,883,128	\$ 3,413,814	\$ 2,313,848	\$ 2,361,503	\$ -	\$ -

Assembly Bill 475 as introduced includes the restructure to a fee-funded budget; establishes a 90-day Reserve; transfers remaining funds (after operating expenditures) to the General Fund; changes the real estate licensing period from 4-years to 2-years for initial licensure and from 2-years to 1-year for subsequent licensure; and allows the agency to seek a General Fund advance as start-up costs to switch to a fee-funded budget. The agency plans to submit an amendment to the bill to retain the license renewal period change, and eliminate the fee restructuring to coincide with the second budget amendment.

To summarize, the second amendment would maintain the current structure wherein all revenues except timeshare and timeshare developer filing fees and campground membership fees are deposited directly in the non-Executive Real Estate General Fund account (BA 9748).

Decision Units Included in the Second Budget Amendment

The second budget amendment recommends General Fund appropriations of \$1.2 million over the 2015-17 biennium, representing an 18 percent decrease compared to the 2013-15 legislatively approved General Fund appropriations of \$1.4 million. The second budget amendment recommends eliminating

7.4 positions funded during the current biennium with the one-time National Mortgage Settlement funds; increasing fees; establishing new fees; and restoring 2 positions as discussed below.

- Eliminate 7.4 Positions Funded with One-Time National Mortgage Settlement Funds (E-490): In the second budget amendment, the Governor recommends eliminating two Compliance/Audit Investigators, five Administrative Assistants, and reducing one Administrative Assistant from a full-time position to a part-time position in the Las Vegas office. The 7.4 positions were temporarily restored by the 2013 Legislature using one-time National Mortgage Settlement (NMS) funds. The elimination of 7.4 positions would result in a decrease in NMS revenue of \$848,322 over the 2015-17 biennium. The positions provide administrative and enforcement functions related to real estate, appraiser and timeshare licensing. Specifically, the Compliance Investigator/Audit positions perform investigations of fraud, misrepresentation, and embezzlement in real estate transactions, including a review of management companies and association boards' records, and are responsible for assisting in resolving complaints and violations of the law. The Administrative Assistant positions are responsible for licensing and permit issuance functions and providing clerical support.

According to the agency, the restoration of 7.4 positions by the 2013 Legislature reduced the backlog in processing timeshare and builders/developers applications and allowed the agency to maintain current workload. Prior to the restoration of the 7.4 positions, the agency indicates applications for timeshare licenses took up to four months to process. All new applications are currently processed within 30 days. The agency further indicates the investigation backlog has been reduced from 310 cases in FY 2012 to 212 cases in FY 2014. The agency provided actual caseload data for FY 2012 to FY 2014 and projected caseload data for FY 2015 through FY 2017, as shown in the table below.

Fiscal Year	Timeshare/ Builders/ Developers Caseload	Opened Investigation Caseload	Closed Investigation Caseload
FY 2012 Actual	200	487	394
FY 2013 Actual	431	396	534
FY 2014 Actual	834	1,371	1,167
FY 2015 Projected	654	1,598	1,550
FY 2016 Projected	800	1,656	1,598
FY 2017 Projected	800	1,698	1,645

The agency indicates the elimination of 7.4 positions, as proposed in the second budget amendment, would increase the processing time for the application, initial and renewal of licenses and customer wait times. Further, the elimination of positions would result in an increase in the investigation caseload per investigator and the time to complete an investigation as the total number of Compliance Audit/Investigator positions would be reduced from 6 to 4 positions in the Las Vegas office. The Investigators would be required to perform administrative work as a result of the elimination of Administrative Assistant positions in the Compliance section. The agency also indicates the elimination of one Administrative Assistant position in the Administrative section would result in a loss of dedicated administrative support for the Real Estate Commission and Commission for Appraisers of Real Estate, which includes the preparation of disciplinary case files for commission hearings; scheduling and posting information for hearings; and issuing commission orders and tracking of fines and payments.

- Fee Increases and New Developer and Timeshare Fees (Decision Unit E-231): As proposed in the second budget amendment, the Governor recommends to increase and/or establish new fees and permits, which would generate revenues of \$965,560 over the 2015-17 biennium. The fee proposals are outlined in the table below. The Governor also recommends restoring/retaining two Administrative Assistant positions proposed for elimination in Decision Unit E-490, discussed above.

As recommended, these actions results in \$763,699 in fee revenues over the 2015-17 biennium to support agency operating costs that would otherwise need to be funded with General Fund appropriations. The fee proposals are outlined in the table below.

FEE INCREASES AND NEW FEES DECISION UNIT E-231				
Description	Statute	Current	Proposed	Difference
Timeshare sales agent change of employer	NRS 119A.220	\$ 10	\$ 25	\$ 15
Application for a developer's request for an exemption	NRS 119.320	\$ 275	\$ 500	\$ 225
Application for renewal of an exemption	NRS 119.320	\$ 275	\$ 500	\$ 225
Amendment to a developer's permit	NRS 119.320	\$ 150	\$ 300	\$ 150
Timeshare Exchange Company Registration Fee	NRS 119A.360	NEW	\$ 500	\$ 500
Timeshare Abbreviated Renewal Registration	NRS 119A.360	NEW	\$ 7,500	\$ 7,500
Penalty for a late renewal of owner/developer permit	NRS 119.320	NEW	\$ 125	\$ 125
Penalty for not timely filing of amendments/enlargements	NRS 119.320	NEW	\$ 125	\$ 125
New form 649 filing fee; Statement of Project Broker	NRS 119.320	NEW	\$ 25	\$ 25
Project Expedite Fee (process within 5 business days)	NRS 119.320	NEW	\$ 1,000	\$ 1,000

The table below compares the staffing level proposed in the second budget amendment to staffing levels from previous biennia.

Staffing Levels for Real Estate Administration				
Position Title	2009-11 Biennium Legislatively Approved Staffing Levels	2011-13 Biennium Legislatively Approved Staffing Level	2013-15 Biennium Legislatively Approved Staffing Level	2015-17 Biennium Governor Recommended Staffing Level (based on Budget Amendment # 2)
ADMINISTRATOR	1.00	1.00	1.00	1.00
DEPUTY ADMINISTRATOR	1.00	1.00	1.00	1.00
REAL ESTATE PROJECTS CHIEF	1.00	0.60	1.00	1.00
ADMIN SERVICES OFFICER	1.00	0.00	0.00	0.00
COMPLIANCE/AUDIT INVESTIGATORS	7.00	4.60	6.60	4.60
PROGRAM OFFICERS	4.00	3.00	4.00	5.00
ADMINISTRATIVE ASSISTANTS	15.00	5.60	11.00	7.60
ADMINISTRATIVE AID	1.00	0.00	0.00	1.00
ACCOUNTING ASSISTANT	1.00	0.00	0.00	0.00
TOTAL	32.00	15.80	24.60	21.20

Fiscal staff notes, Assembly Bill 478 is the budget bill that would implement this decision unit. However, the bill as introduced does not reflect the fees as proposed in this decision unit, and does not include proposed new fees and fee increases for timeshare transactions. The agency plans to submit an amendment to A.B. 478 that would reflect the second budget amendment.

The agency indicates the two Administrative Assistant positions recommended to be restored are responsible for processing the development of subdivided land and project registration, including project review and the Timeshare and Builder Developer registration. At the budget hearing on March 18, 2015, the American Resort Development Association testified in support of the fee increases to improve services. In addition, the Southern Nevada Homebuilders Association testified in support of the fee increases in anticipation of improved customer service and reduced time to process transactions.

Does the Subcommittee wish to approve the Governor’s recommendation to:

- Eliminate 7.4 full-time equivalent positions supported with one-time National Mortgage Settlement funds;
- Establish increased fees and new fee and permit revenue totaling \$965,560 over the 2015-17 biennium; and
- Restore 2.0 Administrative Assistant positions and associated operating costs totaling \$201,861 over the 2015-17 biennium?

If so, Fiscal staff seeks authority to make technical adjustments based on Subcommittee closing actions and final decisions regarding A.B. 478.

Should the Subcommittee wish to consider restoring all or any of the remaining 5.4 positions recommended for elimination, Fiscal staff has provided the payroll costs for the positions as prioritized by the agency in the table below. The Subcommittee would be required to determine the funding source to support the positions.

Payroll Costs for the Temporary Positions Proposed for Elimination:					
Priority #	PCN#	Title	Primary Function	FY 2016	FY 2017
1	0004	Administrative Assistant III	Trust Account Reconciliation	\$ 50,435	\$ 51,600
2	0013	Compliance Audit Investigator	Compliance Enforcement	\$ 70,858	\$ 73,054
3	0029	Compliance Audit Investigator	Compliance Enforcement	\$ 63,415	\$ 65,281
4	0057	Administrative Assistant III	Commission Coordinator	\$ 25,333	\$ 25,623
5	0010	Administrative Assistant III	Licensing Supervisor	\$ 63,415	\$ 65,281
6	0056	Administrative Assistant I	Licensing Support	\$ 44,251	\$ 45,125
				\$317,707	\$325,964

2. Carson City Office Relocation (E-229, B&I-166): The Governor recommends increasing General Fund appropriations by \$25,424 over the 2015-17 biennium to relocate the five employees in the Carson City office. The agency proposes to relocate next to the existing B&I Director’s Office building. At the budget hearing, the agency testified the current non-state owned location does not have parking for employees and customers; has ventilation issues; and technology/infrastructure issues that caused the agency’s phone system to malfunction for three days. Further, the agency testified the existing location is not conducive with the agency’s future plans to reestablish the licensing functions at the Carson City office. Currently, all licensing services are performed in the south, and the Nevada Association of Realtors has indicated its support for reestablishing the licensing functions in the north.

The 2011 Legislature approved the Governor’s recommendation to eliminate nine positions as a cost savings measure, which resulted in the closure of the Carson City Licensing section. As a result, all real estate licensing functions are processed by mail in the Las Vegas office. The agency indicates, prior to the elimination of the Carson City real estate licensing functions, the agency processed approximately 15 percent of the total licensing and education caseload in the Carson City office. The agency estimates a total of 5,000 licensees are from Northern Nevada.

Fiscal staff notes, the building rent costs in FY 2016 are calculated incorrectly. A technical adjustment to increase lease costs by \$600 in FY 2016 is included in this closing document.

Does the Subcommittee wish to approve General Fund appropriations of \$25,424 over the 2015-17 biennium to relocate five employees in the Carson City office as recommended by the Governor, including the technical adjustment noted by staff?

Other Closing Items

1. **B&I Centralization of the Las Vegas Offices (E-230, B&I-166)**: The Governor recommends increasing General Fund appropriations by \$245,317 in FY 2017 to centralize B&I Las Vegas offices and establish a Business Center. The recommendation is one of the Governor's Major Budget Initiatives, and was approved during the closing of the B&I Administration budget by the General Government Joint Subcommittee on April 23, 2015. **This recommendation is consistent with prior Subcommittee closing actions.**
2. **Position Transfer (E-500, E-900, B&I-168,169,170)**: The Governor recommends increasing General Fund appropriations by \$95,104 over the 2015-17 biennium to transfer the Administrative Aid position, currently funded with fees, from the Real Estate Education and Research budget back to the Real Estate budget. The agency indicates the recommendation would align the position's duties with the correct budget. According to the agency, the Administrative Aid currently provides telephone customer service for the Real Estate Licensing section in the southern office, assists constituents in resolving licensing related questions, and assists with Real Estate Education and Research as needed.

The 2011 Legislature approved the Governor's recommendation to transfer the Administrative Aid position from the Real Estate budget to the Real Estate Education and Research budget as a cost savings measure. According to the agency, the recommendation would have no impact to Real Estate Education and Research daily operations.

Fiscal staff notes, Budget Amendment A150853823 correctly aligns Transfer Decision Unit E-900 with E-500, resulting in a decrease in General Fund appropriations of \$148 over the 2015-17 biennium. **This recommendation appears reasonable.**

3. **Cost Allocations (M-800,E-800, E-804, B&I-164,169)**: The Governor recommends decreasing General Fund appropriations by \$46,215 over the 2015-17 biennium for services provided by the B&I Director's Office and the Department of Administration, Division of Human Resources Management. **This recommendation appears reasonable.**

Staff recommends the Other Closing Items be closed as amended by the Governor, with authority for staff to make technical adjustments as necessary.

Title: B&I - REAL ESTATE EDUCATION AND RESEARCH
 Account: 216 - 3826

Budget Page: B & I-172, Volume II

Revenues	2013-14 Actual	2014-15 WP	% Chg	2015-16 GOV REC	% Chg	2016-17 GOV REC	% Chg
BALANCE FORWARD	393,348	987,483	151.05	518,617	(47.48)	725,352	39.86
INTERAGENCY TRANSFER	182,842	107,000	(41.48)	788,520	636.93	662,280	(16.01)
OTHER FUND	2,096	150	(92.84)	2,096	1297.33	2,096	
Total Revenues	578,286	1,094,633	89.29	1,309,233	19.60	1,389,728	6.15
Total FTE		7.00		6.00		6.00	

Adjustments to Revenue

Dec Unit	Cat	GL	Description	2015-16 Gov Rec	2016-17 Gov Rec
Sub-total				0	0
Line Item Changes to Revenues				0	0

Adjustments to Expenditures

Dec Unit	Cat	GL	Description	2015-16 Gov Rec	2016-17 Gov Rec
Sub-total				0	0
Line Item Changes to Expenditures				0	0
Total				0	0
Grand Total General Fund Impact of Closing Changes				0	0

Overview

Staff is responsible for developing closing recommendations for this budget, which has not previously been heard by the Joint Subcommittee.

Pursuant to NRS 645.842, the Real Estate Education and Research budget funds the review and approval of continuing education courses for Nevada’s real estate licensees and the licensing of instructors for those courses. The division also sponsors continuing education courses that are developed by the division’s staff. In order to ensure compliance with regulations, the division performs inspections of the sites at which the course directors or instructors conduct continuing education courses, as well as the records that are kept. In addition, this budget is used to fund various real estate research projects, including research regarding licensing and education requirements in other states. Per NRS 645.842 (2), this budget is funded by any balance in the Real Estate Recovery Budget over \$300,000 remaining at the end of any fiscal year.

Major Closing Issues

There are no major closing issues.

Other Closing Items

1. B&I Centralization of the Las Vegas Offices (E-230, B&I-174): The Governor recommends decreasing Reserves by \$35,513 in FY 2017 to centralize B&I Las Vegas Offices and establish a Business Center. The recommendation is one of the Governor’s Major Budget Initiatives and was approved during the

budget closing of the B&I Administration budget by the Joint Subcommittee on General Government on April 23, 2015. **This recommendation is consistent with the Subcommittee's previous closing action.**

2. Position Transfer (E-900, B&I-176): The Governor recommends increasing Reserves by \$94,956 over the 2015-17 biennium in conjunction with the transfer of an Administrative Aid position from this budget to the Real Estate Administration budget. The agency indicates the recommendation would align the position's duties with the correct budget. According to the agency, the Administrative Aid currently provides telephone customer service for the Real Estate Licensing section, assists constituents in resolving licensing related questions, and assists with Real Estate Education and Research as needed. The recommendation is contingent upon approval of the position transfer in the Real Estate Administration Budget (E-500, E-900, B&I-168,169,170). **Fiscal staff requests authority to make technical adjustments based on closing actions in the B&I Real Estate Administration Budget.**
3. Cost Allocations (M-800, E-800, E-804 B&I-174,175): The Governor recommends increasing Reserves by \$5,756 over the 2015-17 biennium to adjust for the costs of services provided by the Real Estate Division and the Department of Administration, Division of Human Resource Management. **This recommendation appears reasonable.**
4. Revenue Projections (Summary, B&I-177): The Governor recommends transfer from Real Estate Division revenue of \$788,520 in FY 2016 and \$662,280 in FY 2017, which represents projected excess recovery fees based on the current real estate licensing renewal period of two years for initial licensing and four years for subsequent licensing. As previously discussed by the Subcommittee, the Governor recommends changing the licensing period from two years to one year for initial licensing and from four years to two years for renewal licensing, as set forth in A.B. 475. If A.B. 475 is approved, the transfer of recovery fees from the Real Estate Recovery budget would be overstated by 55.9 percent in FY 2016 and 39.4 percent in FY 2017. Based on Fiscal staff's review, if the changes contemplated in A.B. 475 are approved, it appears this budget would have a negative Reserve in the 2017-19 biennium if no other adjustments are made. In follow up, the agency indicates they plan to monitor expenses and eliminate positions if needed in order to maintain an adequate level of Reserve in this budget in future biennia. **Fiscal staff seeks authority to make technical adjustments to align revenues with the transfer of recovery fees from the Real Estate Recovery budget contingent upon final decisions regarding A.B. 475.**

Staff recommends this budget be closed as recommended by the Governor, with authority for staff to make technical adjustments as necessary.

Title: B&I - REAL ESTATE RECOVERY ACCOUNT
 Account: 216 - 3827

Budget Page: B & I-178, Volume II

Revenues	2013-14 Actual	2014-15 WP	% Chg	2015-16 GOV REC	% Chg	2016-17 GOV REC	% Chg
BALANCE FORWARD		300,000		300,000		300,000	
OTHER FUND	189,922	207,000	8.99	895,600	332.66	769,360	(14.10)
Total Revenues	189,922	507,000	166.95	1,195,600	135.82	1,069,360	(10.56)

Total FTE

Adjustments to Revenue

Dec Unit	Cat	GL	Description	2015-16 Gov Rec	2016-17 Gov Rec
Sub-total				0	0
Line Item Changes to Revenues				0	0

Adjustments to Expenditures

Dec Unit	Cat	GL	Description	2015-16 Gov Rec	2016-17 Gov Rec
Sub-total				0	0
Line Item Changes to Expenditures				0	0

Total 0 0

Grand Total General Fund Impact of Closing Changes 0 0

Overview

Staff is responsible for developing closing recommendations for this budget, which has not previously been heard by the Joint Subcommittee.

The Real Estate Education, Research and Recovery Fund is statutorily authorized in NRS 645.842 as a special revenue fund. The fund is used for satisfying claims against persons licensed under Chapter 645.

Prior to July 1, 2011, this budget was funded by a \$40 fee, which was charged with each original and renewal of a real estate salesman or broker's license for the purpose of education, research, and satisfying claims against licensees. Senate Bill 230 of the 2009 Session maintained the original application fee for a license at \$40, but increased the fee for renewal of a license to \$80 on July 1, 2011. The bill extended the licensure period to 24 months for original licenses and 48 months for renewals.

Recovery fee revenue initially flows into this budget to pay recovery claims against licensees as ordered by a court of law. At the end of each fiscal year, the balance of the funds in excess of \$300,000 in this budget is transferred to the Real Estate Education and Research budget for education and research efforts.

Major Closing Issues

There are no major closing issues.

Other Closing Item

Revenue Projections (Summary, B&I-178): The Governor recommends Recovery Fees of \$895,600 in FY 2016 and \$769,360 in FY 2017, which is based on the current real estate licensing renewal period of two years for initial licensing and four years for subsequent licensing. As noted in the Real Estate Education and Research closing document, if the Governor's recommendation is approved to change the licensing period from two years to one year for initial licensing and from four years to two years for subsequent licensing in the B&I Real Estate Administration Budget, as set forth in A.B. 475, the Recovery Fees included in this budget would be overstated. As indicated, this budget is required to transfer recovery fees in excess of \$300,000 per year to the Real Estate Education and Research Budget. To meet the statutory requirement and maintain necessary Reserve levels in the Real Estate Education and Research budget by the end of FY 2017, Fiscal staff, the agency and the Executive Budget office agreed it would be necessary to reduce Settlement Disbursements in this budget by \$7,080 to \$100,000 in each year of the 2015-17 biennium as recommended by the agency. **Fiscal staff seeks authority to make technical adjustments to align revenues and expenditures contingent upon final decisions regarding A.B. 475.**

Staff recommends this budget be closed as recommended by the Governor, with authority for staff to make technical adjustments, as necessary.

Title: B&I - COMMON INTEREST COMMUNITIES
 Account: 101 - 3820

Budget Page: B & I-179, Volume II

	2013-14 Actual	2014-15 WP	% Chg	2015-16 GOV REC	% Chg	2016-17 GOV REC	% Chg
Revenues							
BALANCE FORWARD	161,907	2,150,325	1228.12	1,411,125	(34.38)	576,069	(59.18)
INTERAGENCY TRANSFER	85	100	17.65	100		100	
OTHER FUND	1,612,921	1,447,800	(10.24)	1,618,470	11.79	2,246,730	38.82
Total Revenues	1,774,913	3,598,225	102.73	3,029,695	(15.80)	2,822,899	(6.83)
Total FTE		21.00		21.00		21.00	

Adjustments to Revenue

Dec Unit	Cat	GL	Description	2015-16	2016-17
E225	00	2511	Adjust Balance Forward to match Reserves		4,040
Sub-total				0	4,040
Line Item Changes to Revenues				0	4,040

Adjustments to Expenditures

Dec Unit	Cat	GL	Description	2015-16	2016-17
M800	18	9000	Align expenditures with correct category	(6,720)	(14,743)
M800	86	9000	Align expenditures with correct category	6,720	14,743
E225	04	7000	Correct building lease costs	(4,040)	(4,160)
E225	86	9000	Increase Reserves to correct building lease costs	4,040	8,200
Sub-total				0	4,040
Line Item Changes to Expenditures				0	4,040
Total				0	0
Grand Total General Fund Impact of Closing Changes				0	0

Overview

The Real Estate Division includes the Office of the Ombudsman for Common-Interest Communities and Condominium Hotels, which was created by the 1997 Legislature. The Ombudsman provides assistance to homeowner associations (HOAs) and their members/owners through education, facilitation, and equitable treatment. The Ombudsman also assists with disputes within HOAs through the Alternative Dispute Resolution program. The Common-Interest Communities budget also funds the Commission for Common Interest Communities and Condominium Hotels, which conducts disciplinary hearings, adopts regulations, and acts in an advisory capacity to the Ombudsman. The agency is self-funded, primarily through a \$3 per unit, per year, fee imposed on common-interest communities (NRS 116.31155).

Major Closing Issues

1. Homeowner's Association Per Unit Fee Increase
2. New Community Manager Application Fee

Discussion of Major Closing Issues

1. Homeowner's Association Per Unit Fee Increase (E-226, B&I-182): The Governor recommends increasing the per unit Homeowner's Association fees from \$3 to \$4.25 in FY 2017 and increasing Reserves by \$628,260. The agency indicates industry demand for improved customer service prompted the need to increase fees. Further, the agency's goal is to reduce the misconduct case investigation and mediation service backlog (currently at a 4-month wait time to schedule a mediator). In response to Fiscal staff inquiry, the agency indicates revenues generated by increased fees would primarily be utilized to pay for the increased costs of the statewide and Attorney General cost allocations in FY 2016. While the agency has voiced concerns regarding the increase in the budgeted Attorney General Cost Allocation, Fiscal staff was

informed by the agency that the Real Estate Division has a dedicated Deputy Attorney General located in their office. The agency further indicates its plan, once increased fees are realized, would be to seek additional staff and resources in the interim or future biennia and provide training, including distribution of educational materials, to homeowners and Homeowner's Association (HOA) board members to enhance awareness of the agency's dispute resolution processes and programs.

Staff notes if this decision unit (and Assembly Bill 474) is not approved and no other adjustments are made, this budget would have a negative Reserve in FY 2017. In follow up, the agency indicates it plans to eliminate positions and services to stabilize Reserves if this decision unit is not approved. Accordingly, this would delay the improvement of services, including the time to conduct investigations. Additionally, the agency plans to explore other potential cost savings over the 2015-17 biennium and continually monitor all department and agency cost allocations. The current \$3.00 per unit fee was established by regulation in 1998 and established in NRS 116.31155 by the 1999 Legislature (S.B. 451).

Assembly Bill 474, heard by the Assembly Committee on Ways and Means on April 2, 2015, increases the HOA per unit fee from \$3 to a maximum of \$5. At the bill hearing, the agency indicated letters in support of the fee increase were received from major community associations (Community Associations Institute, Community Association Management Executive Officers and Complete Association Management Company).

Backlog of Homeowner's Association Dispute Cases: At the pre-session budget hearing on January 27, 2015, the agency testified that it was currently experiencing a backlog in homeowner's association cases. In follow up, the agency indicates the backlog is due to the agency's previous process of allowing complainants to bypass the dispute resolution process for misconduct prosecutions, which resulted in the Compliance Unit receiving large volumes of cases that did not meet the standard for prosecution. The agency further indicates that due to limited resources, the Compliance Unit spent the majority of time on dispute resolutions, which took away time from investigating and prosecuting actual misconduct. Fiscal staff notes, the 2013 Legislature approved two Compliance Investigators in the Las Vegas office to reduce the caseload per investigator ratio and allow investigators to provide timely responses to constituent complaints.

According to the agency, the backlog is being addressed by reassigning cases to Informal Dispute Resolution (IDR), a process in the Ombudsman's office, which includes mediation, arbitration, and the use of impartial referees to bring resolution to homeowner's association complaints. The reassignment of cases to the IDR has allowed the Compliance Unit to focus on misconduct investigations cases only. The agency indicates the implementation of the IDR process has decreased the Compliance Unit backlog from 440 cases to 265 cases in the past six months and the backlog term was reduced from four years to two years. The agency projects to eliminate the backlog by the end of FY 2015.

Impartial Referee Program

The 2013 Legislature approved \$150,000 in each year of the 2013-15 biennium to implement the Impartial Referee program (IRP) in the Ombudsman's office as a pilot program to handle disputes concerning governing documents of common-interest communities. According to the agency, the IRP, in conjunction with other dispute resolutions, would reduce the investigative caseload by providing certain complainants the option to pursue remedies using contract referees to resolve homeowner's association disputes. However, the agency indicates the program has not been as successful as anticipated because the majority of the complainants demanded that the agency prosecute their HOA boards for misconduct rather than going through the IRP. At the March 5, 2015, budget hearing, the agency testified the IRP program is not mandated; and it is at the discretion of the complainant to use the IRP program or pursue other legal remedies.

Does the Subcommittee wish to approve increased Homeowner's Association fee revenue of \$628,260 in FY 2017 with a corresponding increase in Reserves contingent upon the approval of the per-unit increase set forth in A.B. 474?

2. New Community Manager Application Fee: At the bill hearing for A.B. 474 on April 2, 2015, the agency submitted a proposed amendment to include a new \$100 community manager application fee. If the bill is amended and approved, the agency anticipates receiving revenues of \$8,500 in each year of the 2015-17 biennium from 85 applicants, which would increase Reserves. Fiscal staff notes, the addition of this new fee was not discussed at the March 5, 2015, budget hearing.

Does the Subcommittee wish to approve increased revenues of \$8,500 in each year of the 2015-17 biennium contingent upon approval of the new \$100 community manager application fee if A.B. 474 is passed and approved with the necessary amendment?

Fiscal staff requests authority to make technical adjustments to Major Items 1 and 2, based on final decisions regarding A.B. 474.

Other Closing Items

1. Carson City Office Relocation (E-225, B&I-181-182): The Governor recommends decreasing Reserves by \$12,570 over the 2015-17 biennium to relocate the Carson City office. The recommendation includes relocating one Compliance/Audit Investigator position to an undetermined location in January 2016. According to the agency, the current location does not have a legal parking area. This recommendation is in conjunction with the proposed Carson City Office relocation in the Real Estate Administration budget, which would centralize the Real Estate Division's staff in Carson City in one location.

Fiscal staff notes, the lease costs included in The Executive Budget are incorrect. A technical adjustment to decrease lease costs by \$8,200 over the 2015-17 biennium is included in this closing document. **With the technical adjustment noted, this recommendation appears reasonable.**

2. B&I Centralization of the Las Vegas Offices (E-230, B&I-182): The Governor recommends decreasing Reserves by \$99,649 in FY 2017 to centralize B&I Las Vegas offices and establish a Business Center. The recommendation is one of the Governor's Major Budget Initiatives and was approved during the closing of the B&I Administration budget by the General Government Joint Subcommittee on April 23, 2015. **This recommendation is consistent with prior Subcommittee closing actions.**
3. Cost Allocation (M-800, E-800, E-804, B&I-181,183,184): The Governor recommends increasing Commission Expenses by \$6,720 in FY 2016 and \$14,743 in FY 2017 and Reserves by \$2,526 over the 2015-17 biennium for services provided by the B&I Real Estate Division and the Department of Administration, Division of Human Resource Management. Fiscal staff notes, the recommendation to increase Commission Expenses by \$6,720 in FY 2016 and \$14,743 in FY 2017 (M-800) was aligned with the incorrect category. A technical adjustment to correct the error is included in this closing document. **With the technical adjustment noted, this recommendation appears reasonable.**

Staff recommends this budget be closed as recommended by the Governor, with the technical adjustments noted, with authority for staff to make other technical adjustments as necessary.

Informational Item/No Action Required

1. Assembly Bill 233 amended by the Assembly Committee on Judiciary on April 10, 2015, transfers the Office of Ombudsman for Owners in Common-Interest Communities and Condominium Hotels from the Real Estate Division of the Department of Business and Industry to the Office of the Attorney General. The bill was re-referred to the Committee on Ways and Means on April 17, 2015.
2. Assembly Bill 359 as amended provides that the foreclosure of a super-priority lien by a homeowner's association does not extinguish a first security interest on the unit or a second mortgage or deed of trust on the unit. The Assembly Committee on Judiciary amended the bill on April 10, 2015, and the bill was re-referred to the Assembly Committee on Ways and Means on April 21, 2015.