

**Program Review:
Real Estate Education,
Research and Recovery Fund**



**Research Report No. 170
Legislative Research Commission
Frankfort, Kentucky**

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Program Review: Real Estate Education, Research and Recovery Fund

**Committee for
Program Review and Investigation**

**Representative Buddy Adams, Chairman
Senator Robert Martin, Vice-Chairman**

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**Legislative Research Commission Staff
John H. Downard**

Research Report No. 170

*Legislative Research Commission
Frankfort, Kentucky
January, 1980*

**This Report was prepared by the Legislative Research Commission and paid for
from state funds.**

APPENDIX

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National Association Of
Real Estate License
Law Officials

Kentucky Real Estate Commission

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Louisville, Kentucky 40202

December 19, 1979

Mr. Buddy Adams
1560 31 By-Pass
Bowling Green, KY 42101

Dear Buddy:

This will confirm my appearance as well as Charles Brown's before your Subcommittee Review of Administrative Agencies in Frankfort in November, 1979. I have reported the recommendations of your Subcommittee to the Commissioners, and they are considering same.

Again, thank you for the many courtesies extended to us at that meeting.

Very truly yours,


Robert G. Stallings
General Counselor

RGS/lp

cc: Mr. John Downard

FOREWORD

The Committee for Program Review and Investigation, at its June 6, 1979, meeting, initiated the performance evaluation that resulted in the present study, *Program Review: Real Estate Education, Research and Recovery Fund*.

The written comments of the Kentucky Real Estate Commission are the appendix to the report.

We thank the Real Estate Commission, its Chairman, Mr. John A. Celletti, its former chairman, Mr. Charles R. Brown, and its staff for their valuable assistance and willing cooperation with us in the course of this study.

Mr. John H. Downard was the project manager for this study and the author of this report. Any questions concerning the report may be directed to Mr. Downard.

VIC HELLARD, JR.
Director

The Capitol
Frankfort, Kentucky
January, 1980

APPENDIX

A Real Estate and Land Use Advisory Board sets guidelines regarding research priorities, approves specific research projects, and provides guidance and recommendations to the director of the center regarding the center's overall direction.

V. SUPPORT FOR REAL ESTATE COURSES

To determine whether colleges and universities would continue to offer real estate courses if support from the Commission were discontinued, a survey of institutions receiving grants was made. The unanimous reply was that their programs would be continued but probably not at their present level.

Naturally, it is impossible for these institutions to determine precisely what courses would be offered or discontinued in the event grants were terminated. It is the hope of the Commission that demand for such courses will eventually justify permanent, self-sustaining programs. Four colleges now offer either the associate or baccalaureate degree in Real Estate. The Commission is moving from giving honorariums to instructors to providing direct grants to the colleges. If an instructor is a full-time employee of an institution, the Commission does not supplement his salary with an honorarium.

The greatest need for grants and honorariums is at the smaller colleges and institutions where it would be impossible to offer courses because of small enrollments.

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tion as a real estate salesperson. As of July 1, 1980, the requirements are nine academic credit hours, or their equivalent clock hours in real estate courses, and two years' experience prior to application as a real estate salesperson.

The requirements for applicants for a salesperson's license are at least three academic credit hours, or their equivalent from an approved or accredited school. As of July 1, 1980, six academic credit hours, or their equivalent, are required.

IV. THE CENTER FOR REAL ESTATE AND LAND USE ANALYSIS

When the General Assembly created the Education, Research and Recovery Fund, in addition to creating educational requirements for individuals seeking licensure, it also sought to create an interest in research in the real estate field. The Center for Real Estate and Land Use Analysis was established to meet this demand for further real estate education and research.

The center is funded by the Kentucky Real Estate Commission through the Real Estate Education, Research and Recovery Fund. The three major purposes of the center are as follows:

1. To monitor and evaluate all phases of the real estate market in Kentucky.
2. To distribute research reports compiled by the center to governmental agencies and to real estate boards and firms.
3. To provide a forum for educational and research activities to enhance the professionalism of realtors and real estate firms in Kentucky.

Some examples of the type of research conducted by the center are listed below.

1. *Real Property Tax Exemptions in Kentucky: Findings from a Study of Warren County, Kentucky.*
2. *Usury Laws and Residential Building.*
3. *Sample Design for Real Estate Valuation Modeling: A Case Study.*

A complete summary of research projects conducted by the center is on file in the Legislative Research Commission library, along with all of the financial data given to the staff by the Commission.

Continuing Education

Since the creation of the fund, the number of real estate courses and degree programs available has dramatically increased. The majority of courses are offered at colleges and universities, though some are taught at vocational-technical institutes.

The Commission feels their grants to colleges and universities are justified for several reasons. When the Commission initially required continuing education courses, most colleges and universities offered very few, if any, courses in real estate. The Commission felt that it had an obligation to licensees to take the initiative to assure quality instructors, classrooms, and materials. For these reasons, the Commission began to offer direct grants to colleges and honorariums to instructors. To establish Real Estate chairs at colleges across the state, the Commission granted \$50,000 each to Eastern Kentucky University, Western Kentucky University, Murray State University and Northern Kentucky University over a three-year period.

The instruction at state colleges and universities is different from that offered at private real estate schools. These private schools design their programs primarily for those individuals intending to sit for real estate licensure examinations. The courses and programs offered at state universities and colleges are not only in preparation for these examinations but are also designed to prepare students for some specialty in the field, to educate and protect the general public and to elevate the degree of professionalism among real estate salespersons and brokers.

License Requirements

The law establishing the fund also placed additional experience and educational requirements on brokers and salespersons. The requirements for a broker's license were increased, as of July 1, 1978, to six academic credit hours, or equivalent clock hours in real estate courses from an accredited or approved real estate school, and two years' experience. The law provides that after July 1, 1980, these requirements will be increased to twenty-one academic credit hours, or equivalent clock hours, with at least twelve academic credit hours, or equivalent clock hours in real estate courses from an accredited or approved real estate school, and two years' experience prior to application as a real estate salesperson. For the purposes of this act, three academic credit hours are equal to forty-eight clock hours.

The requirements for application for an associate broker's license are at least six academic credit hours, or equivalent clock hours in approved real estate courses, and one year's experience prior to applica-

SUMMARY

The Kentucky Real Estate Commission administers the Education, Research and Recovery Fund (ERRF) in an efficient manner to accomplish those purposes for which it was established. The fund provides protection to the general public from illegal or unprofessional activities and supports a statewide educational and research program of licensed realtors. The \$10,000 the Commission is allowed to pay parties aggrieved by improper dealings of licensees is twice the amount of surety bond that licensees were previously required to carry.

Research and education programs established and supported by the ERRF have been developed and implemented throughout the state. Courses are now available at eighteen Kentucky universities, colleges and other educational institutions. The research function is carried out by the Center for Real Estate and Land Use Analysis, which was established through a grant from the fund and now receives continuing annual grants. The center has completed research covering a wide range of topics.

The Commission feels its support to colleges and universities is justified because of the additional educational requirements the General Assembly has placed on those seeking licenses and because the increasing complexity of the real estate profession necessitates continuing education. A list of colleges and universities receiving support from the fund, student enrollments, and names of instructors teaching these courses can be found in the LRC library. The emphasis on increased educational requirements and continuing education is a result of the desire of real estate professionals to raise the level of professionalism among their peers. Prior to the efforts of the Commission, only a limited number of real estate courses were offered at a few colleges and universities in Kentucky.

Total student enrollment in real estate education programs supported by the fund in the fall of 1978 was 2,402. During Fiscal Years 1978 and 1979, \$22,529.26 was spent for special education seminars. A list of the dates, locations, and individuals involved can be found in the file established for this report in the LRC library.

Committee Recommendations

1. The Real Estate Commission should evaluate what impact lowering the annual \$20 ERRF fee to \$15 would have on the in-

tegrity of the fund and on the education and research programs it supports.

2. The Real Estate Commission should seriously examine the possibility of raising the maximum award for aggrieved parties from the current \$10,000 to an amount consistent with recent inflation in the value of real estate.

The Committee for Program Review and Investigation commends and congratulates the Kentucky Real Estate Commission on its efforts to further educational opportunities for realtors and the general public across the Commonwealth and on its able administration of the Education, Research and Recovery Fund. The Committee believes that this performance represents a precedent which should be recognized and evaluated by other professions in establishing their continuing education programs.

TABLE 2

REAL ESTATE EDUCATION, RESEARCH AND RECOVERY
FUND: RECEIPTS AND TRANSFERS, EXPENDITURES AND
YEAR-END BALANCES, FISCAL YEARS 1973-1978

Years	Net Receipts & Transfers	Expenditures	Balance at Fiscal Year End
FY 1978	\$349,830.00	\$ 63,275.59	\$286,554.41
FY 1974	315,716.05	146,615.57	455,654.89
FY 1975*	23,785.33*	219,178.52	260,261.70
FY 1976*			
Education & Training	493,540.19*	257,649.01	235,891.18
Recovery Fund	200,000.00	-0-	200,000.00
Total	693,540.19	257,649.01	435,891.18
FY 1977			
Education & Training	356,356.40	266,113.51	326,134.07
Recovery Fund	-0-	-0-	200,000.00
Total	356,356.40	266,113.51	526,134.07
FY 1978			
Education & Training	394,478.66	320,976.22	399,636.51
Recovery Fund	-0-	-0-	200,000.00
Total	394,478.66	320,976.22	599,636.51

* Separate accounting for education and training funds was implemented at the beginning of FY 1976. Recovery funds and education funds were not distinguished in accounting reports prior to that time. The low net receipts and transfers figure for FY 1975, and the relatively high figure for FY 1976, reflect accounting transfers made to implement the new system.

The money may be invested; interest earned accrues to the fund. The available balance in the fund as of April 30, 1979, was \$548,737.92. The remainder of the monies in the fund may be used to support educational and research programs. The fund paid ten claims totaling \$27,964.34 between September 27, 1973, and December 27, 1978.

The law requires that the license of a salesperson or broker automatically be suspended if the Commission finds he is guilty of violating any provision of KRS 324.160 or any rules and regulations promulgated pursuant to the act.

Inasmuch as this fund is not an insurance policy for realtors, the Commission is required to seek restitution in order to maintain the integrity of the fund. The law requires that a realtor reimburse the fund all monies paid to the aggrieved party before he or she can re-apply for a license. To date, \$3,746.38 has been recovered.

All decisions of the Commission may be appealed to the circuit court in the county of the licensee's principal place of business or where the applicant resides.

Growth of the Fund

The Education, Research and Recovery Fund has grown steadily since its establishment in 1972. Table 2 summarizes the growth of the fund for Fiscal Years 1972 through 1978. Separate accounting systems for the Education and Training activity and the Recovery Fund were implemented at the beginning of FY 1976. The table shows that the fund grew from a year-end balance of \$286,554.41 at June 30, 1973, to a year-end balance of \$599,636.51 at June 30, 1978. In view of this increasing fund balance, we make the following recommendation.

Recommendation

The Real Estate Commission should evaluate what impact lowering the annual \$20 ERRF fee to \$15 would have on the integrity of the fund and on the education and research programs it supports.

I. INTRODUCTION

The Committee for Program Review and Investigation voted to conduct an in-depth review of the Real Estate Education, Research and Recovery Fund (ERRF) of the Kentucky Real Estate Commission (KREC) at its meeting on June 6, 1979.

The Committee mandated a study of six components:

1. Identify specific seminars, conferences, and other educational activities receiving ERRF funds and the expenditures for each.
2. Determine the amount received by each college and university, by each instructor, and for what courses the grant was made.
3. Review and summarize the operations of the Center for Real Estate and Land Use Analysis at the University of Kentucky.
4. Document payments to aggrieved parties.
5. Determine the current balance in the fund.
6. Determine whether universities, colleges, and vocational-technical schools would continue to offer courses if the Commission decreased or discontinued its financial support of the courses.

This review does not comprise an audit of the fund; however, a great deal of financial data has been provided to the Committee. A file containing this data has been established in the LRC library and is open to anyone who wishes to review it.

The files of the Real Estate Commission are open records and provide a complete picture of the fund's history and present uses.

II. PURPOSE OF THE COMMISSION

History and Membership

The Kentucky Real Estate Commission was established by the General Assembly in 1942. Since that time, its statutes have been amended several times and the duties and responsibilities of the Commission have been expanded. The Commission has five members appointed by the Governor for three-year terms.

Duties and Responsibilities

The Commission has four primary functions:

1. To conduct license examinations for real estate brokers and salespersons.
2. To conduct educational seminars and courses within the real estate field.
3. To assure investigation of any irregularities violating KRS Chapter 324 or any rules or regulations promulgated pursuant to this act.
4. To participate with others in the betterment or improvement of any phase of the Commission's work.

Any action taken by the Commission under this section may be appealed to an appropriate circuit court.

III. THE REAL ESTATE EDUCATION, RESEARCH AND RECOVERY FUND

The Real Estate Education, Research and Recovery Fund was established by the 1972 General Assembly. It was not necessary to obligate any General Fund monies for this purpose, since the law provides that \$30 be collected annually from all licensed real estate salesmen and brokers in Kentucky in their first year of licensure and an annual fee thereafter of \$20.

Table 1 provides a summary of expenditures for the fund for Fiscal Years 1978 and 1979.

Purposes of Fund

The fund eliminates the requirement that licensed realtors purchase a \$5,000 bond prior to applying for a license. The fund assures the public that if a licensee violates any provision of KRS 324.160, which sets forth grounds for license suspension and revocation, the Commission is authorized to pay the aggrieved party up to \$10,000. This provides the consumer twice the previous level of protection at approximately half the cost to the licensee.

Recommendation:

The Real Estate Commission should seriously examine the possibility of raising the maximum award for aggrieved parties from the current \$10,000 to an amount consistent with recent inflation in the value of real estate.

The sixty dollars formerly paid for a surety bond was, for the most part, being paid to out-of-state insurance firms. The money now remains in the state, provides a higher degree of protection to the consumer, and supports a real estate education and research program throughout the Commonwealth.

Consumer Protection

The fund must maintain a reserve of \$200,000 that is accessible to the Commission to indemnify aggrieved parties.

TABLE 1

REAL ESTATE EDUCATION, RESEARCH AND RECOVERY FUND: SUMMARY EXPENDITURE ANALYSIS FISCAL YEARS 1978 AND 1979

Expenditure	FY 1978	FY 1979
Payroll Salaries	\$ 28,711.20	\$ 36,064.95
Contracted Personal and Consulting Services	3,830.01	.00
Honoraria	37,422.15	39,254.32
Total Personal Services	\$ 69,963.36	\$ 75,319.27
General Operating Expenses	\$ 21,100.83	\$ 28,011.95
Grants to Non-State Agencies	26,843.07	104,000.00
Judgments	1,197.50	.00
Miscellaneous	5,727.32	5,456.25
Interdepartmental Grants	194,978.54	137,575.00
Total Current Expenses	\$249,846.86	\$276,736.80
Furniture, Fixtures and Office Equipment	\$ 1,136.05	\$ 4,911.99
Library Books	29.95	171.81
Total Capital Outlay	\$ 1,166.00	\$ 5,083.80
Account Totals	\$320,976.22	\$357,139.87