

# GENERAL ASSEMBLY OF NORTH CAROLINA

Session 2005

## Legislative Fiscal Note

**BILL NUMBER:** House Bill 1284 (Second Edition)

**SHORT TITLE:** Improve Real Estate Licensing Law.

**SPONSOR(S):** Representatives Brubaker, Culpepper, and Howard

|   | <b>FISCAL IMPACT</b>   |                                  |                                  |                          |                          |
|---|--|----------------------------------|----------------------------------|--------------------------|--------------------------|
|   | <b>Yes (X)</b>   | <b>No ( )</b>                    | <b>No Estimate Available ( )</b> |                          |                          |
|   | <b><u>FY 2005-06</u></b>   | <b><u>FY 2006-07</u></b>         | <b><u>FY 2007-08</u></b>         | <b><u>FY 2008-09</u></b> | <b><u>FY 2009-10</u></b> |
| <b>REVENUES:</b>  |  |                                  |                                  |                          |                          |
| <b>General Fund</b>                                       |  | <b>No Impact to General Fund</b> |                                  |                          |                          |
| Real Estate Commission                                    | \$ 323,500   | \$ 267,000                       | \$ 237,000                       | \$ 510,000               | \$ 510,000               |
| <b>EXPENDITURES:</b>                                      |  |                                  |                                  |                          |                          |
| Licensing board   | \$ 200,000   | \$ 100,000                       | \$ 105,000                       | \$ 110,000               | \$ 110,000               |
| <b>Net revenue</b>  | <b>\$ 123,500</b>  | <b>\$ 167,000</b>                | <b>\$ 132,000</b>                | <b>\$ 400,000</b>        | <b>\$ 400,000</b>        |
| <b>POSITIONS</b><br><b>(cumulative):</b>                  |  |                                  |                                  |                          |                          |
| <b>PRINCIPAL DEPARTMENT(S) &amp; PROGRAM(S) AFFECTED:</b> | North Carolina Real Estate Commission  |                                  |                                  |                          |                          |
| <b>EFFECTIVE DATE:</b>                                    | Section 7, when law; Sections 6 and 12, Oct. 1, 2005; and all other sections, March 1, 2006. |                                  |                                  |                          |                          |

**BILL SUMMARY:** House Bill 1284 would amend the real estate licensing laws to eliminate real estate salespersons licenses making all licensed real estate agents real estate brokers as of March 1, 2006. House Bill 1284 is in House Finance because of the following new fees and fee increases:

- Increases the fee a real estate continuing education course sponsor pays to the North Carolina Real Estate Commission when reporting a licensee's completion of an approved CE course from a maximum of \$5 to a flat fee of \$10.
- Requires a school or sponsor to pay a \$10 fee per licensee to the Commission for each licensee completing a broker transition course. (Successful completion of the course will

terminate the provisional status of a broker license that is converted on March 1, 2006, from a salesperson license to provisional broker license.)

- Requires a school to pay a \$10 fee per licensee to the Commission for each licensee completing a postlicensing education course (Successful completion of a postlicensing education course is required of new licensees who are licensed as provisional brokers on and after March 1, 2006, as well as provisional brokers whose licenses were converted from salesperson licenses and who are not eligible to perfect the conversion by taking a special broker transition course.)

The above fees are NOT charged to a community college, junior college, college, or university located in the State and accredited by the Southern Association of Colleges and Schools.

The second edition of House Bill 1284 allows new licensees after March 1, 2006, to have three years, rather than two, to complete additional coursework to remove the provisional status of their broker license. The time period for salespeople licensed as of October 1, 2005, to take a transition course to step up to a broker was also lengthened from two to three years, and made technical and conforming changes.

**ASSUMPTIONS AND METHODOLOGY:** This projection has been updated to reflect the second edition of House Bill 1284 and also to reflect the Real Estate Commission's full FY 2004-05 information in regards to number of salespersons and brokers. The Commission intends to use net revenues from these changes to offset increases in future operating expenses.

Under Article 1 of Chapter 93A of the General Statutes, the North Carolina Real Estate Commission is directed to issue two types of real estate licenses to persons legally authorized to sell real estate for compensation in NC, namely a real estate salesperson license and a real estate broker license. A real estate salesperson must operate under the supervision of a real estate broker. An applicant for a real estate salesperson license must complete a 67-hour real estate course and pass the real estate license examination to qualify for a salesperson license. An applicant for a real estate broker license has to satisfy the salesperson license requirements and take an additional 60-hour course before taking the real estate broker exam. Sections 5 and 7 of the bill eliminate the real estate salesperson license category as of March 1, 2006, establish a "broker-only" license structure with increased education requirements to obtain a broker license, and establish stricter requirements for brokers to serve as broker-in-charge of a real estate office.

This projection assumes that brokers will take approximately two continuing education (CE) courses per year, resulting in total new revenue of \$10 per broker to the Real Estate Commission. The Commission estimates 3,500 persons will complete the broker transition course during 2006-07, 2007-08, and 2008-09, after which the conversion will be completed and the course will no longer be offered. The Commission also estimates that 2,500 brokers will complete postlicensing education in 2006-07, 7,500 in 2007-08, and 10,000 in 2008-09. The Commission expects the number of brokers taking postlicensing courses will remain approximately the same in future years.

The projection assumes foregone revenue totaling \$61,500 in 2005-06 resulting from a projected 50% decrease in broker license application fees between July 2005 and February 2006 due to

salespersons anticipating the license conversion. The Commission also expects to incur \$200,000 in expenses related to implementation of the licensing change. These expenses include computer programming, printing, postage, and other miscellaneous charges. The Commission does not have further detail on the first-year expense of the bill at the present time. The total estimated expenses and foregone revenue for 2005-06 are \$261,500.

In 2006-07, the Commission expects a reduction in the total number of license application fees due to having only one license and a loss of renewal fees from inactive provisional brokers (former inactive salespersons) who do not renew in June 2006 due to the requirement to take the broker transition course by March 1, 2008. The Commission estimates they will forego \$123,000 in license application fees and \$80,000 in renewal fees due to these circumstances. The \$100,000 in recurring administrative expenses is due to the Commission's expectation that they will hire additional personnel to aid with administration of the new licensing procedures.

In 2007-08, the Commission expects the same reduction in the total number of license application fees and anticipates a \$160,000 loss of renewal fees from inactive provisional brokers who do not renew in June 2006 and June 2007 due to the requirement to take the broker transition course by April 1, 2008. The \$105,000 in recurring administrative expenses includes an estimated 5% increase over the previous year's expense based on historical data.

In 2008-09, the Commission expects the same level of reduction in total license application fees and loss of renewal fees as in 2007-08, plus \$110,000 in additional administrative expense (a 5% increase over the 2007-08 estimate).

| <b>Schedule of revenues and expenditures for House Bill 1284</b> |                   |                   |                   |                   |                   |
|--|-------------------|-------------------|-------------------|-------------------|-------------------|
| <b>REVENUES</b>  | 2005-06           | 2006-07           | 2007-08           | 2008-09           | 2009-2010         |
| \$5 for 2 CE courses per broker (\$10)                           | \$ 385,000        | \$ 410,000        | \$ 410,000        | \$ 410,000        | \$ 410,000        |
| \$10 for broker transition course                                | \$ -              | \$ 35,000         | \$ 35,000         | \$ -              | \$ -              |
| \$10 for postlicensing education                                 | \$ -              | \$ 25,000         | \$ 75,000         | \$ 100,000        | \$ 100,000        |
| 50% decrease in broker license apps                              | \$ (61,500)       |                   |                   |                   |                   |
| Reduction in total license applications                          | \$ -              | \$ (123,000)      | \$ (123,000)      | \$ -              | \$ -              |
| Loss of renewal fees from brokers                                | \$ -              | \$ (80,000)       | \$ (160,000)      | \$ -              | \$ -              |
| <b>Total revenue</b>   | <b>\$ 323,500</b> | <b>\$ 267,000</b> | <b>\$ 237,000</b> | <b>\$ 510,000</b> | <b>\$ 510,000</b> |
| <b>EXPENDITURES</b>  |                   |                   |                   |                   |                   |
| Bill implementation expenses                                     | \$ 200,000        | \$ -              | \$ -              | \$ -              | \$ -              |
| Administrative expenses  | \$ -              | \$ 100,000        | \$ 105,000        | \$ 110,000        | \$ 110,000        |
| <b>Total expenditures</b>  | <b>\$ 200,000</b> | <b>\$ 100,000</b> | <b>\$ 105,000</b> | <b>\$ 110,000</b> | <b>\$ 110,000</b> |
| <b>NET REVENUE</b>   |                   |                   |                   |                   |                   |
|  | <b>\$ 123,500</b> | <b>\$ 167,000</b> | <b>\$ 132,000</b> | <b>\$ 400,000</b> | <b>\$ 400,000</b> |

**SOURCES OF DATA:** North Carolina Real Estate Commission

**TECHNICAL CONSIDERATIONS:** None

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**DATE:** August 9, 2005

**Signed Copy Located in the NCGA Principal Clerk's Offices**