

Department of Legislative Services
 Maryland General Assembly
 2011 Session

FISCAL AND POLICY NOTE
Revised

House Bill 195 (Chair, Economic Matters Committee)(By Request -
 Departmental - Labor, Licensing and Regulation)

Economic Matters Education, Health, and Environmental Affairs

**Secondhand Precious Metal Object Dealers and Pawnbrokers - License
 Application and Renewal Fees**

This departmental bill increases the initial fee required for biennial licensure as a secondhand precious metal object dealer or pawnbroker from \$75 to \$300. The bill also increases the renewal fee for licensure from \$75 to \$265 biennially.

The bill takes effect July 1, 2011.

Fiscal Summary

State Effect: General fund revenues increase by \$57,700 annually beginning in FY 2012 due to the bill's increased licensing fees for secondhand precious metal object dealers and pawnbrokers. Expenditures are not affected.

(in dollars)	FY 2012	FY 2013	FY 2014	FY 2015	FY 2016
GF Revenue	\$57,700	\$57,700	\$57,700	\$57,700	\$57,700
Expenditure	0	0	0	0	0
Net Effect	\$57,700	\$57,700	\$57,700	\$57,700	\$57,700

Note:() = decrease; GF = general funds; FF = federal funds; SF = special funds; - = indeterminate effect

Local Effect: The bill does not materially impact local government finances or operations.

Small Business Effect: The Department of Labor, Licensing, and Regulation (DLLR) has determined that this bill has a meaningful impact on small business (attached). Legislative Services concurs with this assessment. (The attached assessment does not reflect amendments to the bill.)

Analysis

Current Law: DLLR regulates dealers who acquire and trade secondhand precious metal objects, including gold, iridium, palladium, platinum, silver, precious and semiprecious stones, and pearls. Dealers of these objects, including individuals, retail jewelers, and pawnbrokers not otherwise regulated by a county, must be licensed before doing business in the State.

An applicant for licensure must pay a nonrefundable fee of \$75 and sign an application under oath that contains specified information, including a fixed business address. The applicant must also agree to submit to an investigation of the dealer's inventory by law enforcement agencies in the case of a stolen property investigation. All licensed dealers and their employees must submit to a criminal history records check, including fingerprinting at the individual's expense. Licenses are issued on a staggered, two-year basis.

Licensees are required to record specified information for each transaction on a form provided by the Secretary of Labor, Licensing, and Regulation. Records must be kept for at least three years at a location within the State. Further, dealers must submit records by transmitting the required information from the records electronically, in a format acceptable to the receiving law enforcement unit, by noon of the business day following the transaction. Licensees are required to maintain records of all transactions that involve the acquisition of secondhand precious metal objects, including identifying information and a physical description of the person from whom the object was acquired. Any secondhand precious metal object acquired by a dealer must be held for at least 18 days after a record is submitted to law enforcement.

Persons who violate the Secondhand Precious Metal Object Dealers and Pawnbrokers Act may face criminal and civil penalties. Persons who willfully or knowingly violate these provisions are guilty of a misdemeanor and may be imprisoned for up to two years and are also subject to fines of up to \$10,000. The Secretary may also fine a person who violates the law up to \$5,000 per offense.

Background: DLLR advises that the amount of regulatory activity related to secondhand precious metal object dealers and pawnbrokers depends largely on the value of precious metals at a given time. In 1998, with the price of gold around \$300 per ounce, the biennial licensing fee paid by secondhand precious metal object dealers and pawnbrokers was reduced from \$300 to \$75 (*see* Chapter 171 of 1997). According to DLLR, activity in the industry was limited by the price of gold, and the licensing program generated more revenue than necessary to cover the costs of regulation. In 1998, there were about 260 individuals licensed dealers.

Several trends in recent years have sparked both activity in the industry and enforcement by DLLR, often in conjunction with the Department of State Police (DSP) or local law enforcement. First, the price of gold began to increase sharply in 2005. Between 2005 and April 2011, the price of gold increased from about \$500 per ounce to about \$1,500 per ounce. The increase in the price of gold coincided with a significant increase in the number of secondhand precious metal object dealers and pawnbrokers licensed by DLLR. The number of such licensees increased from about 260 in 2005 to about 590 in 2010. As of February 2011 there were nearly 600 secondhand precious metal object dealers and pawnbrokers licensed by DLLR.

Chapter 562 of 2009 established electronic reporting requirements for dealers, thereby repealing the authorization that allowed dealers to mail or submit paper transaction records to law enforcement. The State uses the Regional Automated Property Information Database (RAPID) system to transmit acquisition information from secondhand dealers to local law enforcement through an Internet interface. RAPID enables police departments statewide to immediately gain access to timely information about property that has been sold to pawnbrokers, precious metal dealers, or vehicle salvage yards. According to DSP, law enforcement units in Maryland recovered more than \$5 million in stolen property in 2010, the first full year RAPID was active. DSP and DLLR report that the advent of electronic reporting and tracking of transactions in a statewide database has enhanced criminal and regulatory enforcement.

DLLR advises that most regulatory complaints regarding licensees are submitted by DSP or local police departments who uncover potential violations of the Secondhand Precious Metal Object Dealers and Pawnbrokers Act. Before the institution of electronic recordkeeping, DLLR received about five complaints per year regarding the activities of secondhand dealers. Between October 1, 2009 (when electronic reporting became mandatory), and December 31, 2010, DLLR received 140 such complaints. During that time DLLR formally disciplined 48 licensees and collected \$55,600 in fines imposed against licensees for violations of the Act.

DLLR currently employs one full-time contractual investigator responsible for investigating complaints against dealers, interviewing and educating applicants for licensure, and coordinating outreach and education efforts for licensees. This individual, who has served in this capacity for about two years, is the only full-time employee the program has had since its inception in 1981. According to DLLR, grant funding from the U.S. Department of Justice covers the investigator's salary and other expenses, which total about \$50,000 per year; these monies are no longer available effective October 1, 2011. DLLR advises that the general fund revenue generated by the bill allows the regulatory program to recoup for the general fund an amount approximating the costs of continued employment of this staff member beyond early fiscal 2012 when funds for this position expire. However, the fiscal 2012 budget does not include a

general fund appropriation that may be used to retain this contractual employee upon expiration of federal funding.

State Revenues: According to DLLR, the current number of licensed secondhand precious metal object dealers is at the highest level in the program’s history. Any change in the overall number of licensees in future years cannot be reliably predicted. Fluctuations in the price of gold also cannot be reliably predicted. Legislative Services advises that it is reasonable to assume (1) the price of gold does not decline significantly within the next several years (which may result in a decrease in licensees); and (2) the number of dealers licensed by DLLR does not continue to increase considering that the State’s market for precious metals is likely nearing saturation. Thus, it is expected that the total number of licensees remains stable in future years. **Exhibit 1** displays the projected annual revenue under the bill, the projected annual revenue under current law, and the net increase in general fund revenue due to the bill.

As depicted in Exhibit 1, general fund revenues increase by \$57,700 annually beginning in fiscal 2012. This estimate is based on the number of licenses remaining at the February 2011 level (about 600 total) in future years. This estimate assumes that 20 new licenses are issued annually at the \$300 initial licensing fee rate and 280 licensees renew their licenses annually, which results in a stable number of licensees in future years. (Licenses are issued on a staggered, two-year basis.) Any significant changes in the market for secondhand precious metals, particularly a marked decrease in the price of gold, may reduce the number of dealers licensed by DLLR, and, thus, licensing fee revenues.

Exhibit 1
Annual General Fund Revenue Impact

	<u>Licenses Issued</u>	<u>Licensing Fee</u>	<u>Licensing Revenue</u>
Current Law			
New and Renewal	300	\$75	\$22,500
Under the Bill			
New	20	\$300	\$6,000
Renewal	280	\$265	\$74,200
Difference Due to the Bill			\$57,700

Source: Department of Legislative Services

Additional Information

Prior Introductions: None.

Cross File: None.

Information Source(s): London Gold Bullion Market; Department of State Police; Department of Labor, Licensing, and Regulation; Department of Legislative Services

Fiscal Note History: First Reader - February 13, 2011
ncs/mcr Revised - Enrolled Bill/Updated Information - May 2, 2011

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ANALYSIS OF ECONOMIC IMPACT ON SMALL BUSINESSES

TITLE OF BILL: Secondhand Precious Metal Object Dealers and Pawnbrokers –
Application and License Fees

BILL NUMBER: HB 195

PREPARED BY: Department of Labor, Licensing, and Regulation

PART A. ECONOMIC IMPACT RATING

This agency estimates that the proposed bill:

WILL HAVE MINIMAL OR NO ECONOMIC IMPACT ON MARYLAND SMALL
BUSINESS

OR

WILL HAVE MEANINGFUL ECONOMIC IMPACT ON MARYLAND SMALL
BUSINESSES

PART B. ECONOMIC IMPACT ANALYSIS

The proposed legislation will have meaningful impact on small business in Maryland, by increasing the individual license fee by \$225.