P00C
Business Regulation
Department of Labor, Licensing, and Regulation

Operating Budget Data

($ in Thousands)

	FY 13 Actual	FY 14 Working	FY 15 Allowance	FY 14-15 Change	% Change Prior Year
General Fund	$8,891	$8,959	$9,203	$244	2.7%
Contingent & Back of Bill Reductions	0	-339	-108	231	
Adjusted General Fund	**$8,891**	**$8,620**	**$9,095**	**$474**	**5.5%**
Special Fund	99,297	114,762	128,740	13,978	12.2%
Contingent & Back of Bill Reductions	0	0	-210	-210	
Adjusted Special Fund	**$99,297**	**$114,762**	**$128,530**	**$13,768**	**12.0%**
Federal Fund	4,978	5,125	5,092	-33	-0.6%
Contingent & Back of Bill Reductions	0	0	-48	-48	
Adjusted Federal Fund	**$4,978**	**$5,125**	**$5,044**	**-$81**	**-1.6%**
Reimbursable Fund	1,372	1,500	1,627	127	8.5%
Adjusted Reimbursable Fund	**$1,372**	**$1,500**	**$1,627**	**$127**	**8.5%**
Adjusted Grand Total	**$114,538**	**$130,007**	**$144,296**	**$14,289**	**11.0%**

- The fiscal 2015 allowance includes two fiscal 2014 deficiencies that withdraw general fund appropriations for cost containment purposes.

- The fiscal 2015 allowance increases by $14.3 million, or 11%, after contingent and back of the bill reductions. The increase is driven by the increase in special funds related to video lottery terminal (VLT) proceeds that support horse racing purse enhancements and VLT local impact aid.

Note: Numbers may not sum to total due to rounding.

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Personnel Data

	FY 13 Actual	FY 14 Working	FY 15 Allowance	FY 14-15 Change
Regular Positions	355.10	354.10	355.10	1.00
Contractual FTEs	34.11	50.09	56.39	6.30
Total Personnel	**389.21**	**404.19**	**411.49**	**7.30**

Vacancy Data: Regular Positions

Turnover and Necessary Vacancies, Excluding New Positions	13.94	3.97%
Positions and Percentage Vacant as of 12/31/13	28.00	7.91%

- The fiscal 2015 allowance reflects the net increase of 1 regular full-time position. The allowance adds 4 positions under the department's Prevailing Wage Unit to assist with wage enforcement activities. The allowance also reflects the abolition of 3 positions under the Division of Racing. The division will use an outside contractor for laboratory services instead of staffing a State laboratory.

- The fiscal 2015 allowance includes an increase in contractual staff, primarily to assist with increases in professional license applications.

- The department is currently reporting 28 vacancies, well above the number required to meet budgeted turnover.

Analysis in Brief

Major Trends

Significant Improvement in Elevator Inspection Backlog: The Division of Labor and Industry is responsible for ensuring the safe operation of elevators in the State. A significant backlog of inspections was impairing the division's ability to achieve this goal. However, the division has made significant progress in eliminating the backlog by working cooperatively with third-party inspectors as allowed by recent legislation.

The Effect of Mediation on Complaint Resolution: The Division of Occupational and Professional Licensing has made an effort to significantly increase the number of complaints that are resolved using alternative dispute resolution in order to avoid a lengthy formal hearing process. The most recent data suggests that the reliance on mediation may be improving efficiency outcomes.

Issues

Minimum Wage Enforcement: An Administration bill, SB 331/HB 295 of 2014, proposes to increase the State's minimum wage, over several years, to $10.10 per hour from the current $7.25 per hour. The department is responsible for the enforcement of Maryland's wage and hour law; however, due to limited resources, it routinely refers minimum wage complaints to the federal enforcement office. To the extent that the State raises the minimum wage above the federal level, the department will likely require a substantive increase in its financial resources and staffing levels. The fiscal 2015 allowance does not include any additional funds to enforce a minimum wage increase. **The Department of Legislative Services (DLS) recommends that the department comment on the impact that an increase in the minimum wage would have on its funding, staff level, and ability to enforce the State's Wage and Hour law.**

Spike in Foreclosures Bely Underlying Stability: Maryland is currently experiencing a second, albeit smaller, wave of residential foreclosures. However, this phenomenon is likely a delayed response to the original housing crisis. It is largely due to actions taken by the State to slow the foreclosure process and to intercede in harmful mortgage servicing practices. Additionally, an increase in applications for mortgage lender licenses and originator licenses does not suggest that there is cause for new concern in the housing and mortgage industry. **DLS recommends that the department update the budget committees on the status of the foreclosure issue, the mortgage industry, and the impact on departmental licensing duties.**

Recommended Actions

		Funds	Positions
1.	Delete 1 new position under the Prevailing Wage Unit.	$ 38,702	1.0
	Total Reductions	**$ 38,702**	**1.0**

Updates

Sunset Review of the Maryland Racing Commission: In December 2013, DLS issued its program evaluation (sunset review) of the Maryland Racing Commission (MRC). The report provided an overview of factors that have significantly affected the horse racing industry in Maryland over the past several years and reviewed the actions of MRC in response to those changes. DLS made several findings about horse racing and MRC and presented a total of nine recommendations.

Report on Labor Law Enforcement: The 2013 *Joint Chairmen's Report* included committee narrative that asks the department to report on how well the financial and staff resources of the Division of Labor and Industry align with its responsibilities to enforce labor law. The department submitted its two-page response in February 2014. The report detailed four potential funding options to address what it identifies as a staffing problem caused by high vacancies and turnover.

P00C
Business Regulation
Department of Labor, Licensing, and Regulation

Operating Budget Analysis

Program Description

The Department of Labor, Licensing, and Regulation (DLLR) includes many of the State's agencies and boards responsible for licensing and regulating various businesses, professions, and trades. The department also administers a variety of federally funded employment service programs. This analysis focuses on the department's business regulation divisions.

- **The Division of Labor and Industry** is responsible for safety inspections of boilers, elevators, amusement rides, and railroads. It also enforces certain protective labor laws and administers the Maryland Occupational Safety and Health Act. Its mission is to protect the health, safety, and employment rights of Maryland citizens.

- **The Division of Occupational and Professional Licensing** licenses, regulates, and monitors 24 different professions and trades through boards and commissions. The division has 13 boards supported by the general fund and 11 boards supported by special funds. Its mission is to ensure that practitioners of occupations and professions regulated by the agency are qualified, competent, and compliant with State laws, regulations, and standards so that the provision of their commercial services is conducive to the health, safety, and welfare of Maryland consumers.

- **The Division of Racing** regulates thoroughbred and harness racing at tracks across the State. Responsibilities include assigning racing days, regulating wagering on races, collecting the wagering tax, licensing all racetrack employees, and operating a testing laboratory. The division also pays the salaries and stipends of all racetrack employees who are appointed by the State Racing Commission.

- **The Division of Financial Regulation** regulates commercial banks, trust companies, credit unions, mortgage lenders and originators, collection agencies, and consumer loan companies. Its mission is to protect financial services consumers, ensure appropriate licensing, and maintain safety and soundness in Maryland's financial services industry.

A separate analysis discusses the department's Division of Workforce Development and Adult Learning; Division of Unemployment Insurance; and administrative units.

Performance Analysis: Managing for Results

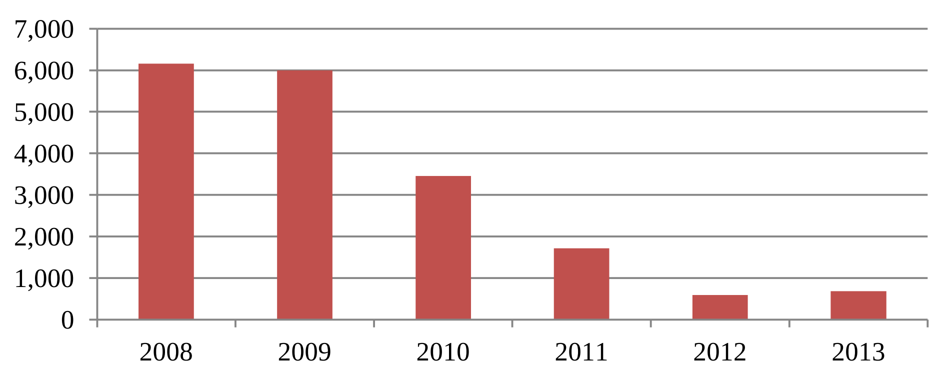
1. Significant Improvement in Elevator Inspection Backlog

Since 1997, the Office of Legislative Audits (OLA) has cited the department repeatedly for failure to inspect elevators on a timely basis. Elevators are required to be inspected upon installation and after alterations. Also, annual inspections are required as are comprehensive five-year inspections. Until fiscal 2010, the department was struggling to keep up with required inspections. In fact, a significant backlog of past due inspections accumulated. However, Chapter 145 of 2009 took steps to address the backlog.

The bill established that State inspectors were responsible for final inspections of all new elevators prior to initial certification, final inspections of modernized or altered elevators, investigations of accidents and complaints, follow-up inspections to confirm corrective action, comprehensive five-year inspections, and quality control monitoring of inspections conducted by third-party elevator inspectors. However, the legislation also required that private elevator owners in the State must hire qualified third-party elevator inspectors to conduct the annual safety inspections. This relieved the department from a significant amount of inspections each year.

Exhibit 1 shows the department's progress in eliminating the backlog of inspections. From fiscal 2008 to 2013, the backlog fell by 5,478 inspections, an 88.9% decline. In fiscal 2013, there were 21,878 elevators. The department conducted 11,531 inspections, and third parties conducted 21,432 inspections in fiscal 2013. It should be noted that the department can claim similar results for the boiler inspection backlog, also a perennial finding by OLA.

Exhibit 1
Elevator Inspection Backlog
Fiscal 2008-2013

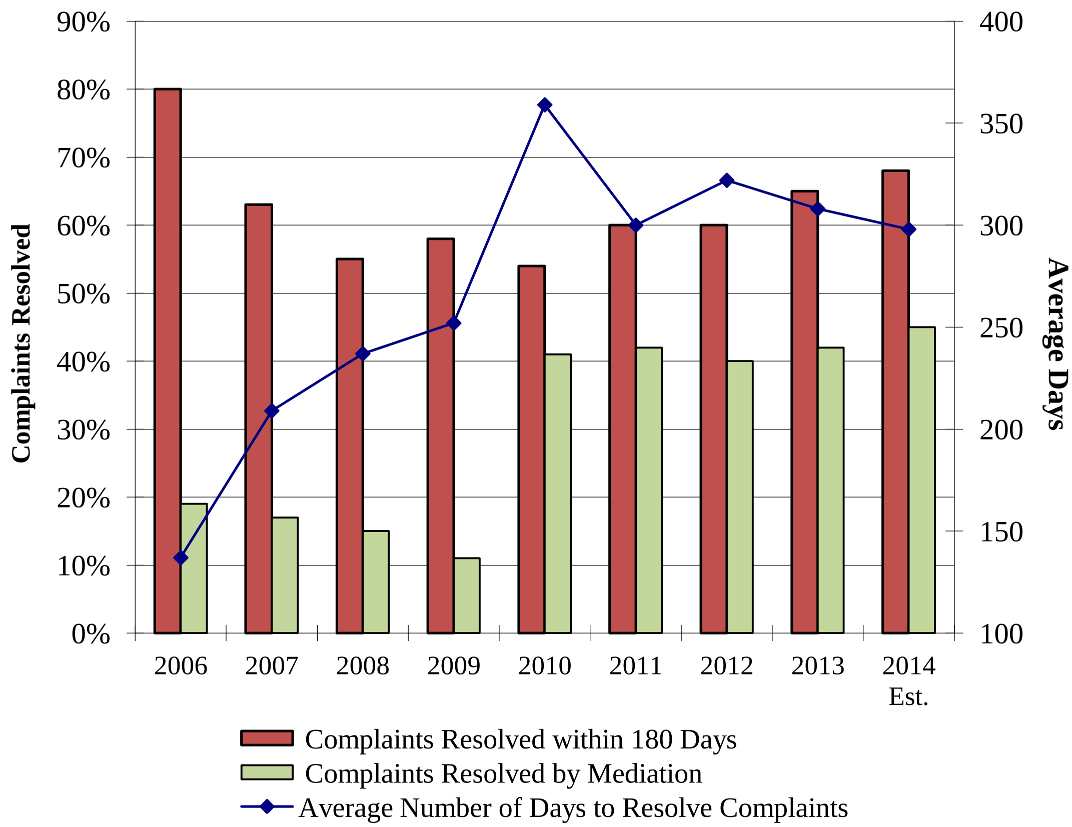


Source: Department of Labor, Licensing, and Regulation

2. The Effect of Mediation on Complaint Resolution

The Division of Occupational and Professional Licensing handles calls and complaints from consumers against those licensed by the department or against those individuals or companies that should be licensed by the department. The division's goal is to protect the public's health and safety by the efficient review, resolution, and adjudication of consumer complaints. It measures attainment of this goal by the percentage of complaints resolved within 180 days. **Exhibit 2** shows that the division improved its efficiency in fiscal 2013. In fiscal 2013, 65.0% of complaints were resolved within 180 days, compared to 60.0% in fiscal 2012. Similarly, the average number of days to resolve complaints fell to 308 from 322 over that timeframe, a 4.4% improvement.

Exhibit 2
Occupational and Professional Licensing
Complaint Resolution
Fiscal 2006-2014 Est.



Source: Governor's Budget Books: Fiscal 2006-2015

The vast majority of complaints involve the Home Improvement Commission. The commission has made an effort to significantly increase the number of complaints that are resolved using alternative dispute resolution (ADR) in order to avoid a lengthy hearing process. The commission almost tripled the percent of complaints resolved by ADR in fiscal 2010. The increased use of ADR appears to be increasing the efficiency of the division.

Fiscal 2014 Actions

Proposed Deficiency

The fiscal 2015 allowance includes two fiscal 2014 deficiencies that impact the business regulation units of the department. The Division of Financial Regulation was able to forgo $185,214 in general funds in lieu of an equal amount of special funds. The fund swap is made possible by an increase in license application fees from mortgage lenders and originators. The Employment Standards unit also contributed a small amount ($14,924) in general funds for the cost containment effort.

Cost Containment

There are three across-the-board withdrawn appropriations that offset the increase in deficiency appropriations. This includes reductions to employee/retiree health insurance, funding for a new Statewide Personnel information technology (IT) system, and retirement reinvestment. These actions are fully explained in the analyses of the Department of Budget and Management (DBM) – Personnel, the Department Information Technology, and the State Retirement Agency (SRA), respectively. The business regulation unit's share of these actions is approximately $138,000 in general funds.

Proposed Budget

As shown in **Exhibit 3**, the fiscal 2015 adjusted allowance increases by $14.3 million, or 11%. The growth is driven by a 12% increase in special funds due to the increase in video lottery terminal (VLT) revenues dedicated to horse racing purse enhancements and VLT local impact aid.

Exhibit 3
Proposed Budget
DLLR – Business Regulation
($ in Thousands)

How Much It Grows:	General Fund	Special Fund	Federal Fund	Reimb. Fund	Total
2014 Working Appropriation	$8,620	$114,762	$5,125	$1,500	$130,007
2015 Allowance	9,095	128,530	5,044	1,627	144,296
Amount Change	$474	$13,768	-$81	$127	$14,289
Percent Change	5.5%	12.0%	-1.6%	8.5%	11.0%

Where It Goes:	
Personnel Expenses	
Annualized cost-of-living and merit adjustments	$818
Turnover adjustments	464
New positions	205
Retirement system contribution	-72
Abolished/transferred positions	-255
Employee and retiree health insurance	-532
Salary and other fringe benefit adjustments	-533
Other Changes	
Video lottery terminal (VLT) funds for purse enhancements	9,197
VLT funds for local impact aid	7,765
Outside laboratory testing	284
Contractual for staff mortgage originator and other licensing duties	176
Travel, administration hearings, and computer services for workplace fraud enforcement	146
Other miscellaneous changes	-51
Vehicle and equipment costs	-97
VLT funds for racetrack facility redevelopment	-3,226
Total	**$14,289**

Note: The fiscal 2014 working appropriation reflects negative deficiencies and contingent reductions. The fiscal 2015 allowance reflects back of the bill and contingent reductions. Numbers may not sum to total due to rounding.

Cost Containment

There is one across-the-board reduction and one contingent reduction reflected in the Governor's spending plan for the fiscal 2015 allowance. This affects funding for employee/retiree health insurance and retirement reinvestment. These actions are fully explained in the analyses of DBM – Personnel and SRA. The share of the reductions for the business regulation units of the department totals approximately $366,000 across all funds.

Personnel

Prevailing Wage

The fiscal 2015 allowance includes 4 new positions under the department's Prevailing Wage Unit. The unit is responsible for enforcement of wage requirements under the State's construction prevailing wage law and the living wage law. This is accomplished through conducting surveys, evaluating worker classifications and wages paid, reviewing payroll records, and conducting physical evaluation of work sites.

According to the department, its new data collection system is greatly improving the reporting of projects that are subject to the unit's review. As such, the department reports that it is monitoring significantly more projects based on that better data. Managing for Results data does show that the unit investigated 375 project sites in fiscal 2010. That number increased to 623 in fiscal 2013. Additionally, Chapter 687 of 2009 requires apprenticeship programs for projects that are subject to prevailing wage requirements. The unit is responsible for the enforcement of this requirement, which includes fielding an increase in questions and complaints related to the requirement. The 4 new positions will be wage and hour investigators and will assist with this increase in workload. General funds increase by $205,000 to fund the new positions.

Racetrack Operations

The fiscal 2015 allowance reflects the abolition of 3 positions under Racetrack Operations. The Division of Racing has decided to contract outside services for laboratory testing instead of maintaining an internal laboratory. The laboratory performs horse and human chemical testing to ensure the fairness and safety of the racing industry. Three chemist positions are eliminated from the fiscal 2015 allowance in addition to related funds for rent, supplies, equipment, and communication for the laboratory. However, the allowance does include funds for a new outside laboratory contract. The division realizes a small savings from this transfer of services (about $80,000).

Contractual Positions

The fiscal 2015 allowance includes an increase of 6.3 contractual full-time equivalents (FTE). The department often uses contractual staff to supplement regular staff when the professional licensing workload fluctuates. The majority of the increase in contractual staff will serve as mortgage examiners to respond to the recent increase in license applications. In fiscal 2013, license applications for mortgage lenders increased by 30.7% and for mortgage originators by 24.3%. This topic will be discussed further under the Issues section of this analysis.

The Division of Occupational and Professional Licensing also gained contractual staff for IT support within their special funded boards. Also, the Maryland Occupational Safety and Health Administration gained contractual staff support to assist with workplace safety duties.

Video Lottery Terminal Special Funds

The statute that authorizes the State's gaming program also specifies the use of the VLT revenue to the benefit of the horse racing industry and the jurisdictions that contain gaming facilities. The Division of Racing's fiscal 2015 allowance includes:

- $51.5 million – 7.0% of VLT revenues to a purse dedication account to enhance horse racing purses and breed funds. Of this amount, 80.0% is allocated to the thoroughbred industry and 20.0% to the standardbred industry.

- $7.2 million – 1.75% of VLT revenues to a racetrack renewal account for racetrack facility capital construction and improvements. Chapter 1 of the Second Special Session of 2012 lowers the amount of revenue dedicated to the account from 2.5 to 1.75% effective October 1, 2012, and to 1.0% once the license is issued to the Baltimore City facility. The legislation also lowered the cap on the account from $40.0 million to $20.0 million. Any unencumbered funds will be allocated to the Education Trust Fund.

- $40.7 million – 5.5% of VLT revenues for local impact grants. After a VLT license is issued to a facility in Baltimore City, 100.0% of the local impact grants that are generated from revenues from facilities in Allegany, Cecil, and Worcester counties must be distributed to those jurisdictions. Otherwise, 82.0% is allocated to local jurisdictions with VLT facilities based on each jurisdiction's percent of overall gross revenues. The remaining 18.0% is allocated to Baltimore City on behalf of the Pimlico Community Development Authority (of this amount, $1.0 million is reallocated to Prince George's County for capital projects around Rosecroft Raceway). **Exhibit 4** shows the aid by jurisdiction from fiscal 2013 to 2015.

Exhibit 4
Video Lottery Terminal Impact Aid
Fiscal 2013-2015
($ in Thousands)

County	2013	2014	2015
Allegany		$874	$1,127
Anne Arundel	$16,326	20,926	17,206
Baltimore City	4,194	5,077	14,991
Cecil	5,205	3,195	3,667
Prince George's	1,000	1,000	1,000
Worcester	2,129	2,372	2,748
Total	**$28,854**	**$33,444**	**$40,739**

Source: Department of Legislative Services

Horse Racing Special Funds

Horse racing impact aid consists of grants to counties and municipalities that contain or are located close to thoroughbred tracks. The aid has been in place since 1975 and is derived, in part, from the collection of the tax on horse race wagering. The amounts granted to each jurisdiction are mandated by statute and are largely based on the number of racing days held each year. Due to a significant decline in wagering, the revenues have been in considerable decline over the last few years. In fact, the revenues have been insufficient to fulfill the expected allocation to each jurisdiction and to the other mandated uses.

Exhibit 5 demonstrates the extent of the funding problem. The exhibit shows each of the mandated uses of the special horse racing fund. The mandates total over $3.5 million; however, expected revenues in the fund total approximately $2.4 million. It should be noted that the agricultural boards and fair funds are budgeted under the Maryland Department of Agriculture.

Exhibit 5
Horse Racing Special Fund
Mandated Uses
Fiscal 2015

	Mandate	Available Funds
Agriculture and Fairs		
Great Pocomoke Fair	$20,000	$20,000
Great Frederick Fair	40,000	40,000
Agriculture Education Foundation	75,000	75,000
Agriculture Fair Board	825,000	825,000
Maryland State Fair and Agriculture Society	500,000	500,000
Maryland Million	500,000	500,000
Standardbred Race Fund Sire Stakes	350,000	350,000
Subtotal	***$2,310,000***	***$2,310,000***
Impact Aid		
Anne Arundel County	$339,000	$19,769
Baltimore County	50,000	2,916
Howard County	84,750	4,942
Prince George’s County	100,000	5,832
Baltimore City	609,000	35,515
Bowie	18,200	1,061
Laurel	50,850	2,965
Subtotal	***$1,251,800***	***$73,000***
Total	**$3,561,800**	**$2,383,000**
Estimated Revenues Fiscal 2015	**$2,383,000**	
Shortfall	**-$1,178,800**	

Source: Governor’s Budget Book, Fiscal 2015, Racing Commission

The fiscal 2015 allowance includes $1.3 million for the local impact aid. This amount must be included in the budget, per mandate, despite the expected revenue shortfall. The Budget Reconciliation and Financing Act of 2013 did not eliminate the mandate but proposed an alternative solution. The bill as enacted included a provision that would allow the local impact aid to be proportionately reduced by the Comptroller and the Maryland Racing Commission (MRC) if the revenues prove insufficient.

It should be noted that in the 2013 program evaluation of MRC (sunset review), the Department of Legislative Services (DLS) suggested that the General Assembly consider the elimination of the horse racing impact aid. A discussion of the sunset review's formal recommendations can be found under the Updates section of this analysis.

Issues

1. Minimum Wage Enforcement

The department is responsible for the administration and enforcement of the Maryland Wage Payment and Collection law and the Wage and Hour law. Specifically, the Division of Labor and Industry's Employment Standards unit is required to administer and enforce provisions of law concerning the employment of minors, wages and hours, wage and payment collection, and equal pay for equal work.

The Administration has introduced SB 331/HB 295 – the Maryland Minimum Wage Act of 2014. The bill would increase the State's minimum wage, over a number of years, to $10.10 per hour (from the current $7.25). Beginning in fiscal 2018, the minimum wage would then be subject to increases tied to the consumer price index. By increasing the State's minimum wage, the bill creates additional enforcement responsibilities for the department. The department has not exercised its authority to investigate complaints about minimum wage payments and overtime compensation and to review wage records to enforce compliance since the budget reductions of 1991 effectively reduced available staff for this purpose. Instead, since State and federal laws are similar, it has been referring complainants to the Employment Standards Administration at the federal Department of Labor (DOL). DOL investigators enforce the federal minimum wage, not the State's Wage and Hour law, so DLLR would be responsible for pursuing complaints against employers accused of paying employees more than $7.25 but less than the new State minimum wage.

The fiscal 2015 allowance, as introduced, does not include any funding to enforce an increase in the State's minimum wage. The department reports that it would expect an additional 6,500 inquiries regarding the new wage standards in the first year. It also expects approximately 1,600 complaints to be filed. On average, the employment standards unit closes 900 cases/complaints per year. The new legislation would necessitate an increase in the staffing level of the employment standards unit.

Currently, the employment standards unit includes 15 full-time regular employees and 6 contractual FTEs. The fiscal 2015 allowance is approximately $1.7 million in general and special funds. The department estimates that the bill would necessitate the need for 8 additional employees (regular and contractual) for a total fiscal 2015 cost of approximately $475,000. A more complete estimate of the fiscal impact can be found in the DLS Fiscal and Policy Note attached to the legislation.

It should be noted that Montgomery and Prince George's counties passed local minimum wage laws in 2013. Both bills phase minimum wage increases over four years culminating in a rate of $11.50 per hour beginning October 1, 2017. The department does not expect to be responsible for the enforcement of local minimum wage laws. However, legislation has been introduced to require the State to enforce these local laws.

DLS recommends that the department comment on the impact that an increase in the minimum wage would have on its funding, staff level, and ability to enforce the State's Wage and Hour law.

2. Spike in Foreclosures Bely Underlying Stability

In November 2013, a national online mortgage and foreclosure tracker reported that Maryland ranked third in the nation in the rate of foreclosures. According to the report, in October 2013 alone, Maryland posted a 10% increase in foreclosure activity. However, this phenomenon was an expected consequence of the changes made by the State to assist homeowners.

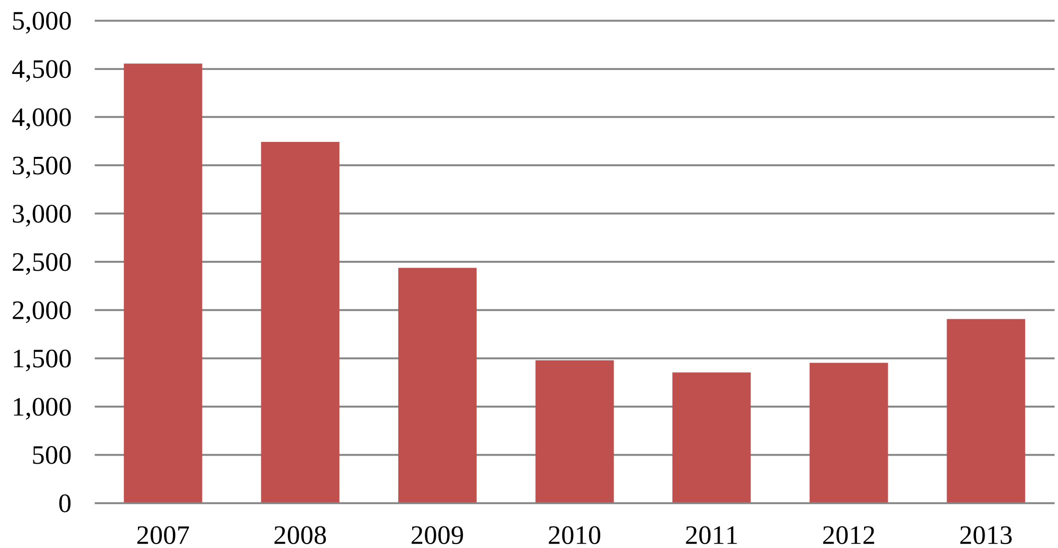
First, the State was a party to a significant national settlement that was announced between 49 states and the District of Columbia and the nation's five largest mortgage servicers. The settlement included the establishment of new servicing standards to prevent a repeat of the foreclosure practices that had prompted the investigation in the servicing practices. The settlement also resulted in numerous foreclosure filings to be rejected due to the servicing errors. As such, a significant portion of the current foreclosures are simply refilings of old foreclosures.

Second, at the State level, Maryland enacted substantive legislative reforms of State residential foreclosure procedures and mortgage lending laws. Most relevant to the current status of foreclosure filings is the change in the foreclosure notice procedures. Chapters 1 and 2 of 2008 required a mortgage lender to send a notice of intent (NOI) to foreclose to a homeowner at least 45 days before filing an action to foreclose. The legislation also prohibited the filing of a foreclosure action until the later of 90 days after a mortgage default or 45 days after a NOI is sent. Additionally, Chapter 485 of 2010 sought to prevent a homeowner from losing his or her home through foreclosure when a loan modification may be available and required the consideration of other loss mitigation options where appropriate. The net effect of the legislative actions was to increase the time that it takes for lenders to foreclose on properties. The online foreclosure tracker reports that Maryland has one of the longest foreclosure timelines – an average of 575 days. By comparison, Virginia has the shortest timeline in the nation – an average of 184 days. The increased timeline has pushed back the backlog of foreclosures, partially causing the current spike.

Mortgage Licenses Increase

The Division of Financial Regulation is responsible for the regulation and licensure of mortgage lenders and originators. The industry experienced a significant retraction in the number of lenders during the housing crisis. **Exhibit 6** shows that between fiscal 2007 and 2011, the number of licensed mortgage lenders fell by 70.2%. However, as the exhibit shows, that trend is starting to reverse itself. The division reports that 85.0% of existing licensees are renewing their licenses. In fiscal 2013, the division received applications for 658 new lenders.

Exhibit 6
Licensed Mortgage Lenders
Fiscal 2007-2013



Source: Department of Labor, Licensing, and Regulation

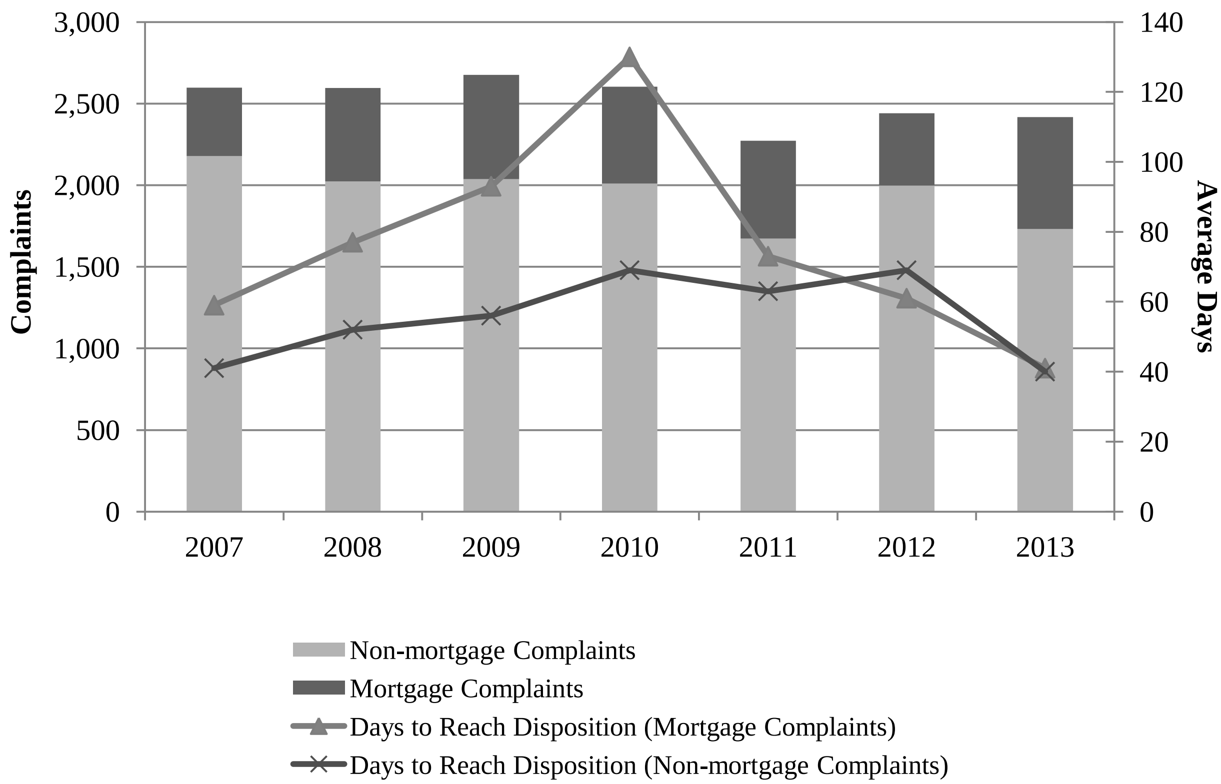
The division has joined the Nationwide Mortgage Licensing System, which is a web-based system that allows state licensed mortgage lenders to apply for, amend, update, or renew a license online using a single set of uniform applications. The goal of the system is to provide greater uniformity and transparency to the mortgage industry while maintaining and strengthening the ability of state regulators to monitor the industry. It also has the effect of increasing applications in Maryland, as the greater uniformity and ease of application encourages lenders in other states with limited business in Maryland to become licensed in Maryland. This is likely contributing to the growth in licenses.

Division's Efficiency Improves

The Division of Financial Regulation strives to protect financial services customers, ensure appropriate licensing, and maintain soundness in the State's financial services industry. The recent mortgage crisis has changed the banking regulatory landscape. As such, the division's responsibilities have grown, necessitating increased performance monitoring. Beginning in fiscal 2007, the department began to distinguish between consumer complaints regarding mortgage issues and non-mortgage issues.

The division has a goal to reach disposition on 85% of mortgage complaints within 90 days and 85% of non-mortgage complaints within 60 days. Non-mortgage complaints involve issues related to banks, credit unions, debt management services, collection agencies, and other entities that are regulated by the division. **Exhibit 7** shows the number of both types of complaints and the days to resolve complaints. The department has dedicated much time, effort, and focus in addressing the spike in foreclosures and various mortgage complaints. Based on the performance data, the efficiency in which complaints are handled had greatly improved in fiscal 2013.

Exhibit 7
Financial Regulation
Complaint Resolution
Fiscal 2007-2013



Source: Department of Labor, Licensing, and Regulation

The division has made a concerted effort to improve their responses to complaints including weekly meetings to address long-term complaints and speeding resolution of less complicated cases. Additionally, the division reports that it has achieved an increase in efficiency due to the partnership with the national banks as a result of the National Mortgage Settlement.

DLS recommends that the department update the budget committees on the status of the foreclosure issue, the mortgage industry, and the impact on departmental licensing duties.

Recommended Actions

		Amount Reduction		Position Reduction
1.	Delete 1 new wage and hour investigator under the Prevailing Wage Unit. Currently, the department has 1 wage and hour investigator position that has been vacant since 2011. The existing position should be filled in lieu of a newly created position. This action would leave 3 new positions for prevailing wage enforcement activities.	$ 38,702	GF	1.0
	Total General Fund Reductions	**$ 38,702**		**1.0**

Updates

1. Sunset Review of the Maryland Racing Commission

In December 2013, DLS issued its program evaluation (sunset review) of MRC. The report provided an overview of factors that have significantly affected the horse racing industry in Maryland over the past several years and reviewed the actions of MRC in response to those changes. DLS made several findings about horse racing and MRC and presents a total of nine recommendations.

Recommendations

MRC is authorized to adopt regulations governing racing and betting on racing, including approving or disapproving the size of purses, rewards, or stakes. The General Assembly clearly intended to assist racing by designating a portion of VLT revenues for purses and facility renewal. However, as opposed to purses generated from wagering on racing, statute governing purse supplements from VLT revenues is silent as to whether or how purse monies should be reallocated.

- **Recommendation 1: The General Assembly may wish to consider providing further guidance as to the distribution of VLT revenues from the Purse Dedication Account (PDA). For example, the General Assembly could require that the distribution of VLT purse revenues be subject to an agreement between a licensee, the Maryland Thoroughbred Horse Association, and the Maryland Horse Breeders' Association, subject to review by MRC; or specify in law any requirement regarding the use of PDA revenues.**

Horse racing is a dangerous sport with breakdowns occurring occasionally. Maryland tracks have experienced their share of horse breakdowns, with 21 fatalities in 2012, compared to only 11 in 2011. Additionally, 10 horses broke down and were subsequently euthanized at Laurel Park during a six-week period in 2013. While Maryland has experienced an unusual number of breakdowns in 2013, it generally has had a lower incidence of breakdowns compared to other tracks around the country. Although Maryland has fewer breakdowns on average than most states, safety is still a concern. Larger purses may be creating an incentive for trainers to race unfit horses.

DLS finds that MRC could benefit from an equine medical director to ensure compliance with the recently adopted stringent equine testing and drug policies. An equine medical director would provide MRC with an additional resource to further enhance the safety and welfare of the horses running races in Maryland, as well as providing the jockeys who ride these horses with the confidence that their horse has been observed to be sound enough to be competitive.

- **Recommendation 2: MRC should pursue hiring an equine medical director to implement and enforce equine testing and drug policies.**

The American Association of Equine Practitioners recommends that no claiming race should have a purse that exceeds the claiming price by more than 50%. The New York Task Force on Racehorse Health and Safety recommended that the purse-to-claim-price ratio should be no greater than 1.6, in which the value of the horse is approximately equal to the winner's share of the purse. MRC has already adopted several regulations governing claiming races that are intended to protect the health and safety of horses and jockeys. MRC indicates that these regulations may be sufficient to enhance safety.

- **Recommendation 3: MRC should carefully monitor the impact of recently adopted claiming regulations. If additional safety measures are warranted, MRC should consider adoption of a maximum purse-to-claim-price ratio.**

MRC has been approved to hire a second contractual investigator position to inspect barn areas, conduct barn searches, and perform investigations as requested. Employing a second investigator should allow MRC to carry out its oversight of the thoroughbred racing industry more effectively.

- **Recommendation 4: MRC should move forward with plans to hire a second investigator to further enhance oversight at racetracks.**

The national Jockey Club Thoroughbred Safety Committee recommends that all racing regulatory authorities enhance rules to mandate centralized electronic storage of all medication treatment and records pertaining to horses conducting official workouts and racing. Centralized electronic storage of treatment records will assist in investigative and analytical efforts by regulatory authorities. MRC plans to implement the InCompass Pre-Race Veterinary Exam software. The software allows examining veterinarians to track the progress of a horse throughout its racing career and share information with other jurisdictions.

- **Recommendation 5: MRC should move forward with implementation of the InCompass software system to enhance the efficiency of pre-race veterinary examinations and further enhance horse and jockey safety.**

A total of 20 personnel work in the Division of Racing, including 4 at the commission offices and 16 harness judges, racing stewards, chemists, veterinarians, and support staff under racetrack operations. Since 2001, the deputy director position has been filled sporadically and has gone unfilled since 2009. Since then, the position has been eliminated. Though the absence of a deputy director has not yet hindered the commission, given the increased activity of MRC and changes in the racing industry, MRC indicates that a deputy director is again necessary to assist with complicated administrative tasks. Furthermore, a deputy director would allow for continuity of staff, which is vital for the regulation of such a complicated industry.

- **Recommendation 6: The department should work with DBM to obtain an additional position for the division to enable replacement of the deputy director position.**

As the racing industry has changed in recent years, MRC has grown more active, and there is no indication that this increased regulatory activity will be curtailed. The industry has seen significant changes, including VLT revenues for purses and facility renewal, restrictions on medications, new claiming regulations and other rules to improve horse and jockey safety, and brokered agreements among racing's various stakeholders. Yet in recent years, the budget for the division has been relatively consistent. It is questionable, given all that MRC is involved with, whether existing resources for the division are sufficient to effectively regulate the industry.

MRC is one of two budgeted programs in the Division of Racing along with Racetrack Operation Reimbursement. Revenues from the commission's licensing and registration activities accrue to the general fund. Licensing and registration fees, which are set in regulation, have not been increased since the 1980s. Typically, State regulatory entities are funded by the regulated industry. In contrast, the division, which oversees a significant Maryland industry, is instead mostly supported with general funds.

The division could be special funded by creating a new State Racing Commission Special Fund. However, with removal of a general fund appropriation, the division would require a dedicated source of revenues to cover operating expenses. To special fund the division, the General Assembly could consider, among other options, allowing MRC to retain licensing and registration fees, increasing licensing and registration fees to provide additional revenues, dedicating a portion of VLT revenues earmarked for purse enhancement, and increasing the racing tax.

- **Recommendation 7: Statute should be amended to (1) establish a State Racing Commission Special Fund to fund the Division of Racing and (2) authorize current revenues from licensing and registration fees to accrue to that fund. The General Assembly should determine additional revenue sources to fully support the operations of the division through the fund.**

- **Recommendation 8: MRC should conduct an analysis of current licensing and registration fees to determine the appropriate level of such fees. If the General Assembly elects to special fund the division, MRC should promulgate regulations to increase licensing and registration fees to help support division operations.**

In such a complex sport, with large sums of money at stake, there is potential for unscrupulous behavior. Therefore, racing across the nation is one of the oldest regulated activities. In Maryland, MRC maintains the public trust in racing; oversees the conduct of pari-mutuel wagering; and helps to make the sport as safe as possible for the horse, jockey, and all participants. MRC has been applauded by the media for its quick response to horse safety concerns, and the racing industry in Maryland has not experienced major problems regarding horse breakdowns as have other states. Likewise, DLS found that MRC has taken its regulatory role seriously, using a proactive approach to address health and safety concerns and broker stakeholder interests. As long as there is a racetrack operating in Maryland, the laws that govern racing and that established MRC should continue.

- **Recommendation 9: Statute should be amended to extend the termination date for MRC, its two advisory committees, and the laws regulating racing to July 1, 2024. MRC and the racing industry should also remain subject to periodic evaluation under the Maryland Program Evaluation Act, with a preliminary evaluation scheduled for 2021.**

2. Report on Labor Law Enforcement

The 2013 *Joint Chairmen's Report* included the following narrative:

> Report on the Funding of Labor Law Enforcement: The budget committees are concerned about the ability of the Division of Labor and Industry to adequately perform its regulatory, inspection, and enforcement responsibilities based on its current funding level. According to a program evaluation report by the Department of Legislative Services, current funding and staffing levels may not align with the increasing responsibilities of the division.
>
> The budget committees request the Department of Labor, Licensing, and Regulation (DLLR) to develop potential funding options that would make the division less dependent on general funds and would enable an increase in staffing levels. The department should also review practice in other states and local governments. The department should report its findings and recommendations to the budget committees by December 1, 2013.

The department submitted its two-page response in February 2014. The report detailed four potential funding options to address what it identifies as a staffing problem caused by high vacancies and turnover rates. The options include:

- creating a special fund dedicated to labor law enforcement; potentially using a small fee on all State service and construction contracts;
- using liquidated damages to support enforcement options;
- implementing fees for departmental services including work permits and mediation services; and
- increasing general fund appropriations.

The report does not suggest a preferred option.

Appendix 1

Current and Prior Year Budgets

Current and Prior Year Budgets
Department of Labor, Licensing, and Regulation – Business Regulation
($ in Thousands)

	General Fund	Special Fund	Federal Fund	Reimb. Fund	Total
Fiscal 2013					
Legislative Appropriation	$9,104	$102,979	$4,978	$1,395	$118,456
Deficiency Appropriation	497	0	0	0	497
Budget Amendments	-663	1,767	42	0	1,147
Reversions and Cancellations	-47	-5,450	-42	0	-5,538
Actual Expenditures	**$8,891**	**$99,297**	**$4,978**	**$1,395**	**$114,561**
Fiscal 2014					
Legislative Appropriation	$9,098	$114,273	$5,009	$1,500	$129,880
Budget Amendments	-139	489	115	0	466
Working Appropriation	**$8,959**	**$114,762**	**$5,125**	**$1,500**	**$130,346**

Note: The fiscal 2014 working appropriation does not include deficiencies or contingent reductions. Numbers may not sum to total due to rounding.

Fiscal 2013

There were numerous changes to the original fiscal 2013 appropriation. General funds increased in fiscal 2013 due to a deficiency for the Division of Racing to provide the funds necessary to regulate the newly reopened Rosecroft Raceway. Also, budget amendments increased the original special fund appropriation in fiscal 2013. Specifically, approximately $300,000 in special funds was added to the budget to allow the division of Financial Regulation to establish and maintain an Internet-based foreclosed property registry. Funds are derived from registration fees on foreclosed property purchases. The division also received an additional $560,000 in special funds to expand fraud prevention efforts. The funds were part of the national settlement with the largest mortgage servicers. Additionally, special funds, as well as federal funds, were increased by about $195,500 due to the cost-of-living adjustment (COLA).

The increases in all funds were mitigated by reversions and cancellations. General funds totaling approximately $47,000 were reverted across all the business regulation units. Special fund cancellations related primarily to the underutilization of racetrack facility redevelopment funds (over $2.5 million). An additional $1.0 million in special funds was canceled due to unexpected vacancies under the Division of Financial Regulation. Finally, over $1.0 million in special funds were canceled under the Division of Occupational and Professional Licensing. A significant portion of these funds were canceled because fewer people took licensing exams, primarily for certified public accountant licenses. Additionally, higher than expected vacancies and lower than expected IT expenses led to the cancelation of the remaining special funds.

Other changes to the original appropriation resulted from budget amendments that realigned funds, in part, between the business regulation components and the workforce development divisions of the department, which are discussed in another analysis.

Fiscal 2014

The original fiscal 2014 appropriation increased due the COLA and other salary adjustments. General, special, and federal funds increase by about $464,000 for this purpose. Special funds increase in the fiscal 2014 appropriation due to a budget amendment that adds funds for additional contractual staff in the Division of Financial Regulation. Funds are derived from license fees for mortgage originators. The division is experiencing an increase in applications. Also, federal fund increase by $47,215 due to a federal Byrne grant that will assist with the division's mortgage fraud investigative efforts.

Other changes to the original appropriation resulted from budget amendments that realigned funds, in part, between the business regulation components and the workforce development divisions of the department, which are discussed in another analysis.

Object/Fund Difference Report
DLLR – Business Regulation

Object/Fund	FY 13 Actual	FY 14 Working Appropriation	FY 15 Allowance	FY 14 - FY 15 Amount Change	Percent Change
Positions					
01 Regular	355.10	354.10	355.10	1.00	0.3%
02 Contractual	34.11	50.09	56.39	6.30	12.6%
Total Positions	**389.21**	**404.19**	**411.49**	**7.30**	**1.8%**
Objects					
01 Salaries and Wages	$ 25,807,991	$ 29,480,886	$ 29,803,547	$ 322,661	1.1%
02 Technical and Spec. Fees	1,708,816	2,472,018	2,648,113	176,095	7.1%
03 Communication	556,126	779,627	777,025	-2,602	-0.3%
04 Travel	887,969	1,036,946	1,032,748	-4,198	-0.4%
06 Fuel and Utilities	4,659	3,295	2,381	-914	-27.7%
07 Motor Vehicles	338,765	314,089	279,064	-35,025	-11.2%
08 Contractual Services	5,962,890	6,001,730	6,618,961	617,231	10.3%
09 Supplies and Materials	465,213	462,959	348,342	-114,617	-24.8%
10 Equipment – Replacement	455,852	119,150	138,590	19,440	16.3%
11 Equipment – Additional	98,295	37,609	43,703	6,094	16.2%
12 Grants, Subsidies, and Contributions	76,995,013	88,343,901	101,679,189	13,335,288	15.1%
13 Fixed Charges	1,256,384	1,293,792	1,290,850	-2,942	-0.2%
Total Objects	**$ 114,537,973**	**$ 130,346,002**	**$ 144,662,513**	**$ 14,316,511**	**11.0%**
Funds					
01 General Fund	$ 8,890,582	$ 8,959,090	$ 9,202,668	$ 243,578	2.7%
03 Special Fund	99,297,293	114,761,973	128,740,384	13,978,411	12.2%
05 Federal Fund	4,978,298	5,124,889	5,091,969	-32,920	-0.6%
09 Reimbursable Fund	1,371,800	1,500,050	1,627,492	127,442	8.5%
Total Funds	**$ 114,537,973**	**$ 130,346,002**	**$ 144,662,513**	**$ 14,316,511**	**11.0%**

Note: The fiscal 2014 appropriation does not include deficiencies. The fiscal 2015 allowance does not include contingent reductions.

Appendix 2

Fiscal Summary
DLLR – Business Regulation

Program/Unit	FY 13 Actual	FY 14 Wrk Approp	FY 15 Allowance	Change	FY 14 - FY 15 % Change
01 Division of Financial Regulation	$ 8,425,092	$ 10,127,277	$ 10,519,854	$ 392,577	3.9%
01 Division of Labor and Industry	16,810,375	18,760,694	19,199,630	438,936	2.3%
01 Division of Racing	79,627,087	90,949,048	104,248,578	13,299,530	14.6%
01 Division of Occupational and Professional Licensing	9,675,419	10,508,983	10,694,451	185,468	1.8%
Total Expenditures	**$ 114,537,973**	**$ 130,346,002**	**$ 144,662,513**	**$ 14,316,511**	**11.0%**
General Fund	$ 8,890,582	$ 8,959,090	$ 9,202,668	$ 243,578	2.7%
Special Fund	99,297,293	114,761,973	128,740,384	13,978,411	12.2%
Federal Fund	4,978,298	5,124,889	5,091,969	-32,920	-0.6%
Total Appropriations	**$ 113,166,173**	**$ 128,845,952**	**$ 143,035,021**	**$ 14,189,069**	**11.0%**
Reimbursable Fund	$ 1,371,800	$ 1,500,050	$ 1,627,492	$ 127,442	8.5%
Total Funds	**$ 114,537,973**	**$ 130,346,002**	**$ 144,662,513**	**$ 14,316,511**	**11.0%**

Note: The fiscal 2014 appropriation does not include deficiencies. The fiscal 2015 allowance does not include contingent reductions.

Appendix 3