

**P00C**  
**Business Regulation**  
Department of Labor, Licensing, and Regulation

***Operating Budget Data***

(\$ in Thousands)

	<b><u>FY 14</u></b> <b><u>Actual</u></b>	<b><u>FY 15</u></b> <b><u>Working</u></b>	<b><u>FY 16</u></b> <b><u>Allowance</u></b>	<b><u>FY 15-16</u></b> <b><u>Change</u></b>	<b><u>% Change</u></b> <b><u>Prior Year</u></b>
General Fund	\$8,556	\$9,002	\$9,233	\$231	2.6%
Deficiencies and Reductions	0	0	-343	-343	
<b>Adjusted General Fund</b>	<b>\$8,556</b>	<b>\$9,002</b>	<b>\$8,889</b>	<b>-\$112</b>	<b>-1.2%</b>
Special Fund	103,036	128,301	123,372	-4,928	-3.8%
Deficiencies and Reductions	0	-4,074	-4,456	-382	
<b>Adjusted Special Fund</b>	<b>\$103,036</b>	<b>\$124,227</b>	<b>\$118,916</b>	<b>-\$5,310</b>	<b>-4.3%</b>
Federal Fund	4,711	5,010	5,320	311	6.2%
Deficiencies and Reductions	0	0	-329	-329	
<b>Adjusted Federal Fund</b>	<b>\$4,711</b>	<b>\$5,010</b>	<b>\$4,991</b>	<b>-\$18</b>	<b>-0.4%</b>
Reimbursable Fund	1,473	1,627	1,457	-170	-10.5%
<b>Adjusted Reimbursable Fund</b>	<b>\$1,473</b>	<b>\$1,627</b>	<b>\$1,457</b>	<b>-\$170</b>	<b>-10.5%</b>
<b>Adjusted Grand Total</b>	<b>\$117,777</b>	<b>\$139,865</b>	<b>\$134,254</b>	<b>-\$5,611</b>	<b>-4.0%</b>

Note: The fiscal 2015 working appropriation reflects deficiencies and the Board of Public Works reductions to the extent that they can be identified by program. The fiscal 2016 allowance reflects back of the bill and contingent reductions to the extent that they can be identified by program.

- The fiscal 2016 budget includes one fiscal 2015 cost containment deficiency that decreases special funds by \$4.07 million in video lottery terminal (VLT) proceeds for local impact aid.
- The fiscal 2016 adjusted allowance decreases \$5.6 million or 4.0% from the current year working appropriation. A \$5.2 million reduction in overall VLT special funds contributes significantly to the decrease. An additional contingent reduction for cost containment decreases VLT special funds by \$3.9 million for local impact aid.

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

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- Both fiscal 2015 and 2016 include a 2% across-the-board reduction in general funds. That 2% is not reflected in the adjusted working appropriation for fiscal 2015 or the adjusted allowance for fiscal 2016, as the Department of Labor, Licensing, and Regulation has not yet allocated the 2% between its programs.

## ***Personnel Data***

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	<b><u>FY 14</u></b> <b><u>Actual</u></b>	<b><u>FY 15</u></b> <b><u>Working</u></b>	<b><u>FY 16</u></b> <b><u>Allowance</u></b>	<b><u>FY 15-16</u></b> <b><u>Change</u></b>
Regular Positions	352.10	359.10	359.10	0.00
Contractual FTEs	<u>39.08</u>	<u>57.39</u>	<u>68.84</u>	<u>11.45</u>
<b>Total Personnel</b>	<b>391.18</b>	<b>416.49</b>	<b>427.94</b>	<b>11.45</b>

### ***Vacancy Data: Regular Positions***

Turnover and Necessary Vacancies, Excluding New Positions	14.04	3.91%
Positions and Percentage Vacant as of 12/31/14	61.00	16.99%

- The fiscal 2016 allowance for regular positions remains the same as the current year working appropriation. The fiscal 2016 allowance adds 11.45 contractual full-time equivalent positions.
- The budgeted turnover is 3.91% which requires 14.04 vacant positions. As of December 31, 2014, the department reported 61.0 vacancies.

## ***Analysis in Brief***

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### **Major Trends**

***Significant Increase in Elevator Inspection Backlog:*** The Division of Labor and Industry is responsible for ensuring safe elevator operations in the State. A significant inspection backlog was impairing the division's ability to achieve this goal. The division had made substantial progress in eliminating the backlog by working cooperatively with third-party inspectors. However, since the backlog reached a low of 592 inspections in fiscal 2012, it has steadily increased to 679 in fiscal 2013 and 912 in fiscal 2014. **The Department of Legislative Services (DLS) recommends that the department comment on the backlog increase.**

**Backlog Affects Total Consumer Complaint Resolution:** The Division of Occupational and Professional Licensing has made an effort to significantly reduce the number of backlogged consumer complaints, most of which are three or more years old. As a result of this effort, the division's overall success appears to have declined in fiscal 2014, but future recovery is likely.

## Issues

**New Minimum Wage Enforcement:** Chapter 262 of 2014 increased Maryland's minimum wage on January 1, 2015, to \$8 per hour. The amount will increase annually through July 1, 2018, ultimately reaching \$10.10 per hour. The department's Division of Labor and Industry's Employment Standards unit administers and enforces the minimum wage law but has not exercised that authority since 1991. Instead, the department referred complaints to the federal Department of Labor. Now that the State's minimum wage is higher than the federal minimum wage, the department needs additional resources for enforcement. **DLS recommends that the department comment on its current ability to meet the expected increase in workload related to the enforcement of the new minimum wage.**

## Recommended Actions

### Funds

1. Strike language from the special fund appropriation.
  2. Reduce the video lottery terminal special funds to local impact aid. \$ 3,887,697
- Total Reductions** **\$ 3,887,697**

## Updates

**Horse Race Revenues Continue to Decline:** Attendance at Maryland racetracks has declined 58% from calendar 2007 to 2013. With the decline in attendance comes a decline in wagering. The Horse Racing Special Fund is financed through taxes on wagering. As the tax revenue has declined, the fund has been unable to provide the mandated amount of local impact aid to various counties and municipalities affected by horse racing. In fiscal 2016, the estimated revenues on wagering taxes are only \$806,169. As a result, the allowance includes no local impact aid from the Horse Racing Special Fund.

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**Department of Labor, Licensing, and Regulation**

## ***Operating Budget Analysis***

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### **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. DLLR also administers a variety of federally funded employment service programs. This analysis focuses on DLLR's business regulation divisions.

- **The Division of Labor and Industry** is responsible for safety inspections of boilers, elevators, amusement rides, and railroads. The division also enforces certain protective labor laws and administers the Maryland Occupational Safety and Health Act. The division's mission is to protect Maryland citizens' health, safety, and employment rights.
- **The Division of Occupational and Professional Licensing** establishes boards and commissions to license, regulate, and monitor 24 different professions and trades. The division has 13 boards supported by the general fund, and 11 boards supported by special funds. The division's mission is to ensure that regulated occupations and professions have practitioners that are competent and compliant with State laws, regulations, and standards. This oversight seeks to ensure that commercial services are conducive to the health, safety, and welfare of Maryland consumers.
- **The Division of Racing** regulates thoroughbred and harness racing tracks across the State. The division's 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 that are appointed by the Maryland Racing Commission (MRC).
- **The Division of Financial Regulation** regulates commercial banks, trust companies, credit unions, mortgage lenders and originators, collection agencies, and consumer loan companies. The division's 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 Increase in Elevator Inspection Backlog**

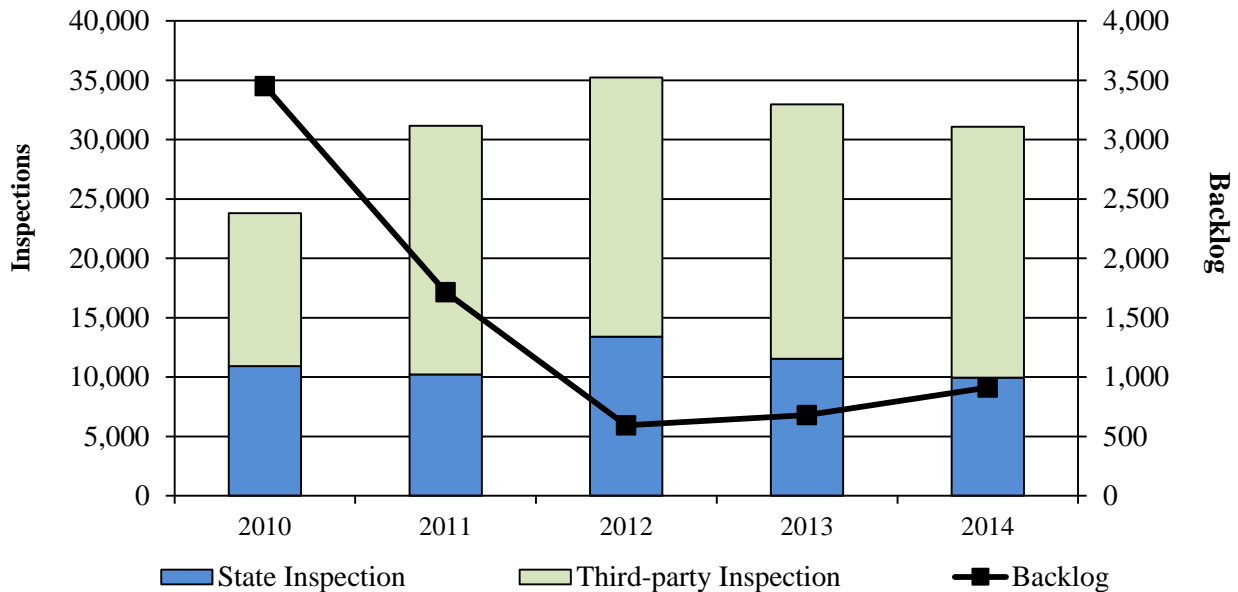
Since 1997, the Office of Legislative Audits (OLA) has cited the department repeatedly for failure to inspect elevators on a timely basis. The department must inspect elevators upon installation and after alterations. Annual and comprehensive five-year elevator inspections are also required. Until fiscal 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 are responsible for final inspections of all new elevators prior to initial certification, final inspections of modernized or altered elevators, accident and complaint investigations, follow-up inspections to confirm corrective action, comprehensive five-year inspections, and monitoring third-party inspection quality control. The legislation also required that private elevator owners in the State hire qualified third-party elevator inspectors to conduct the annual safety inspections. This has relieved the department from a significant amount of inspections each year.

The department's Division of Labor and Industry's Safety Inspection Unit oversees elevator inspections. Of the divisions 55.0 regular positions, 22.0 are elevator inspectors. As of December 31, 2014, 2.0 of these positions were vacant. There are no contractual full-time equivalent positions assigned to safety inspection.

**Exhibit 1** shows the department's progress in eliminating the inspection backlog. From fiscal 2010 to 2012, the backlog dropped by 83% from 3,452 to 592 inspections. Since fiscal 2012, while backlogs have stayed well below the historical levels, the number has been slowly increasing even as the number of third-party inspections has increased. In fiscal 2013, third parties conducted about 63% of inspections but the backlog increased to 679 inspections. In fiscal 2014, third parties conducted 68% of inspections, but the backlog again increased to 912 inspections. **The Department of Legislative Services (DLS) recommends that the department comment on the backlog increase.**

**Exhibit 1**  
**Elevator Inspection Backlog**  
**Fiscal 2010-2014**



Source: Department of Labor, Licensing, and Regulation

## 2. Backlog Affects Total Consumer Complaint Resolution

The Division of Occupational and Professional Licensing handles consumer calls and complaints about individuals or companies that are or should be licensed by the department. The division's goal is to protect the public's health and safety through the efficient review, resolution, and adjudication of consumer complaints. It measures attainment of this goal by the percentage of complaints resolved within 180 days. The division seeks to close 70% of complaints within the 180-day timeframe.

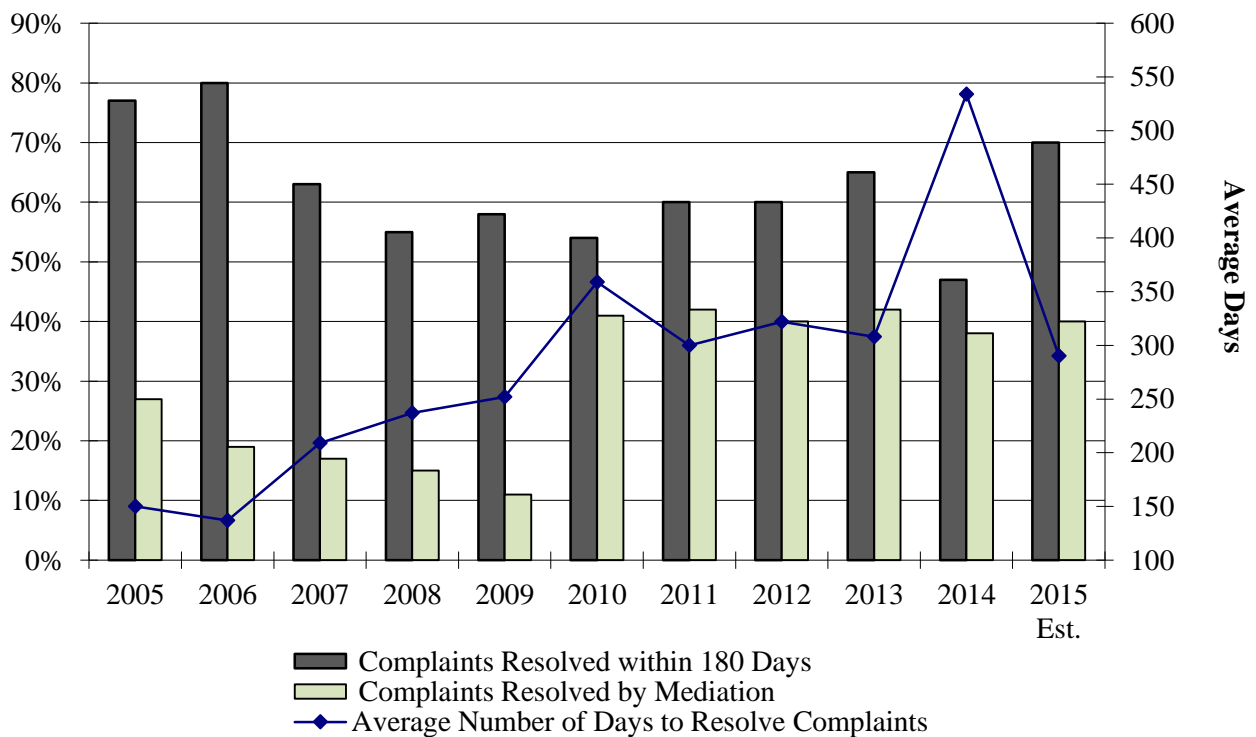
In fiscal 2014, the division focused on reducing the large number of backlogged complaints, particularly for the Board of Cosmetology and the Home Improvement Commission:

- The division hired a new executive director and a new inspector for cosmetology and barbering and developed standard operating procedures to improve uniformity and efficiency. Consequently, open complaints dropped from a high of 672 in November 2013 to 71 in August 2014.

- In order to reduce the open number of home improvement complaints, which numbered over 800 per month for all of fiscal 2013 and the first half of fiscal 2014, the division hired a new investigator, and worked to administratively close as many old complaints as possible. The average home improvement complaint takes 14 to 19 months to close due to a lengthy hearing process.
- Another general strategy that the division has implemented is alternative dispute resolution (ADR) in order to avoid a hearing. The division almost tripled the percent of complaints resolved by ADR in fiscal 2010.

As a result of the division's efforts to close old cases, most of which were three or more years old, the division remains far from meeting its stated goal in terms of consumer complaint resolution. **Exhibit 2** shows a significant increase in the average number of days to resolve complaints from 308 in fiscal 2013 to 534 in fiscal 2014. In fiscal 2014, only 47% of complaints were resolved within 180 days, compared to 65% in fiscal 2013. The division anticipates, however, that with a reduced backlog, it will be able to meet its goal of closing 70% of complaints within 180 days in fiscal 2015.

**Exhibit 2**  
**Occupational and Professional Licensing Complaint Resolution**  
**Fiscal 2005-2015 Est.**



Source: Governor's Budget Books



## Fiscal 2015 Actions

Exhibit 3 breaks down the fiscal 2015 cost containment as it affects this program.

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**Exhibit 3**  
**Fiscal 2015 Reconciliation**  
(\$ in Thousands)

<u>Action</u>	<u>Description</u>	<u>General Fund</u>	<u>Special Fund</u>	<u>Federal Fund</u>	<u>Reimb. Fund</u>	<u>Total</u>
<b>Legislative Appropriation with Budget Amendments</b>		<b>\$9,002</b>	<b>\$128,301</b>	<b>\$5,010</b>	<b>\$1,627</b>	<b>\$143,939</b>
<b>Working Appropriation</b>		<b>\$9,002</b>	<b>\$128,301</b>	<b>\$5,010</b>	<b>\$1,627</b>	<b>\$143,939</b>
January BPW Across the Board	This unit is part of DLLR which received a 2% across-the-board general fund reduction totaling \$910,150. If allocated proportionally, it would equal \$191,132 in this program.					
Deficiency Appropriations	Reduction in Video Lottery Terminal proceeds for local impact aid.	0	-4,074	0	0	-4,074
<b>Total Actions</b>		<b>\$0</b>	<b>-\$4,074</b>	<b>\$0</b>	<b>\$0</b>	<b>-\$4,074</b>
<b>Adjusted Working Appropriation</b>		<b>\$9,002</b>	<b>\$124,227</b>	<b>\$5,010</b>	<b>\$1,627</b>	<b>\$139,865</b>

BPW: Board of Public Works

DLLR: Department of Labor, Licensing, and Regulation

Source: Department of Legislative Services

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## **Cost Containment**

### **Fund Balance Transfer**

The Administration's fiscal 2015 cost containment strategy includes a \$3.0 million fund balance transfer from the department's Mortgage Lender-Originator Fund (that is contingent on the passage of the Budget Reconciliation and Financing Act of 2015). Chapter 590 of 2005 requires mortgage originators to become licensed with the Office of the Commissioner of Financial Regulation. The Mortgage Lender-Originator Fund is wholly special funded and consists of revenue received from licensing mortgage lenders and mortgage originators, income from investments made for the fund, and any other fee, examination assessment, or revenue. DLLR's Division of Financial Regulation uses the funds to pay the costs and expenses related to regulating mortgage lending and origination.

The fund balance transfer would increase general fund revenues by \$3.0 million and decrease the fund's special fund balance. The department anticipates the fiscal 2015 ending fund balance to be \$2.8 million. These funds would otherwise be used to supplement future operational and administrative costs. The department currently has 8.0 positions, costing approximately \$750,000 annually, funding by the proceeds of the Attorney General's National Mortgage Settlement. The settlement proceeds will be depleted by the end of fiscal 2016, at which time the fund balance will begin to support the additional costs.

### **VLT Proceeds**

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. A fiscal 2015 deficiency reduction decreases the VLT revenue for local impact aid by \$4.07 million and reallocates it to the Educational Trust Fund. This results in an equivalent reduction in general funds for education.

## **Proposed Budget**

As seen in **Exhibit 4**, the fiscal 2016 allowance, after cost containment and deficiencies, decreases \$5.6 million, or 4.0%, from the current year working appropriation. A \$5.2 million reduction in VLT revenue support contributes significantly to the decrease.

**Exhibit 4**  
**Proposed Budget**  
**DLLR – Business Regulation**  
**(\$ in Thousands)**

<b>How Much It Grows:</b>	<b><u>General Fund</u></b>	<b><u>Special Fund</u></b>	<b><u>Federal Fund</u></b>	<b><u>Reimb. Fund</u></b>	<b><u>Total</u></b>
Fiscal 2014 Actual	\$8,556	\$103,036	\$4,711	\$1,473	\$117,777
Fiscal 2015 Working Appropriation	9,002	124,227	5,010	1,627	139,865
Fiscal 2016 Allowance	<u>8,889</u>	<u>118,916</u>	<u>4,991</u>	<u>1,457</u>	<u>134,254</u>
Fiscal 2015-2016 Amt. Change	-\$112	-\$5,310	-\$18	-\$170	-\$5,611
Fiscal 2015-2016 Percent Change	-1.2%	-4.3%	-0.4%	-10.5%	-4.0%

**Where It Goes:**

**Personnel Expenses**

Employee and retiree health insurance .....	\$711
Increments and general salary increase annualization (prior to cost containment) .....	638
Employee's retirement contribution .....	374
Turnover adjustments .....	199
Miscellaneous adjustments .....	143
Social Security contributions .....	86
Other fringe benefit adjustments .....	-2
Workers' compensation premium assessment .....	-36
Section 21: Abolition of employee increments .....	-477
Section 20: 2% pay reduction .....	-763

**Video Lottery Terminal Funds**

VLT local aid fiscal 2015-2016 net contingent reduction .....	186
VLT racetrack fund .....	-982
VLT local aid allowance .....	-1,863
VLT purse dedication .....	-2,396

**Other Changes**

Licensing and Regulation division, administrative, licensing, and investigation contractual costs .....	193
Safety inspection replacement car .....	88
Other .....	73
Routine in-state travel .....	-77
Occupational and professional licensing administrative allocation .....	-170

**Where It Goes:**

Reallocation of the division' information technology (IT) request to DLLR's Office of IT program .....	-284
Racing revenue local aid.....	-1,252
<b>Total</b>	<b>-\$5,611</b>

DLLR: Department of Labor, Licensing, and Regulation

VLT: video lottery terminal

Note: Numbers may not sum to total due to rounding. The fiscal 2015 working appropriation reflects deficiencies and the Board of Public Works reductions to the extent that they can be identified by program. The fiscal 2016 allowance reflects back of the bill and contingent reductions to the extent that they can be identified by program.

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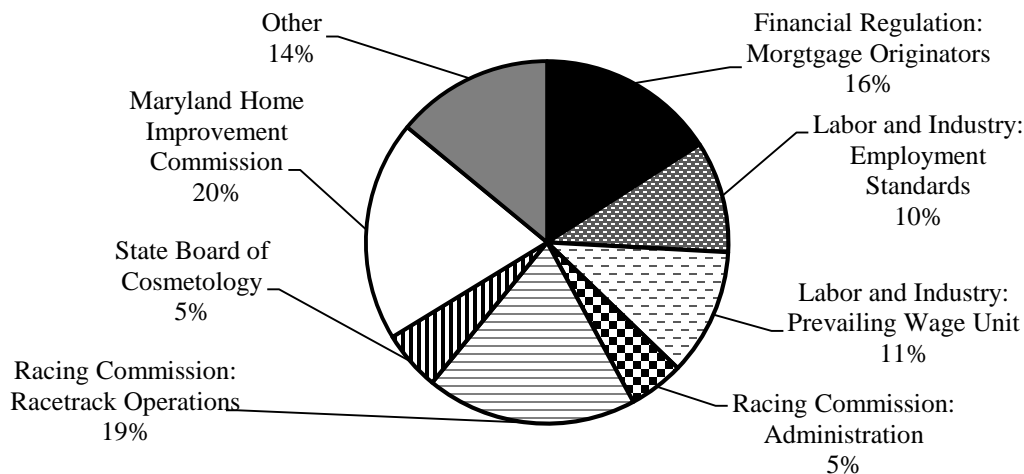
**Cost Containment**

In fiscal 2016, the Administration has implemented several across-the-board reductions. This includes a general 2% reduction, elimination of employee increments, and a 2% pay reduction. This agency's share of the employee increments and salary revision is \$1,240,671. The 2% across-the-board reduction in general funds is not reflected in the adjusted allowance, as the agency has not allocated the 2% between its two programs. If allocated proportionately, it would equal \$200,340 in this program.

**Exhibit 5** shows the fiscal 2016 general fund allocation to the program's divisions. While Exhibit 5 does not consider the \$343,000 in general fund increments and salary reductions, the divisions' percentages of general funds have remained consistent from fiscal 2014 to 2016.

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**Exhibit 5**  
**General Fund Allocation Prior to Cost Containment**  
**Fiscal 2016**



Source: Governor's Budget Books

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## **VLT 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 2016 VLT allowance prior to cost containment is reduced by \$5.2 million from the current year working appropriation. The allowance includes:

- \$49.1 million – 6.0% 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.
- \$6.9 million – 1.0% of VLT revenues to a racetrack renewal account for racetrack facility capital construction and improvements. Chapter 1 of the 2012 special session lowered the amount of the revenue from 1.75% to 1.0% when a license was issued to Baltimore City. 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.
- \$38.9 million – 5.5% of VLT revenues for local impact grants. Revenues are disbursed based on statutorily defined mandates and percentages to local municipalities and counties that generate the VLT revenue.

The fiscal 2015 working appropriation for VLT impact aid, prior to cost containment, is \$40.7 million and the fiscal 2016 allowance is \$38.9 million. The Budget Reconciliation and Financing Act (BRFA) of 2015 proposes to reduce VLT revenues for local impact grants by \$4.1 million for fiscal 2015 and \$3.9 million for fiscal 2016, and redirect the funds to the Education Trust Fund. This would enable a corresponding general fund reduction to education funding in both years.

**Exhibit 6** shows the Department of Budget and Management's accounting of VLT local impact aid by county and the effect that the BRFA would have in each county. Ultimately, DLLR acts as a pass through agency for local impact aid grants, so fluctuations have no impact on DLLR's operations.

DLS discusses VLT revenues, expenditures, and related recommendations in the analysis for the State Lottery and Gaming Control Agency.

## **Racing Revenue**

The horse racing special fund is comprised of taxes on wagering and a variety of fees. One of the fund's mandated uses is to provide local aid to specific municipalities and counties that are impacted by horse racing. Since fiscal 2014, revenues for the fund have been insufficient to provide local impact aid. As a result, the fiscal 2016 allowance does not include any funds for local impact aid.

**Exhibit 6**  
**VLT Impact Aid**  
**Fiscal 2014-2016 Est.**  
**(\$ in Thousands)**

	<b><u>Actual</u></b> <b><u>2014</u></b>	<b><u>Approp.</u></b> <b><u>2015</u></b>	<b><u>Contingent</u></b> <b><u>Reduction</u></b> <b><u>2015</u></b>	<b><u>Adjusted</u></b> <b><u>Approp.</u></b> <b><u>2015</u></b>	<b><u>BRE</u></b> <b><u>December Est.</u></b> <b><u>2016</u></b>	<b><u>Contingent</u></b> <b><u>Reduction</u></b> <b><u>2016</u></b>	<b><u>Adjusted</u></b> <b><u>Approp.</u></b> <b><u>2016</u></b>	<b><u>% Change</u></b> <b><u>Adjusted</u></b> <b><u>2015-2016</u></b>
Allegany	\$874	\$1,181	-\$131	\$1,050	\$1,096	-\$110	\$987	-6%
Anne Arundel	20,926	18,353	-2,030	16,324	18,081	-1,808	16,273	0%
Baltimore City	5,077	9,811	-1,085	8,726	11,984	-1,198	10,786	24%
Cecil	3,195	3,647	-403	3,243	3,723	-372	3,351	3%
Howard	-	89	-10	79	89	-9	80	1%
Prince George's	1,000	1,054	-117	937	1,054	-105	948	1%
Worcester	2,372	2,708	-299	2,408	2,850	-285	2,565	6%
Unallocated*		3,898	0	3,898	0	0	0	0%
Education Trust Fund				4,074			3,888	
<b>Total</b>	<b>\$33,444</b>	<b>\$40,740</b>	<b>-\$4,074</b>	<b>\$40,740</b>	<b>\$38,877</b>	<b>-\$3,888</b>	<b>\$38,877</b>	<b>-5%</b>

BRE: Board of Revenue Estimates

BRFA: Budget Reconciliation and Financing Act

\* Fiscal 2015 revenue underattainment based on the Board of Revenues estimate in December 2014.

Source: Department of Budget Management

## ***Issues***

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### **1. New Minimum Wage Enforcement**

The department is responsible for administering and enforcing the Maryland Wage Payment and Collection Law and the Wage and Hour Law. Specifically, the Division of Labor and Industry's Employment Standards Unit administers and enforces provisions of law concerning the employment of minors, wage and hours, wage and payment collections, and equal pay for equal work.

Chapter 262 of 2014 increased Maryland's minimum wage. The bill took effect July 1, 2014, and requires most Maryland employers, as of January 1, 2015, to pay the greater of the federal minimum wage of \$7.25 or the State minimum wage of \$8.00. The law provides for subsequent annual increases in the State's minimum wage from July 1, 2015, through July 1, 2018, ultimately reaching \$10.10. The law also allows some exceptions, changes overtime laws, alters tip credit, and mandates certain rate increases.

The department has not exercised its authority to investigate complaints about minimum wage payments and overtime compensation since the budget reductions in 1991 effectively reduced available staff for that purpose. Instead, since the State and federal laws were always similar, the department had been referring complaints to the Employment Standards Administration of the federal Department of Labor (DOL). Because the State's minimum wage now exceeds the federal standard, DOL would still pursue complaints against employers accused of paying employees less than \$7.25; but the department will now be responsible for complaints against employers paying more than \$7.25 but less than the State minimum wage. Additionally, Chapter 411 of 2014 requires the department to enforce local minimum wage laws. Montgomery and Prince George's counties passed local minimum wage laws in calendar 2013. Both bills phase in minimum wage increases over four years, culminating in a rate of \$11.50, beginning October 1, 2017. Both counties currently have a higher minimum wage than the State.

The fiscal 2015 legislative appropriation included \$312,122 in general funds for DLLR enforcement, contingent on the law's enactment. This amount included the cost of hiring 3 investigators, 2 contractual investigators, 1 office clerk, 1 assistant Attorney General, and 1 administrator to investigate complaints and enforce the State's Wage and Hour Law. The funds covered salaries, fringe benefits, one-time start-up costs, ongoing operating expenses, and other equipment. The department has made steps to identify candidates for the positions; however, funding was unavailable until January 1, 2015.

Because the minimum wage portion of the law just recently went into effect, the impact on the department's workload is undeterminable. However, with the local increases in Prince George's and Montgomery counties as well as the change in the overtime exemptions that took effect in July, the department reports a 10% increase in inquiries and requests for information. The department also utilized staff from the Office of the Commissioner and the Attorney General to begin a comprehensive outreach effort focused in Prince George's and Montgomery counties. **DLS recommends that the department comment on its current ability to meet the expected increase in workload related to the enforcement of the new minimum wage.**

## ***Recommended Actions***

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1. Strike the following language from the special fund appropriation:

~~, provided that this appropriation shall be reduced by \$3,887,697 contingent upon the enactment of legislation transferring \$3,887,697 in video lottery terminal revenue to the Education Trust Fund.~~

**Explanation:** The fiscal 2016 budget bill as introduced includes a \$3,887,697 reduction to video lottery terminal special funds to local impact aid contingent upon the enactment of a provision in the Budget Reconciliation and Financing Act of 2015 that transfers the funds to the Education Trust Fund. This action strikes the contingent reduction so that the reduction may be taken directly.

	<b><u>Amount Reduction</u></b>
2. Reduce the video lottery terminal special funds to local impact aid. This implements the Administration's proposed reduction.	\$ 3,887,697 SF
<b>Total Special Fund Reductions</b>	<b>\$ 3,887,697</b>



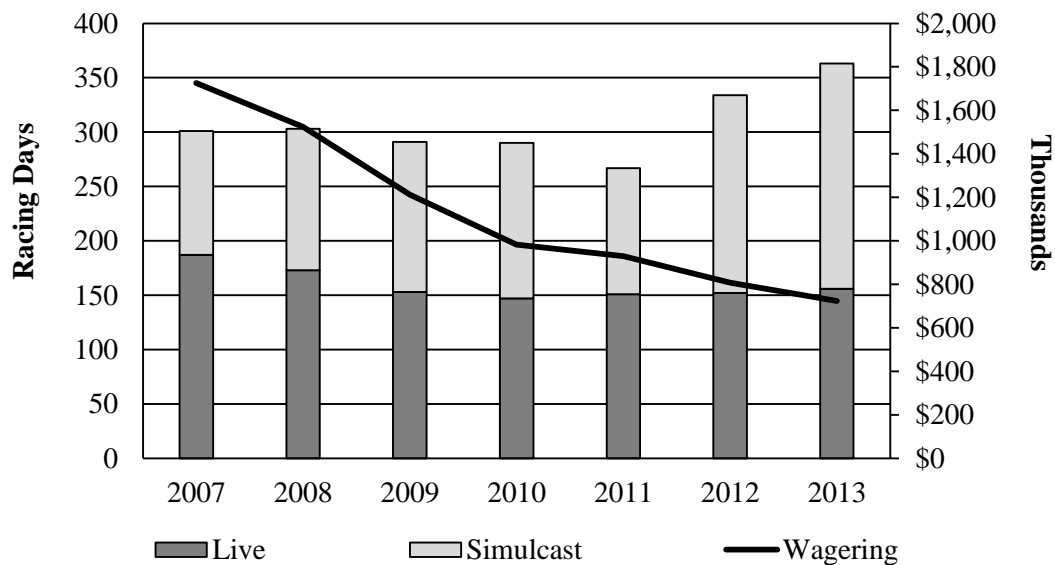
## Updates

### 1. Horse Race Revenues Continue to Decline

Maryland's horse racing industry faces significant competition and an aging clientele. Over the years, the industry's share of the legal gambling dollar has declined due to increased competition from State lotteries, VLTs, and table games. From calendar 2008 through 2013, attendance and wagering at Maryland racetracks sharply declined. Since calendar 2011, the industry has benefitted from significant assistance of VLT revenues for purses, thoroughbred and standardbred funds, and racetrack renewal, providing a much-needed financial boost and increasing total purses to levels not seen since 2005.

**Exhibit 7** shows the attendance and race day trends from calendar 2007 to 2013. Attendance has been on a steady decline, dropping 58% over the six-year period. The fall in attendance creates a very similar fall in wagering, which dropped 57% over the same period. The number of racing days, however, has increased in the last two years. Larger purses that have been pumped up with VLT proceeds and the introduction of simulcast betting allows racing days to increase without necessarily drawing a larger crowd.

**Exhibit 7**  
**Horse Racing Days and Wagering**  
**Calendar 2007-2013**



Source: Department of Labor, Licensing, and Regulation, Division of Racing

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The Horse Racing Special Fund is comprised of taxes on wagering and a variety of fees. The fund was created to provide aid to agricultural and fair organizations impacted by horse racing and local municipalities and counties that contain or are located near a thoroughbred racetrack. The statute establishing the fund outlines aid amounts and funds agricultural and fair organizations first. Due to the significant decline in attendance and wagering, the special fund revenues have been in considerable decline over the last few years. In most recent years, the fund has been unable to provide the mandated local impact aid. The BRFA of 2013 included a provision that allowed the Comptroller and MRC to proportionately reduce the local impact aid if the revenues prove insufficient.

**Exhibit 8** displays the extent of the funding problem. The exhibit shows each of the fund's mandated uses. The total mandated funding in fiscal 2015 was \$3.6 million; however, after disbursement to agriculture and fair organizations, the department anticipates having no funds to provide for local impact aid, leaving a shortfall of \$1.2 million. In fiscal 2016, the department anticipates revenue to be so short that the fund will again have no funds to provide for local impact aid.

**Exhibit 8**  
**Horse Racing Special Fund Mandated Uses**  
**Fiscal 2016**

	<u><b>Mandate</b></u>	<u><b>Available Funds</b></u>
<b>Agriculture and Fairs</b>		
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
Maryland Agricultural Education and Rural Development Assistance Fund	16,000	16,000
<b>Subtotal</b>	<b>\$2,326,000</b>	<b>\$2,326,000</b>
<b>Impact Aid</b>		
Anne Arundel County	\$339,000	\$0
Baltimore County	50,000	0
Howard County	84,750	0
Prince George's County	100,000	0
Baltimore City	609,000	0
Bowie	18,200	0
Laurel	50,850	0
<b>Subtotal</b>	<b>\$1,251,800</b>	<b>\$0</b>
<b>Total</b>	<b>\$3,577,800</b>	<b>\$0</b>
<b>Estimated Revenues Fiscal 2015</b>	<b>\$2,326,000</b>	
<b>Shortfall</b>	<b>\$1,251,800</b>	

Note: Fund distribution mandates do not include a specific amount for the Maryland Agricultural Education and Rural Development Assistance Fund (MAERDA). However, Section 11-403 of the Business Regulation Article requires that monies left over after other mandates be allocated in part to MAERDA.

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## ***Current and Prior Year Budgets***

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<b>Current and Prior Year Budgets</b> <b>Department of Labor, Licensing, and Regulation – Business Regulation</b> <b>(\$ in Thousands)</b>					
	<b><u>General Fund</u></b>	<b><u>Special Fund</u></b>	<b><u>Federal Fund</u></b>	<b><u>Reimb. Fund</u></b>	<b><u>Total</u></b>
<b>Fiscal 2014</b>					
Legislative Appropriation	\$9,098	\$114,273	\$5,009	\$1,500	\$129,880
Deficiency Appropriation	-377	-187	-85	0	-649
Budget Amendments	-80	489	115	0	524
Reversions and Cancellations	-84	-11,539	-329	-27	-11,978
<b>Actual Expenditures</b>	<b>\$8,556</b>	<b>\$103,036</b>	<b>\$4,711</b>	<b>\$1,473</b>	<b>\$117,777</b>
<b>Fiscal 2015</b>					
Legislative Appropriation	\$9,366	\$129,037	\$5,015	\$1,627	\$145,046
Cost Containment	0	0	0	0	0
Budget Amendments	-364	-737	-5	0	-1,106
<b>Working Appropriation</b>	<b>\$9,002</b>	<b>\$128,301</b>	<b>\$5,010</b>	<b>\$1,627</b>	<b>\$143,939</b>

Note: Numbers may not sum to total due to rounding. The fiscal 2015 working appropriation does not include January 2015 Board of Public Works reductions and deficiencies.

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## **Fiscal 2014**

Actual expenditures for the business regulation divisions of the department fell significantly from the original appropriation in fiscal 2014. This was due, in part, to statewide cost containment deficiencies related to employee and retiree health insurance, funding for a new statewide personnel information technology (IT) system, and retirement reinvestment. There were two additional cost containment deficiencies for the department. The Division of Financial Regulation swapped \$185,214 in general funds for special funds as the division had an increase in license application fees from mortgage lenders and originators. The Employment Standards unit also contributed \$14,924 in general funds for cost containment. One deficiency slightly increased general funds by \$56,336 to allow an upgrade in the department's living wage enforcement payroll system.

Generally, budget amendments added funds to the original fiscal 2014 appropriation. General, special, and federal funds increased by about \$464,000 for cost-of-living (COLA) and other salary adjustments. Special funds also increased in the fiscal 2014 appropriation due to a budget amendment that added funds for additional contractual staff in the Division of Financial Regulation. Also, federal funds increased 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 agency's business regulation divisions and the workforce development divisions.

The largest impact on the original appropriation related to unexpended funds under MRC. Local impact aid related to horse tracks was not disbursed (\$1.2 million) due to significantly reduced racing revenues. Additionally, over \$6.1 million in special funds went unspent due to the underutilization of the Racetrack Facility Redevelopment Fund and due to unrealized revenues of the VLTs. Similarly, special funds were cancelled for horse racing purse enhancements and local impact aid due to lower than expected VLT revenues (\$1.6 million). Finally, \$1.3 million in special funds was cancelled under the Division of Financial Regulation, primarily due to longer than expected vacancies.

## **Fiscal 2015**

The fiscal 2015 working appropriation decreased about \$1.1 million from the legislative appropriation. A budget amendment redistributed the reimbursable appropriation for the Workforce Development's Office of IT division that was funded by programs within DLLR. The new allocation decreased this program's general funds by \$142,000, special funds by \$1 million, and federal funds by about \$39,000. The Division of Labor and Industry's special funds were reduced by about \$74,000 to align the appropriation among programs based on expenditures in fiscal 2015.

One budget amendment added \$155,172 in special funds to the Financial Regulation Division for contractual costs in the Banking and Credit Union Program and the Mortgage and Foreclosed Property Registry Program. An amendment for the COLA added approximately \$52,000 in general funds, \$149,000 in special funds, and \$33,000 in federal funds.

***P00C – DLLR – Business Regulation***

The Financial Regulation Division experienced a \$200,000 cost containment fund swap of general funds for special funds.

## ***Audit Findings***

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Audit Period for Last Audit:	May 29, 2010 – April 2, 2013
Issue Date:	February 2014
Number of Findings:	3
Number of Repeat Findings:	3
% of Repeat Findings:	100%
Rating: (if applicable)	n/a

**Finding 1:**    **Proper controls had not been established over certain collections.**

**Finding 2:**    **Accounts receivable and cash balance records were not established.**

**Finding 3:**    **Licensees that failed to reimburse the funds for claim payments were not always referred timely to the State’s Central Collection Unit.**

\*Bold denotes item repeated in full or part from preceding audit report.

Note: This audit evaluated only the Division of Occupational and Professional Licensing.

**Object/Fund Difference Report  
DLLR – Business Regulation**

<u>Object/Fund</u>	<u>FY 14 Actual</u>	<u>FY 15 Working Appropriation</u>	<u>FY 16 Allowance</u>	<u>FY 15 - FY 16 Amount Change</u>	<u>Percent Change</u>
<b>Positions</b>					
01 Regular	352.10	359.10	359.10	0.00	0%
02 Contractual	39.08	57.39	68.84	11.45	20.0%
<b>Total Positions</b>	<b>391.18</b>	<b>416.49</b>	<b>427.94</b>	<b>11.45</b>	<b>2.7%</b>
<b>Objects</b>					
01 Salaries and Wages	\$ 26,352,694	\$ 29,343,148	\$ 31,456,358	\$ 2,113,210	7.2%
02 Technical and Spec. Fees	1,968,721	2,832,741	3,139,101	306,360	10.8%
03 Communication	638,254	780,061	750,136	-29,925	-3.8%
04 Travel	819,075	1,039,168	1,049,707	10,539	1.0%
06 Fuel and Utilities	2,710	2,381	2,294	-87	-3.7%
07 Motor Vehicles	279,224	279,064	384,537	105,473	37.8%
08 Contractual Services	6,262,595	5,461,528	4,907,568	-553,960	-10.1%
09 Supplies and Materials	419,965	350,321	342,074	-8,247	-2.4%
10 Equipment – Replacement	345,047	138,590	114,511	-24,079	-17.4%
11 Equipment – Additional	241,519	104,383	43,770	-60,613	-58.1%
12 Grants, Subsidies, and Contributions	79,147,718	102,309,882	95,817,812	-6,492,070	-6.3%
13 Fixed Charges	1,299,179	1,298,122	1,374,692	76,570	5.9%
<b>Total Objects</b>	<b>\$ 117,776,701</b>	<b>\$ 143,939,389</b>	<b>\$ 139,382,560</b>	<b>-\$ 4,556,829</b>	<b>-3.2%</b>
<b>Funds</b>					
01 General Fund	\$ 8,556,048	\$ 9,001,821	\$ 9,232,904	\$ 231,083	2.6%
03 Special Fund	103,036,365	128,300,514	123,372,293	-4,928,221	-3.8%
05 Federal Fund	4,711,054	5,009,562	5,320,289	310,727	6.2%
09 Reimbursable Fund	1,473,234	1,627,492	1,457,074	-170,418	-10.5%
<b>Total Funds</b>	<b>\$ 117,776,701</b>	<b>\$ 143,939,389</b>	<b>\$ 139,382,560</b>	<b>-\$ 4,556,829</b>	<b>-3.2%</b>

Note: The fiscal 2015 working appropriation does not include January 2015 Board of Public Works reductions and deficiencies. The fiscal 2016 allowance does not reflect contingent or across-the-board reductions.



**Fiscal Summary  
DLLR – Business Regulation**

<u>Program/Unit</u>	<u>FY 14 Actual</u>	<u>FY 15 Wrk Approp</u>	<u>FY 16 Allowance</u>	<u>Change</u>	<u>FY 15 - FY 16 % Change</u>
02 Financial Regulation	\$ 8,629,278	\$ 9,801,687	\$ 10,460,767	\$ 659,080	6.7%
01 General Administration	731,677	727,900	766,895	38,995	5.4%
02 Employment Standards Services	1,460,243	1,744,122	1,940,978	196,856	11.3%
03 Railroad Safety and Health	387,748	393,327	408,783	15,456	3.9%
05 Safety Inspection	4,557,413	4,991,008	5,289,140	298,132	6.0%
06 Maryland Apprenticeship and Training	283,621	456,077	482,477	26,400	5.8%
07 Prevailing Wage	789,640	987,731	1,046,882	59,151	6.0%
08 Occupational Safety and Health Administration	8,970,575	9,582,690	10,167,149	584,459	6.1%
02 Maryland Racing Commission	42,531,056	52,767,395	50,385,025	-2,382,370	-4.5%
03 Racetrack Operation	2,096,699	2,241,574	2,237,220	-4,354	-0.2%
04 Share of Racing Revenue to Local Subdivisions	0	1,251,800	0	-1,251,800	-100.0%
05 Maryland Facility Redevelopment Program	4,341,730	7,851,098	6,869,213	-981,885	-12.5%
06 Share of Video Lottery Terminal Revenue for Local Impact Grants	32,785,702	40,739,641	38,876,975	-1,862,666	-4.6%
01 Occupational and Professional Licensing	10,211,319	10,403,339	10,451,056	47,717	0.5%
<b>Total Expenditures</b>	<b>\$ 117,776,701</b>	<b>\$ 143,939,389</b>	<b>\$ 139,382,560</b>	<b>-\$ 4,556,829</b>	<b>-3.2%</b>
General Fund	\$ 8,556,048	\$ 9,001,821	\$ 9,232,904	\$ 231,083	2.6%
Special Fund	103,036,365	128,300,514	123,372,293	-4,928,221	-3.8%
Federal Fund	4,711,054	5,009,562	5,320,289	310,727	6.2%
<b>Total Appropriations</b>	<b>\$ 116,303,467</b>	<b>\$ 142,311,897</b>	<b>\$ 137,925,486</b>	<b>-\$ 4,386,411</b>	<b>-3.1%</b>
Reimbursable Fund	\$ 1,473,234	\$ 1,627,492	\$ 1,457,074	-\$ 170,418	-10.5%
<b>Total Funds</b>	<b>\$ 117,776,701</b>	<b>\$ 143,939,389</b>	<b>\$ 139,382,560</b>	<b>-\$ 4,556,829</b>	<b>-3.2%</b>

Note: The fiscal 2015 working appropriation does not include January 2015 Board of Public Works reductions and deficiencies. The fiscal 2016 allowance does not reflect contingent or across-the-board reductions.