P00C
Business Regulation
Department of Labor, Licensing, and Regulation

Operating Budget Data

($ in Thousands)

	FY 15 Actual	FY 16 Working	FY 17 Allowance	FY 16-17 Change	% Change Prior Year
General Fund	$8,657	$8,833	$8,917	$84	1.0%
Deficiencies and Reductions	0	0	-20	-20	
Adjusted General Fund	**$8,657**	**$8,833**	**$8,897**	**$65**	**0.7%**
Special Fund	104,077	122,974	158,827	35,853	29.2%
Deficiencies and Reductions	0	0	-63	-63	
Adjusted Special Fund	**$104,077**	**$122,974**	**$158,764**	**$35,790**	**29.1%**
Federal Fund	4,923	5,226	5,174	-52	-1.0%
Deficiencies and Reductions	0	0	-14	-14	
Adjusted Federal Fund	**$4,923**	**$5,226**	**$5,160**	**-$66**	**-1.3%**
Reimbursable Fund	1,269	1,457	1,305	-152	-10.4%
Adjusted Reimbursable Fund	**$1,269**	**$1,457**	**$1,305**	**-$152**	**-10.4%**
Adjusted Grand Total	**$118,926**	**$138,490**	**$174,127**	**$35,637**	**25.7%**

- There is a $35.6 million increase in the fiscal 2017 allowance, 25.7%, after accounting for a back of the bill reduction for health insurance. General funds increase by $65,000, 0.7%. Special funds increased $35.8 million, 29.1%, due to an increase in Video Lottery Terminal revenues. Federal funds decrease by $66,000, 1.3%. Reimbursable funds decrease $152,000, 10.4%.

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

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Personnel Data

	FY 15 Actual	FY 16 Working	FY 17 Allowance	FY 16-17 Change
Regular Positions	353.10	357.10	357.10	0.00
Contractual FTEs	49.35	68.24	64.50	-3.74
Total Personnel	**402.45**	**425.34**	**421.60**	**-3.74**

Vacancy Data: Regular Positions

Turnover and Necessary Vacancies, Excluding New Positions	10.96	3.07%
Positions and Percentage Vacant as of 12/31/15	32.50	9.10%

- The fiscal 2017 allowance for regular positions remains the same as the working appropriation. The fiscal 2017 allowance reduces the contractual full-time equivalent positions by 3.74, which were largely administrative positions that are no longer necessary.

- The budgeted turnover is 3.07% which requires that 10.96 positions remain vacant. As of December 31, 2015, the department has reported 32.5 vacant positions.

Analysis in Brief

Major Trends

Worker Classification: The number of worker classification referrals and the number of workers found to be misclassified increased in fiscal 2015. There was an increase in the number of referrals in fiscal 2015. The actual number of workers misclassified also increased.

Occupational and Professional Licensing Complaint Resolution: The Department of Labor, Licensing, and Regulation (DLLR) has historically had difficulty resolving and closing complaints. As a result of an effort to close old cases, there has been a significant decrease in the average number of days to resolve cases and a subsequent increase in the percentage of cases closed within 180 days. **The Department of Legislative Services (DLS) recommends that the department comment on the continuing effort to resolve and close cases on behalf of Maryland consumers.**

Issues

Reduction in Licensing Fees: The department, through the Division of Financial Regulations and the Division of Occupational and Professional Licensing, operates boards and commissions to license, regulate, and monitor 24 different professions and trades and regulate financial services. The Governor has ordered a reduction of licensure and other fees that affect revenues in several special funds which support the operations of these divisions. While there is currently enough money available to make these reductions, it is not clear if these fee reductions are sustainable and if there will be an impact on the ability of each board and commission and other programs to continue their work at their current capacity. **DLS recommends that the agency comment on the current special fund balances and projected fund revenues and expenditures for each fund impacted by reduced fees.**

Debt Management Services Fund: Statute requires that all debt settlement services providers register with the Office of Financial Regulation within DLLR and maintain a two-year registration. Debt settlement services providers represent consumers in their efforts to negotiate the compromise of the consumers' debt with various credit providers. The Commission of Financial Regulation in consultation with the Consumer Protection Division of the Office of the Attorney General reported on the efficacy and effectiveness of the Debt Settlement Services Act and provided recommendations specifically regarding if debt settlement service providers should have a licensure requirement and if there should be a cap on the amount that the service providers should charge consumers. The legislation is set to sunset at the end of fiscal 2016. SB 471 has been introduced and would extend or eliminate the sunset. However, the fiscal 2017 allowance includes spending supported by the Debt Management Services Fund. The Debt Management Services Fund also currently has a negative fund balance. The Debt Management Special Fund currently is the depository for all sums collected by the Division of Financial Regulation from persons applying for and licensed as Debt Management Services providers and also those persons registered as Debt Settlement Services Providers. **DLS recommends that the agency comment on the use of funds from the Debt Management Services Fund proposed in the fiscal 2017 allowance.**

Recommended Actions

		Funds
1.	Increase turnover expectancy to 4%.	$ 232,634
	Total Reductions	**$ 232,634**

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. DLLR also administers a variety of federally funded employment service programs. This analysis focuses on the following DLLR 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 26 different professions and trades. The divisions' 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**, which houses the Maryland Racing Commission, 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.

- **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.

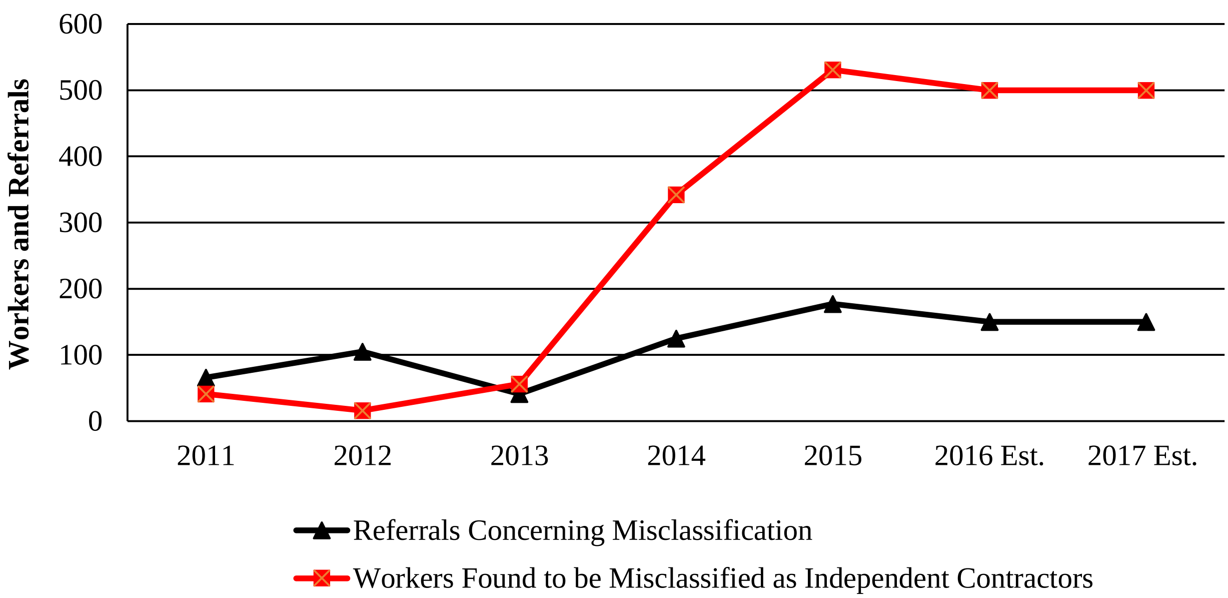
A separate analysis discusses the department's Division of Workforce Development and Adult Learning, Division of Unemployment Insurance, and administrative units.

Performance Analysis: Managing for Results

1. Worker Classification

Exhibit 1 shows the increase in the number of referrals concerning workers being misclassified as contractors when they should have been classified by their employers as full-time employees. There was an increase in the number of referrals from 125 in fiscal 2014 to 177 in fiscal 2015. The number of workers found to be misclassified increased in a similar pattern from 342 in fiscal 2014 to 531 in fiscal 2015. Misclassifications can occur for a variety of reasons: the definition of a contractor *vs.* a regular employee is not always clear; and when the economy is weak, misclassifications often occur because companies try to save money by hiring contractors who do not get the benefits package customary for regular employees. In an effort to combat this issue, the Worker Classification Unit in the Division of Labor and Industry investigates complaints of misclassification as does the Division of Unemployment Insurance housed in the Division of Workforce Development.

Exhibit 1
Worker Misclassification
Fiscal 2011-2017 Est.

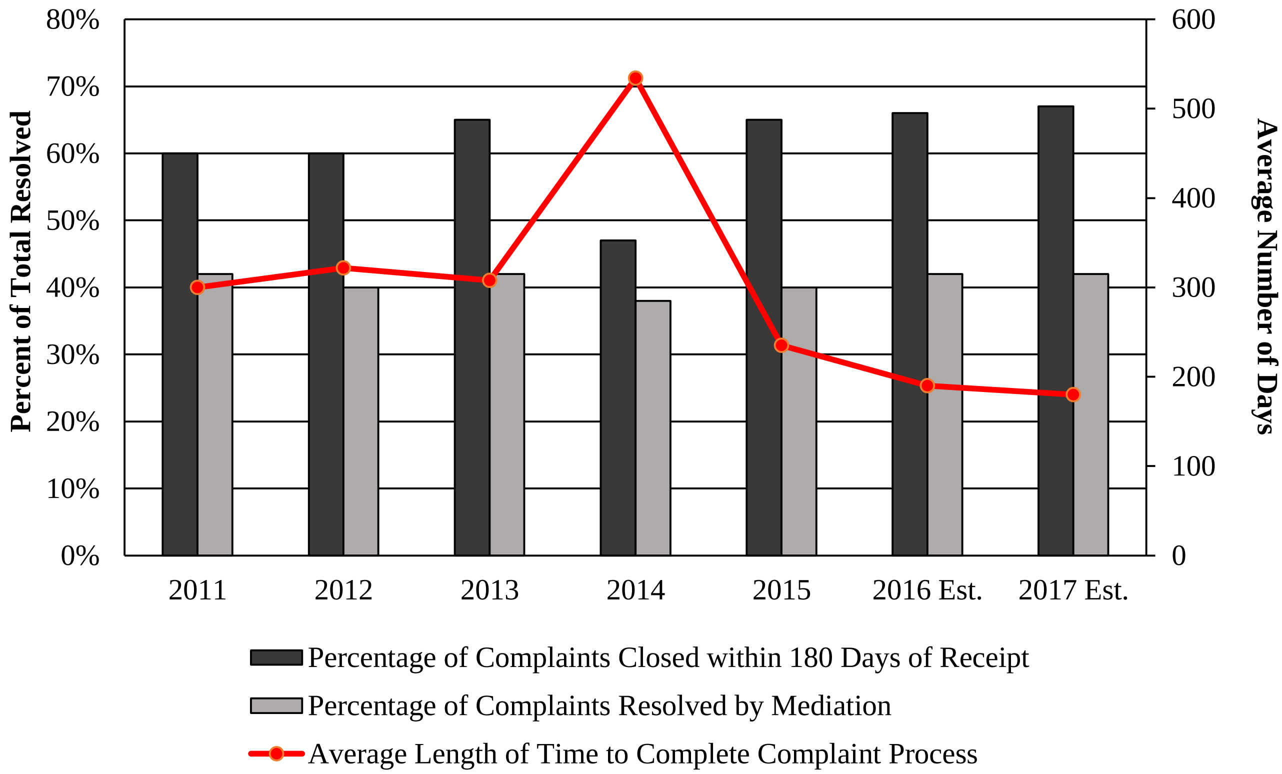


Source: Department of Budget and Management

2. Occupational and Professional Licensing Complaint Resolution

The Division of Occupational and Professional Licensing handles consumer complaints about individuals or companies that are or should be licensed by the department. The goal of the division is to protect the public's health and safety through the efficient review, resolution, and adjudication of consumer complaints. As a result of an effort to close old cases, there has been a significant decrease in the average number of days to resolve cases and a subsequent increase in the percentage of cases closed within 180 days. This has been a past problem for the division as shown in **Exhibit 2**, in particular during fiscal 2014, but the fiscal 2015 data indicates that the measures taken to resolve the issue have been effective and projections show a trend toward decreasing the average number of days that it takes to resolve a complaint.

Exhibit 2
Occupational and Professional Licensing
Complaint Resolution
Fiscal 2011-2017 Est.



Source: Department of Budget and Management

The division seeks to close 70% of complaints within a 180-day timeframe. Some of the strategies used since fiscal 2014 to reach this goal are:

- hiring a new executive director and new inspector for cosmetology and barbering and developing standard operating procedures to improve uniformity and efficiency. Consequently, open complaints in this area dropped from a high of 672 in November 2013 to 71 in August 2014;

- the home improvement division, which had over 800 complaints per month for all of fiscal 2013 and the first half of fiscal 2014, 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; and

- the division also implemented an alternative dispute resolution process in order to avoid hearings.

As a result of these combined strategies, the percent of complaints resolved by mediation increased from 38% in fiscal 2014 to 40% in fiscal 2015, and the percent of complaints closed within 180 days increased from 47% to 65%, which is just slightly below the 70% agency target. In addition to the increase in complaints resolved in 180 days, the average length of time to resolve complaints dropped 44% from 534 days in fiscal 2014 to 235 days in fiscal 2015. The agency estimates that they will reach their 180-day resolution target by the end of fiscal 2017.

Fiscal 2016 Actions

Cost Containment

The Administration's fiscal 2016 cost containment strategy includes a 2% across-the-board reduction in general funds. The fiscal 2016 cost containment reduction for Business Regulation is $121,598, which includes a salary realignment, as well as a reduction in administrative, personnel, and nonpersonnel costs.

Proposed Budget

As seen in **Exhibit 3**, after accounting for back of the bill reductions in health insurance, the fiscal 2017 allowance increases $35.6 million, or 25.7%, from the working appropriation. A $34.9 million increase in Video Lottery Terminal (VLT) revenue contributes significantly to the increase.

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

How Much It Grows:	General Fund	Special Fund	Federal Fund	Reimbursable Fund	Total
Fiscal 2015 Actual	$8,657	$104,077	$4,923	$1,269	$118,926
Fiscal 2016 Working Appropriation	8,833	122,974	5,226	1,457	138,490
Fiscal 2017 Allowance	8,897	158,764	5,160	1,305	174,127
Fiscal 2016-2017 Amount Change	$65	$35,790	-$66	-$152	$35,637
Fiscal 2016-2017 Percent Change	0.7%	29.1%	-1.3%	-10.4%	25.7%

Where It Goes:	
Personnel Expenses	
Employees' Retirement System	$501
Miscellaneous adjustments	356
Regular earnings	290
Employee and retiree health insurance	236
Turnover adjustments	251
Other fringe benefit adjustments	-25
Gaming and Racing	
Share of video lottery terminal revenue for local impact grants	23,979
Maryland Racing Commission purse enhancements	8,921
Grants for racing facility redevelopment	2,053
Laboratory services in racetrack operations	69
Occupational and Professional Licensing	
Fixed charges (rent, insurance, and subscription costs)	109
Contractual employees	102
Expert witnesses	20
Applications hearings and allocations	-262
Labor and Industry	
Office supplies and materials for MOSH	-27
Apprenticeship contractual employees	-42
Motor vehicle purchase for MOSH	-44
Communications and travel for MOSH	-51
Safety inspection vehicle	-99

Where It Goes:	
Apprenticeship grant	-140
Financial Regulation	
Financial regulation travel	-54
Financial regulation contractual employees	-146
Foreclosed Property Registry and the Notice of Intent to Foreclose website upgrades	-200
Other	-160
Total	**$35,637**

DLLR: Department of Labor, Licensing, and Regulation
MOSH: Maryland Occupational Safety and Health

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

Across-the-board Reductions

The fiscal 2017 budget bill includes an across-the-board reduction for employee health insurance, based on a revised estimate of the amount of funding needed. This agency's share of these reductions is $19,533 in general funds, $62,834 in special funds and $14,331 in federal funds. There is an additional across-the-board reduction to abolish vacant positions statewide, but the amounts have not been allocated by agency.

Personnel

In personnel, there are increases of $501,000 for retirement, and $236,000 for health insurance in fiscal 2017. There is also an increase of $290,000 for regular salaries because of the movement of 4.0 regular positions from the Workforce Development section of DLLR, and $356,000 for miscellaneous adjustments for reclassifications. The turnover adjustment included in the fiscal 2017 allowance provides turnover relief of $251,000, reducing the necessary vacancy rate to 3%, or 10.96 positions. As of December 2015, there were 32.5 positions vacant or a vacancy rate of 9.1%. **The Department of Legislative Services (DLS) recommends that the turnover expectancy be increased by $232,000, increasing the turnover rate to 4.0% and requiring 14.28 positions to be held vacant.**

Division of Racing

VLT Special Funds

Business Regulation has a fiscal 2017 increase of $35.0 million in VLT special funds:

- $23,979,000 increase for local impact grants;
- $8,921,000 increase for the Racing Commission; and
- $2,053,000 increase for Racetrack Facility Redevelopment.

The VLT revenue allocated to the Racing Division is broken down by percentage and distributed to each fund for its statutorily designated purpose, as follows:

- $58.0 million, 7.0% of VLT revenues, to a purse dedication account to enhance horse racing purses and breed funds. The percentage of VLT revenue dedicated to purses falls to 6.0% once the sixth facility opens, likely mid-year fiscal 2017;
- $62.9 million, 5.5% of VLT revenues, and beginning in fiscal 2017, 5.0% of table game revenue, for local impact grants. Revenues are statutorily authorized to be used to the benefit of the horse racing industry and the jurisdictions that contain the gaming facilities. There are currently five VLT facilities, located in Allegany, Anne Arundel, Cecil, and Worcester counties as well as Baltimore City. A sixth facility in Prince George's County will open in mid-year fiscal 2017. **Exhibit 4** shows the breakdown of VLT local impact grant funds for fiscal 2017 as well as the increase from the fiscal 2016 appropriation; and
- $8.9 million, 1.0% of VLT revenues, to a racetrack renewal account for racetrack facility capital construction and improvements. Racetracks are able to apply for funding directly from the Racing Division within DLLR. 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 million to $20 million and any unencumbered funds will be allocated to the Education Trust Fund.

Exhibit 4
Gaming Revenue for Local Impact Grants
Fiscal 2016-2017

County	Working Appropriation Fiscal 2016	Allowance Fiscal 2017	$ Change
Allegany County	$1,316,253	$1,475,441	$159,188
Anne Arundel County	18,012,776	23,995,681	5,982,905
Baltimore City	10,695,086	21,604,283	10,909,197
Cecil County	3,828,142	4,090,435	262,293
Prince George's County	1,000,000	8,403,570	7,403,570
Worcester County	4,024,718	3,286,710	-738,008
Total	**$38,876,975**	**$62,856,120**	**$23,979,14**

Source: Department of Budget and Management

The increases in these grant programs total approximately $34,953,000, which is responsible for about 98% of the increases from fiscal 2016 to 2017 for the agency.

Racing Revenue

The horse racing special fund is comprised of taxes on wagering and a variety of fees. One of the mandated uses of the fund 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 working appropriation and the fiscal 2017 allowance do not include any funds for local impact aid.

Division of Occupational and Professional Licensing

The Division of Occupational and Professional Licensing is responsible for the licensing boards that regulate a variety of nonhealth professions. The division has a $109,000 increase in fixed charges, which includes rent to the Department of General Services, insurance to the State Treasurers Office, and subscriptions and dues paid to relevant associations. There is also an increase of $102,000 for a contractual investigator for tax preparers, and an administrative specialist for the Real Estate Commission. There is a $262,000 decrease for statewide application hearing and allocations costs.

Division of Labor and Industry

The Division of Labor and Industry had a total of $221,000 in decreases comprised of reductions in office supplies, travel, and communications. There is also a $42,000 decrease in contractual employees and a $140,000 decrease in grant funds in the Maryland Apprenticeship and Training

Program because of lack of funding in the special funds that support the program. These special funds come from contractors and subcontractors that contribute. The fund fluctuates because, instead of contributing directly to the fund, contractors can choose to participate directly in an apprenticeship program or contribute to an organization that has a registered apprenticeship program.

Office of Financial Regulation

In the Office of Financial Regulation there are decreases including $146,000 for a contractual administrative specialist and $200,000 in one-time expenses associated with the website upgrades for the Foreclosed Property Registry and the Notice of Intent to Foreclose website.

Issues

1. Reduction in Licensing Fees

The department, through the Division of Financial Regulations and the Division of Occupational and Professional Licensing, establishes boards and commissions to license, regulate, and monitor multiple professions and trades and regulate financial services. In September 2015, the Governor ordered a reduction of licensure fees that affect revenues in several special funds. **Exhibit 5** outlines the licenses affected, as well as the original and reduced fees. Fiscal 2017 projected revenue losses are illustrated in **Exhibit 6.**

Exhibit 5
Fee Reductions for Department of Labor, Licensing, and Regulation

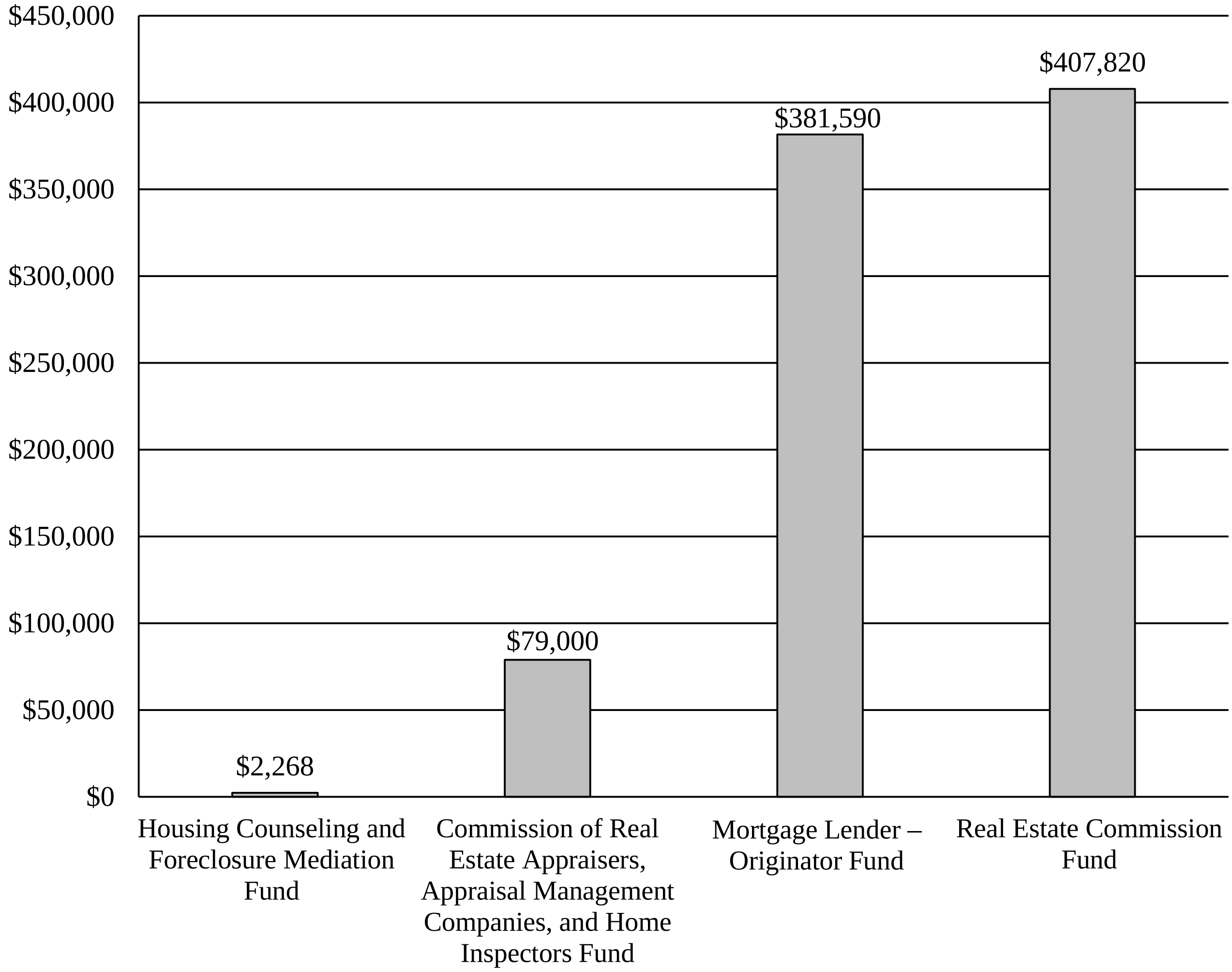
Fee Name/Description	License Term*	New Fee	Most Recent Fee	Previous License Term*	Previous Fee	Affected Fund Type
Housing Counseling and Foreclosure Mediation Fund						
Foreclosure – Prefile Mediation (Application)	n/a	$1	$350	n/a	Est. 2012 No changes	SF
MHIC Guaranty Fund Assessment (Renewal)	2	125	150	2	$200	Guaranty Fund
Commission of Real Estate Appraisers, Appraisal Management Companies, and Home Inspectors Fund						
Appraisal Management Company (Original Registration)	1	1,750	2,250	n/a	Est. 2012 No changes	SF/GF
Appraisal Management Company (Annual Registration)	1	2,000	2,500	n/a	Est. 2012 No changes	SF/GF
Mortgage Lender-Originator Fund						
Mortgage Loan Originator – Employer/Name Change (License Amendment)	n/a	20	75	n/a	Est. 2005 No changes	SF
Mortgage Loan Originator (Application Investigation)	1	1	100	n/a	Est. 2005 No changes	SF
Affiliated Insurance Producers – Mortgage Loan Originators – Employer/Name Change (License Amendment)	n/a	20	75	n/a	Est. 2009 No changes	SF
Affiliated Insurance Producers – Mortgage Loan Originators – (Application Investigation)	1	1	100	n/a	Est. 2009 No changes	SF
Mortgage Lenders (Application Investigation)	1	1	100	n/a	Est. 1997 No changes	SF
Real Estate Commission Fund						
Broker License (Initial)	2	190	210	2	95	SF
Broker License (Renewal)	2	170	190	2	95	SF
Associate Broker License (Initial)	2	130	150	2	65	SF
Associate Broker License (Renewal)	2	110	130	2	65	SF
Salesperson License (Initial)	2	90	110	2	45	SF
Salesperson License (Renewal)	2	70	90	2	45	SF

* In years.

GF: General Fund
MHIC: Maryland Home Improvement Commission
n/a: not applicable
SF: special fund

Source: Department of Legislative Services

Exhibit 6
Projected Revenue Loss from Fee Reductions
Fiscal 2017



Source: Department of Legislative Services

The Real Estate Commission Fund

The fees for obtaining a license as a real estate broker, associate real estate broker, or real estate sales person and all license renewals are collected in the State Real Estate Commission Fund. These fees were reduced as shown in the exhibit. The estimated fiscal impact of this series of fee reductions is a decrease of $203,940 in fiscal 2016 and a reduction of $407,820 in the fund for fiscal 2017 and thereafter.

State Commission of Real Estate Appraisers, Appraisal Management Companies, and Home Inspectors Fund

There were fee reductions for the appraisal management company for application review, original registration, and annual registration with the Commission of Real Estate Appraisers, appraisal management companies, and the Home Inspectors Commission as seen in Exhibit 5. These fees reduce special fund revenues by approximately $39,500 in fiscal 2016 and by $79,000 annually thereafter.

Mortgage Lender-Originator Fund

The Mortgage Lender-Originator Fund collects the fees for mortgage lenders, which is anyone that brokers, makes, or services a loan or other extension of credit secured by a lien on residential real property. A person may not engage in the business of a mortgage lender in this State without first obtaining a license from DLLR.

There was a reduction in the investigation fee for a mortgage lender license applicant from $100 to $1, which is expected to reduce funds to the Mortgage Lender-Originator Fund by $49,401 annually.

There was a reduction of the investigation fee for mortgage loan originator applicants and affiliated insurance producer-mortgage loan originator applicants as well as a reduction for the license amendment fee for mortgage loan originators and affiliated insurance producer-mortgage loan originators. The reductions for each fee can be seen in Exhibit 5. These fees are also collected in the Mortgage Lender-Originator Fund and are projected to decrease the fund by $381,590 annually.

It should be noted that SB 88 is currently proposing to consolidate the Mortgage Lender-Originator Fund, the Debt Management Services Fund, and the Money Transmission Fund into the Nondepository Special Fund. This will be discussed with more detail in the Debt Management Services Fund Issue.

Housing Counseling and Foreclosure Mediation Fund

Chapter 156 of 2012 established a process through which a secured party (a person who has an interest in real property secured by a lien, including a mortgage and the holder of a note secured by a deed of trust) and a homeowner may participate in mediation conducted by the Office of Administrative Hearings before an action is filed to foreclose a lien on owner-occupied residential property. The Act authorized a secured party to pre file mediation and established procedures for a homeowner to elect to participate in pre file mediation. As seen in the exhibit, the fee to pre file mediation was reduced. This reduction is expected to decrease revenues in the Housing Counseling and Foreclosure Mediation Fund by $2,268 annually.

As shown in **Exhibit 7**, there is also currently proposed legislation (HB 459) that would reduce fees for the Maryland Home Improvement Commission. It is currently unclear what the long-term fiscal effects of the proposed fee cuts will be. **DLS recommends that the agency comment on the**

current special fund balances and projected fund revenues and expenditures for each fund impacted by reduced fees and the fiscal effects of the proposed HB 459.

Exhibit 7
Proposed Fee Reductions for the Maryland Home Improvement Commission
(HB 459)

License	Current Fees	Proposed Fees
Contractor	$250	$225
Contractor Renewal	250	225
Subcontractor	150	125
Subcontractor Renewal	150	125
Salesperson	100	75
Salesperson Renewal	100	75
Application Processing Fee	20	15

Source: Department of General Services

2. Debt Management Services Fund

The Maryland Debt Settlement Services Act (DSSA) requires that all debt settlement service providers engaging in the business of providing debt settlement services must register with the Office of Financial Regulation within DLLR and maintain a two-year registration. It is important to distinguish debt service programs with the debt collectors. Debt settlement service providers, or programs, are defined in Financial Institutions Article Section 12-1001 (d) (1) from the *Code of Maryland Regulations* and are generally those persons who on behalf of a consumer attempt to renegotiate, settle, reduce or in any way alter the terms of payment or the terms of debt between a consumer and one or more unsecured creditor or debt collector. In order to maintain their registered status, debt service programs must submit an application to the commissioner and pay a $1,000 nonrefundable fee with a $1,000 renewal registration fee. The application and renewal fees are placed in the Debt Management Services Fund with the sole purpose of providing funds related to the cost of the program.

The original DSSA was a temporary measure set to expire on June 30, 2015. Through Chapters 276 and 277 from the 2014 regular session, the DSSA was extended to June 1, 2016, and amended to include a reporting requirement. Specifically, the Office of the Commissioner of Financial

Regulation of DLLR and the Office of Consumer Protection of the Office of the Attorney General (OAG) were to evaluate the efficacy and effectiveness of the DSSA including:

- whether to transition from a registration requirement to a licensure requirement for debt settlement services providers; and

- whether capping debt settlement services fees charged to consumers by companies would be beneficial to consumers and fair to the debt settlement services industry.

While both the commissioner and OAG agreed that licensure is not necessary for debt settlement companies, there are divergent opinions on the continuation of the registration program and whether the fees charged by debt settling companies should be capped. The commissioner was of the position that the registration should not continue and the DSSA should sunset as it is currently written because the number of complaints received did not justify the cost of the registration system. The commissioner also asserted that there should not be a cap on debt settlement services because it could adversely affect smaller debt settlement companies as 61% of registrants have less than 1,000 accounts and, because of the low number of complaints received, it is undemonstrated that a cap in fees would benefit consumers.

Should the DSSA not be allowed to sunset, the commissioner recommended that the requirement for registrants to file an annual report and profit and loss statement be eliminated. OAG asserted that fees for debt settlement services should be based on the percentage of debt that the company is able to save the consumer on debts. OAG also noted that because most consumers do not have all of their debts settled, without a cap on the fee they could end up in a worse financial position than they were in prior to the use of debt settlement services.

The Debt Management Services Fund showed a deficit at the end of fiscal 2015 and currently in fiscal 2016. Despite the deficit, the fiscal 2017 allowance has a $10,000 increase in spending from the fund, $119,448 in total. There is currently proposed legislation (SB 471) that will repeal the sunset provision and continue the registration of debt settlement services providers by the Office of the Commissioner of Financial Regulation. There is also legislation that proposes changes to the language so that funds will be collected in the Nondepository Special Fund (SB 88). The legislation would consolidate the Debt Management Services Fund, the Mortgage Lender-Originator Fund, and the Money Transmission Fund into a single fund. This will allow the agency to reduce administrative resources used to manage three separate funds. **Exhibit 8** compares the existing special fund balances and proposed consolidated Nondepository Special Fund using fiscal 2015 data. **DLS recommends that the agency comment on the proposed legislation (SB 88 and SB 471). The agency should also comment on the net revenue of the three special funds and the ability of the revenue in the proposed Nondepository Fund to support proposed expenditures in the long term.**

Exhibit 8
Comparison of Existing Special Fund Balances and New Consolidated Nondepository Special Fund Using Fiscal 2015 Data

	Mortgage Lender-Originator	Money Transmission	Debt Management	Consolidated Nondepository
Special Fund Balance Carried Forward on July 1, 2014	**$5,311,168**	**$40,284**	**$32,631**	**$5,384,083**
Revenue				
Licensing and Investigation Fees	$5,186,629	$326,000	$18,792	$5,531,421
Examination Fees	310,497	34,380	6,962	351,839
Miscellaneous Income/Other	26,409	-1	-173	26,235
BRFA Transfer	-3,000,000	0	0	-3,000,000
Total Revenue	**$2,523,535**	**$360,379**	**$25,581**	**$2,909,495**
Expenditures				
Salaries and Benefits	$3,102,605	$163,750	$85,113	$3,351,468
Technical and Special Fees	283,029	0	0	283,029
Communication	63,105	1,653	913	65,671
Travel/Training	45,571	18,529	9,432	73,532
Lease Expense, Parking Facilities	27,720	1,848	924	30,492
Contractual Services	84,716	8	4	84,728
Supplies and Materials	44,598	112	0	44,710
Equipment	25,015	0	0	25,015
Fixed Charges, Rent	160,833	3,547	0	164,380
Administrative Expenses	541,205	26,326	16,585	584,116
Total Expenditures	**$4,378,397**	**$215,773**	**$112,971**	**$4,707,141**
Net Revenue for Fiscal 2015	**-$1,854,862**	**$144,606**	**-$87,390**	**-$1,797,646**
Special Fund Balance Carried Forward on July 1, 2015	**$3,456,306**	**$184,890**	**-$54,759**	**$3,586,437**

BRFA: Budget Reconciliation and Financing Act

Note: Chapter 489 of 2015, more commonly known as BRFA, required the transfer of $3 million from the Mortgage Lender-Originator Special Fund to the general fund in fiscal 2015.

Source: Department of Labor, Licensing, and Regulation

Recommended Actions

		Amount Reduction	
1.	Increase turnover from 3% to 4% because the fiscal 2017 budgeted turnover is significantly lower than the actual vacancy rate.	$ 75,285 124,124 33,225	GF SF FF
	Total Reductions	**$ 232,634**	
	Total General Fund Reductions	**$ 75,285**	
	Total Special Fund Reductions	**$ 124,124**	
	Total Federal Fund Reductions	**$ 33,225**	

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 2015					
Legislative Appropriation	$9,366	$129,037	$5,015	$1,627	$145,046
Deficiency Appropriation	0	-4,074	0	0	-4,074
Cost Containment	-380	0	0	0	-380
Budget Amendments	-279	-717	-5	0	-1,001
Reversions and Cancellations	-50	-20,169	-87	-358	-20,664
Actual Expenditures	**$8,657**	**$104,077**	**$4,923**	**$1,269**	**$118,926**
Fiscal 2016					
Legislative Appropriation	$8,480	$122,672	$5,164	$1,457	$137,773
Budget Amendments	353	302	62	0	717
Working Appropriation	**$8,833**	**$122,974**	**$5,226**	**$1,457**	**$138,490**

Note: The fiscal 2016 working appropriation does not include deficiencies or reversions. Numbers may not sum to total due to rounding.

Fiscal 2015

The 2015 legislative appropriation for Business Regulation decreased by $26,119,602. Cost containment decreased general funds by $380,037. Budget amendments decreased general funds by a net $278,919 including a $51,518 increase for a cost-of-living adjustment (COLA), offset by decreases of $141,891 for the realignment of the Office of Information Technology funds, $158,790 for a salary realignment, and $29,756 for the Voluntary Separation Program.

There was a general fund reversion of $50,059 from extended vacancies.

The special fund appropriation decreased by $24,960,413. A deficiency appropriation decreased general funds by $4,073,964 as a result of reduced VLT revenue for local impact grants. Budget amendments decreased special funds by $717,155 including an increase of $148,918 for a COLA, $155,172 for contractual positions in Banking/Credit Union, Mortgage and Foreclosure Property registry programs, and $19,663 for unanticipated expenses in the Railroad Safety program. This was offset by a decrease of $1,040,828 for the realignment of the Office of Information Technology funds.

There was a special fund cancellation of $20,169,374 from vacancies and revenue shortfalls.

The federal fund appropriation decreased by $91,971. Budget amendments decreased federal funds by $5,412 including an increase of $31,681 for a COLA and a decrease of $37,903 for the realignment of the Office of Information Technology. There was a federal fund cancellation of $86,559.37 that was appropriated for travel and vacancies.

The reimbursable fund appropriation decreased by $358,223. The funds were canceled because of an overestimation of reimbursement expenses.

Fiscal 2016

To date, the fiscal 2016 legislative appropriation has increased by $717,000. The General Fund increased by $352,918 to restore the 2% pay cut.

The special fund appropriation increased by $302,248 for the restoration of the 2% pay cut and the federal fund appropriation increased by $61,897, also for the restoration of the 2% pay cut.

Object/Fund Difference Report
DLLR – Business Regulation

Object/Fund	FY 15 Actual	FY 16 Working Appropriation	FY 17 Allowance	FY 16 - FY 17 Amount Change	Percent Change
Positions					
01 Regular	353.10	357.10	357.10	0.00	0%
02 Contractual	49.35	68.24	64.50	-3.74	-5.5%
Total Positions	**402.45**	**425.34**	**421.60**	**-3.74**	**-0.9%**
Objects					
01 Salaries and Wages	$ 28,042,654	$ 30,423,144	$ 32,128,933	$ 1,705,789	5.6%
02 Technical and Spec. Fees	2,315,026	3,000,026	2,932,828	-67,198	-2.2%
03 Communication	640,398	720,743	629,772	-90,971	-12.6%
04 Travel	867,733	1,051,261	929,130	-122,131	-11.6%
06 Fuel and Utilities	5,587	2,294	5,398	3,104	135.3%
07 Motor Vehicles	233,530	384,537	243,117	-141,420	-36.8%
08 Contractual Services	5,141,666	5,198,211	4,771,271	-426,940	-8.2%
09 Supplies and Materials	301,927	318,499	277,756	-40,743	-12.8%
10 Equipment – Replacement	105,565	155,097	147,847	-7,250	-4.7%
11 Equipment – Additional	72,715	43,770	43,770	0	0%
12 Grants, Subsidies, and Contributions	79,802,435	95,817,812	130,629,972	34,812,160	36.3%
13 Fixed Charges	1,396,842	1,374,692	1,483,875	109,183	7.9%
Total Objects	**$ 118,926,078**	**$ 138,490,086**	**$ 174,223,669**	**$ 35,733,583**	**25.8%**
Funds					
01 General Fund	$ 8,656,969	$ 8,832,695	$ 8,916,895	$ 84,200	1.0%
03 Special Fund	104,076,838	122,974,171	158,826,995	35,852,824	29.2%
05 Federal Fund	4,923,002	5,226,146	5,174,425	-51,721	-1.0%
09 Reimbursable Fund	1,269,269	1,457,074	1,305,354	-151,720	-10.4%
Total Funds	**$ 118,926,078**	**$ 138,490,086**	**$ 174,223,669**	**$ 35,733,583**	**25.8%**

Note: The fiscal 2016 working appropriation does not include deficiencies or reversions. The fiscal 2017 allowance does not include contingent reductions.

Appendix 2

Fiscal Summary
DLLR – Business Regulation

Program/Unit	FY 15 Actual	FY 16 Wrk Approp	FY 17 Allowance	Change	FY 16 - FY 17 % Change
01 Division of Financial Regulation	$ 9,350,780	$ 10,144,589	$ 10,535,623	$ 391,034	3.9%
01 Division of Labor and Industry	16,802,207	19,689,565	19,745,226	55,661	0.3%
01 Division of Racing	82,529,467	98,293,340	133,437,193	35,143,853	35.8%
01 Division of Occupational and Professional Licensing	10,243,624	10,362,592	10,505,627	143,035	1.4%
Total Expenditures	**$ 118,926,078**	**$ 138,490,086**	**$ 174,223,669**	**$ 35,733,583**	**25.8%**
General Fund	$ 8,656,969	$ 8,832,695	$ 8,916,895	$ 84,200	1.0%
Special Fund	104,076,838	122,974,171	158,826,995	35,852,824	29.2%
Federal Fund	4,923,002	5,226,146	5,174,425	-51,721	-1.0%
Total Appropriations	**$ 117,656,809**	**$ 137,033,012**	**$ 172,918,315**	**$ 35,885,303**	**26.2%**
Reimbursable Fund	$ 1,269,269	$ 1,457,074	$ 1,305,354	-$ 151,720	-10.4%
Total Funds	**$ 118,926,078**	**$ 138,490,086**	**$ 174,223,669**	**$ 35,733,583**	**25.8%**

Note: The fiscal 2016 working appropriation does not include deficiencies or reversions. The fiscal 2017 allowance does not include contingent reductions.

Appendix 3