P00
Department of Labor, Licensing, and Regulation

Operating Budget Data

($ in Thousands)

	FY 06 Actual	FY 07 Working	FY 08 Allowance	FY 07-08 Change	% Change Prior Year
General Fund	$16,681	$16,226	$15,987	-$239	-1.5%
Special Fund	21,636	25,942	37,940	11,998	46.3%
Federal Fund	122,578	136,203	107,487	-28,716	-21.1%
Reimbursable Fund	1,846	6,780	6,717	-63	-0.9%
Total Funds	**$162,742**	**$185,152**	**$168,131**	**-$17,020**	**-9.2%**

- The allowance provides a $12.5 million fiscal 2007 deficiency in special funds to cover federal fund shortfalls primarily within the Division of Unemployment Insurance. An additional fiscal 2007 deficiency of $475,000 is included to provide special funds for the administration of the mortgage originator licensure program.

- The fiscal 2008 allowance declines by $17.0 million, or 9.2% from the fiscal 2007 working appropriation. However, the one-time use of the health insurance surplus overstates this decline. Absent this, the budget actually declines by $12.3 million, or 6.8%.

- Decreases in the budget are attributable to the significant loss of federal funds for workforce development and for unemployment insurance. This loss is partially offset by the use of Reed Act funds (special funds from the State's Unemployment Insurance Trust Fund).

Personnel Data

	FY 06 Actual	FY 07 Working	FY 08 Allowance	FY 07-08 Change
Regular Positions	1,459.55	1,474.55	1,480.15	5.60
Contractual FTEs	201.66	191.26	177.20	-14.06
Total Personnel	**1,661.21**	**1,665.81**	**1,657.35**	**-8.46**

Vacancy Data: Regular Positions

Turnover, Excluding New Positions		55.21	3.73%	
Positions Vacant as of 12/31/06		108.28	7.34%	

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

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- The fiscal 2008 allowance includes funds for a net increase of 5.6 regular positions. This includes the increase of 7.0 positions within the Division of Labor and Industry and the abolishment of 1.4 regular positions.

Analysis in Brief

Major Trends

Consumer Complaints Against Financial Institutions Decline: Consumer complaints fall precipitously as the Division of Financial Regulation initiates a new licensing scheme of mortgage originators.

Inspection Rate Falls within Division of Labor and Industry: The department exacerbates a consistent boiler inspection backlog by falling short of inspection goals in fiscal 2006.

More Workers Receive Safety Training: The Division of Labor and Industry's outreach efforts have led to more workers attending safety and health seminars and hazard training classes.

Issues

Licensing of Elevator Mechanics and Contractors: Chapter 703 of 2001 established the Elevator Safety Review Board and required elevator contractors and mechanics to be licensed by the board before conducting business in Maryland. To date, the department has not processed any applications, issued any licenses, or collected any related fees. **The department should discuss its plans for licensing elevator mechanics and contractors as required by State law.**

Bank Mergers: The changing nature of the banking industry affects how the State regulates it. The recent purchase of the local Mercantile Bankshares Corp., by out-of-state PNC Financial Services Group, Inc will result in a loss of approximately $1 million in annual general funds from bank fees. **The department should brief the budget committees on how these changes impact State revenues and the workload of the Division of Financial Regulation.**

Accord Struck within the Racing Industry: Since the advent of simulcast wagering in the State, the owners and operators of the State's thoroughbred and harness racing tracks have operated under a revenue sharing agreement whereby the amount of money wagered via simulcasting at the various tracks was pooled and then divided among the tracks. Effective April 2006, a new 15-year revenue sharing agreement went into effect. **The department should comment on the new agreement and the likelihood that it will facilitate the debate on future funding enhancements for the industry.**

Reporting Needed for Oversight of Unemployment Insurance (UI) Account: In light of recent actions that have impacted the UI trust fund balance, additional oversight of the financial position of the fund is warranted. **The Department of Legislative Services recommends that narrative be adopted requiring the department to report on aggregate inflows, outflows, and balances of the UI trust fund on a quarterly basis to allow the committees to monitor changes in the financial position of the fund.**

Recommended Actions

		Funds	Positions
1.	Delete funds for consultant's study of Managing for Results data.	$ 3,500	
2.	Delete three long-term vacant positions.	174,596	3.0
3.	Delete two of the seven proposed new positions and associated funding.	109,376	2.0
4.	Delete the increase in out-of-state travel expenditures in the Racing Commission.	7,828	
5.	Delete grants to aid Russian immigrants.	75,000	
6.	Adopt narrative requesting quarterly reporting on the Unemployment Insurance Trust Fund balance.		
	Total Reductions	**$ 370,300**	**5.0**

Updates

Use of the Special Administrative Expense Fund: Chapter 527 of 2006 expanded the uses of the Unemployment Insurance Special Administrative Expense Fund.

P00
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. In addition to the Office of the Secretary, the department has six operating divisions:

- **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.
- **Division of Workforce Development** operates workforce development programs including job services, Workforce Investment Act, and labor market information programs.
- **Division of Unemployment Insurance** operates the federally funded unemployment insurance programs.
- **Division of Occupational and Professional Licensing** licenses, regulates, and monitors 21 different professions and trades through boards and commissions. All but 7 boards are supported by the general fund.
- **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.
- **Division of Financial Regulation** regulates commercial banks, trust companies, credit unions, mortgage lenders and originators, collection agencies, and consumer loan companies.

Each division has its own set of goals and objectives based on its mission, but the department's general goals are to:

- provide a worker safety net, protect workers' rights, and foster work force development;
- improve workplace safety and worker health;
- prevent injuries and save lives of people using railroads, boilers, escalators, pressure vessels, and amusement rides;
- assure the basic competence and regulation compliance of occupational and professional licensees;

- maintain the integrity of the horse racing industry; and
- protect consumers of financial services.

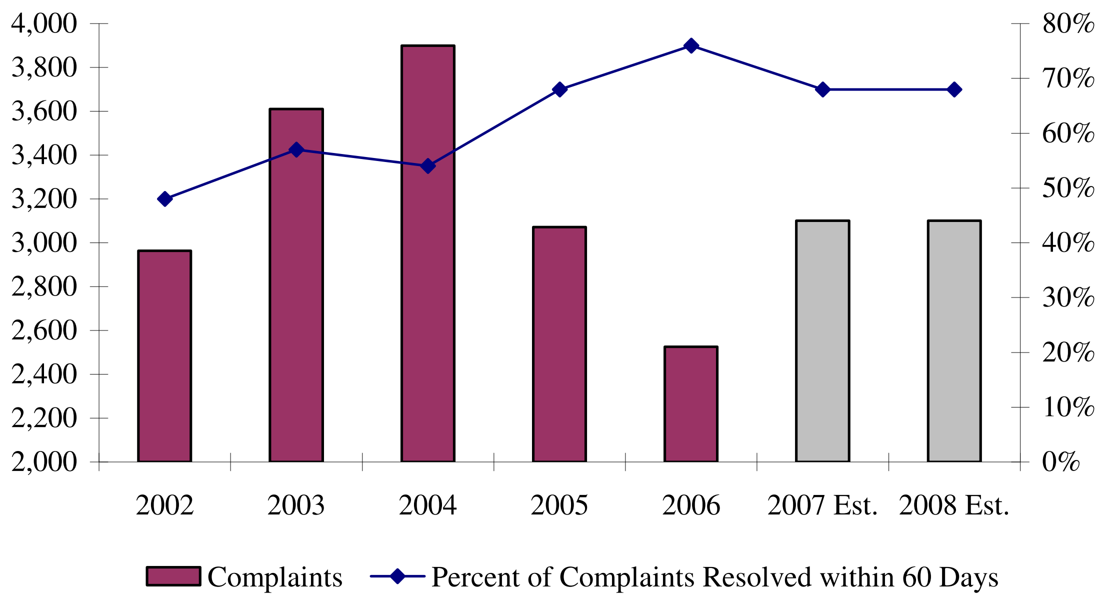
Performance Analysis: Managing for Results

Consumer Complaints Against Financial Institutions Decline

The Division of Financial Regulation's goals are to protect financial services consumers, ensure appropriate licensing and maintain soundness in the financial services industry. As part of these responsibilities, the division fields complaints from consumers and strives to rectify issues. Its goal is to reach disposition on at least 68% of all complaints and inquiries within 60 days.

As shown in **Exhibit 1**, the department greatly exceeded this goal in fiscal 2006 by processing 76% of complaints within 60 days. However, this may have less to do with increased efficiency than with the fact that the number of complaints reached a recent low of 2,525.

Exhibit 1
Division of Financial Regulation Complaint Disposition
Fiscal 2002-2008



Source: Department of Labor, Licensing, and Regulation

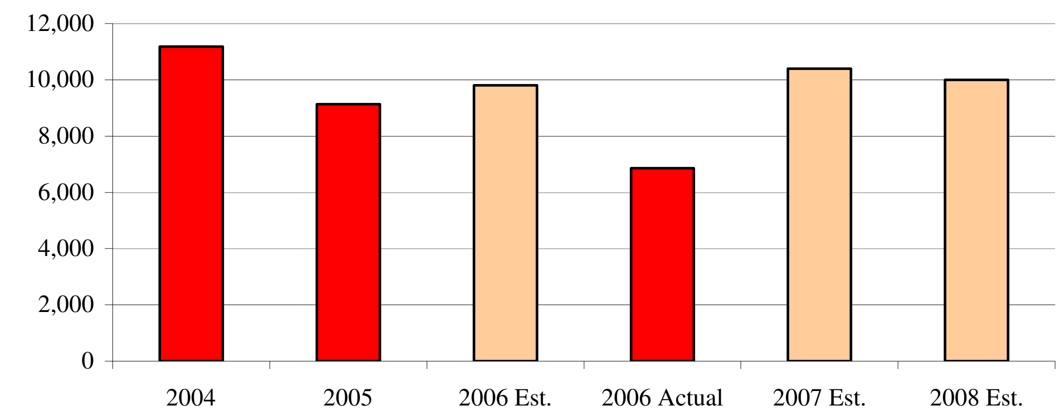
Fiscal 2007 marks the first year in which an estimated 12,000 mortgage originators will be licensed by the division. This will surely impact the number of consumer complaints received annually. However, the department's estimates do not reflect the influence of the newly regulated industry.

The department should comment on the factors that led to declining complaints against the financial industry and what impact the mortgage originator licensing program will have on the division's complaint disposition goals.

Inspection Rate Falls within Division of Labor and Industry

The Division of Labor and Industry's Boiler and Pressure Vessel Safety Inspection Unit has statutory responsibility for inspecting uninsured boilers and pressure vessels as well as boilers that are overdue for inspection by the insurance industry. The unit also investigates any boiler and pressure vessel accidents. The inspections further the division's goal to maintain serious injuries from boiler and pressure vessels at no more than four in any given year. While this goal has consistently been met, the number of annual inspections has fluctuated greatly. In fiscal 2006, inspections fell to a recent low of 6,858. In fact, inspections were significantly below what the department estimated for fiscal 2006 as shown in **Exhibit 2**. It is unclear if the division can reach its out-year estimates.

Exhibit 2
Division of Labor and Industry Boiler Inspections
Fiscal 2004-2008



Source: Department of Labor, Licensing, and Regulation

Historically, there has been concern about whether the unit has enough staff to complete all scheduled inspections as well as eliminate a past-due backlog. There are an estimated 55,000 boilers and pressure vessels in the State. The unit is responsible for inspecting approximately 20% of the units; about one-third of which are past due for inspection. The inspector turnover rate contributes to the backlog problem for the unit. The unit inspectors are regularly recruited by insurance firms and consequently the inspector turnover rate has been high. This results in the unit having a relatively inexperienced staff.

The department should discuss the decline in annual inspections and how it will retain staff necessary to meet performance goals. The department should also comment on the likelihood that an inspection backlog will lead to additional boiler and pressure vessel injuries.

More Workers Receive Safety Training

The Occupational Safety and Health Administration within the Division of Labor and Industry strives to promote workplace safety and health and to reduce workplace fatalities, injuries, and illnesses. It accomplishes this goal, in part, by providing a variety of outreach services such as safety and health seminars and hazard training. **Exhibit 3** demonstrates the number of individuals benefiting from such programs. The division greatly exceeded expectations by providing programs to 10,900 more individuals than predicted – 168% over the estimate.

Exhibit 3
Division of Labor and Industry
Occupational Safety and Health Administration
Selected Performance Measures
Fiscal 2003-2008

	2003	2004	2005	2006 Est.	2006 Actual	2007 Est.	2008 Est.
Individuals attending safety and health seminars	5,108	5,746	4,619	4,500	9,171	4,500	4,500
Individuals receiving training in high hazard Standard Industrial Codes	2,459	4,036	2,545	2,000	8,235	2,000	2,000
Percent of participants who rate services as satisfactory	93%	88%	92%	90%	92%	90%	90%

Source: Governor's Budget Books, Fiscal 2008

The department should comment on this surge in outreach activity and if it can maintain this level of performance.

Fiscal 2007 Actions

Proposed Deficiency

A fiscal 2007 deficiency appropriation of $12,469,830 is included in the fiscal 2008 allowance under the Office of the Secretary. The special funds are taken from the 2002 Reed Act Distribution to the State's Unemployment Insurance Trust Fund. The funds will be used to offset losses due to a significant reduction in federal unemployment insurance income. This issue is discussed in greater detail under the Governor's Proposed Budget section of this analysis.

Chapter 590 of 2005 required mortgage originators to be licensed by the department by January 1, 2007. As of December 2006, about two-thirds of the State's estimated 12,000 mortgage originators have applied to the Division of Financial Regulation for a license. The fiscal 2007 deficiency appropriation will provide $495,000 in special funds from license and examination fees to cover the costs of 4 contractual employees and related equipment required to process applications. This will bring the staff of the mortgage originator program to 13 regular and 15 contractual full-time equivalent positions. It is expected that the need for contractual staff will be limited to the initial licensing period.

Governor's Proposed Budget

As shown in **Exhibit 4**, the fiscal 2008 allowance declines by just over $17.0 million, or 9.2%. However, it should be noted that this decrease is exaggerated somewhat by the one-time use of the health insurance surplus for retiree benefits. Absent this, the budget declines by $12.3 million, or 6.8%.

Exhibit 4
Governor's Proposed Budget
Department of Labor, Licensing, and Regulation
($ in Thousands)

How Much It Grows:	General Fund	Special Fund	Federal Fund	Reimb. Fund	Total
2007 Working Appropriation	$16,226	$25,942	$136,203	$6,780	$185,152
2008 Governor's Allowance	15,987	37,940	107,487	6,717	168,131
Amount Change	-$239	$11,998	-$28,716	-$63	-$17,020
Percent Change	-1.5%	46.3%	-21.1%	-0.9%	-9.2%

Where It Goes:

Personnel Expenses	
New positions	$272
Abolished/transferred positions	-83
Increments and other compensation	2,503
Reclassifications	-746
Employee retirement	1,661
One-time health insurance savings	-3,331
Workers' compensation premium assessment	142
Turnover adjustments	394
Other fringe benefit adjustments	466
Other Changes	
Office of the Secretary	
Decline in grants related to the expiration of the Governor's Workforce Investment Board "Teach for the Health of It" federal grants	-500
Reduction of one full-time equivalent contractual position within Appeals	-101
Division of Administration	
Increase of full-time equivalent contractual positions in General Services and the Office of Information Technology	83
Decline in rent expenses for the Office of Personnel Services	-105
Division of Financial Administration	
Increase of four full-time equivalent contractual positions for the mortgage originator program	144
Increase in rent expenses (took over space vacated by Personnel Services)	84
Division of Labor and Industry	
Increased travel related to seven additional boiler and elevator inspectors	97
Increase in funds to maintain an Internet-based system to manage inspection data	180

Where It Goes:

Division of Racing	
Increase in rent expenses	20
Decrease due to one-time laboratory equipment purchases in fiscal 2007	-168
Increase in local impact aid	144
Division of Occupational and Professional Licensing	
Reduction of two full-time equivalents in contractual payroll	-72
Division of Workforce Development	
Increase of 2.3 full-time equivalents in contractual payroll	182
Loss of federal WIA Title I funding for 12 local workforce investment areas (net of other changes)	-11,730
Division of Unemployment Insurance	
Reduction of 18.05 full-time equivalents in contractual payroll	-392
Programming costs for Interactive Voice Response and Maryland Image Data Access systems	2,205
Decline due to one-time enhancements to the unemployment insurance (UI) Information Technology Support Center	-2,800
Decline in federal assistance to staff and operate the UI Information Technology Center and other federal grants	-6,000
Other Changes	
Miscellaneous	431
Total	**-$17,020**

WIA: Workforce Investment Act

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

Personnel

The allowance includes funds for seven new positions with the Safety Inspection program: four Deputy Boiler Inspectors and three Elevator Inspectors. The added positions increase personnel expenditures by $272,163. The positions are meant to address backlogs in the inspection schedules of the division. However, it should be noted that persistent vacancies within the current staff levels significantly contributed to the backlog.

Contractual staff falls by about 14 full-time equivalents. The decrease is mainly attributable to the decline in workload associated with Unemployment Insurance.

The department abolished 1.4 regular positions in the fiscal 2008 allowance. The positions are within the Division of Workforce Development and the Division of Financial Regulation and have been vacant for over a year.

Division of Labor and Industry

The allowance includes additional funds for routine travel expenses, training, and equipment related to the new positions. It also includes funds for annual out-of-state conferences for boiler, elevator, and amusement ride officials. Also in the allowance is $180,000 for the development of a web-based registration and inspection system. The system will assist the division to more effectively manage boiler and elevator inspection data.

Division of Workforce Development

The Division of Workforce Development oversees and administers the department's career centers, job training programs, and other employment programs. Funding for the division is heavily dependent upon the Federal Workforce Investment Act (WIA) program. Nationally, funding for this program has been in decline for the last several years. Additionally, funds are distributed to states based on a formula that is largely based on employment levels. States with a higher relative number of unemployed individuals receive more funds that those with low unemployment rates.

The division expects a decline of approximately $12 million in WIA funds in fiscal 2008. Less funding at the national level combined with Maryland's relatively healthy employment rate led to the anticipated decrease. Approximately 85% of the WIA funds are allocated to the 12 local workforce investment areas in the State. The loss of these funds will likely result in fewer adult workforce development programs, in-school youth programs, out-of-school youth services, and business services at the local level.

Division of Unemployment Insurance

In 2002, the federal government passed legislation designed as a stimulus package in the aftermath of increased unemployment after September 11, 2001. The legislation included a distribution of $8.0 billion known as the Reed Act distribution. Funds were to be used to pay unemployment benefits or to enhance unemployment insurance (UI) benefits. Allowable uses also included administration of UI and employment services programs. Maryland received approximately $142.9 million of the Reed Act allotment. The allotment was placed in the State's Unemployment Insurance Trust Fund where it staved off an employer surcharge trigger. It also enabled the department to use other funds to increase unemployment benefits in fiscal 2003.

Included in the fiscal 2008 allowance is Reed Act funding to offset losses of federal funding. Federal unemployment insurance funds are based on workload indicators of the division such as initial claims filed, appeals, and decisions rendered. The positive economic condition of Maryland has led to a decline in federal funds for UI administration costs. Additionally, fiscal restraints at the federal level appear to be a contributing factor as well. The $11.2 million in Reed Act funding will replace lost federal funds to fund the cost of administering the UI program and to a lesser extent, some costs associated with employment services. About $119.3 million of the original Reed Act distribution will remain in the trust fund.

Issues

1. Licensing of Elevator Mechanics and Contractors

Chapter 703 of 2001 established the Elevator Safety Review Board and required elevator contractors and mechanics to be licensed by the board before conducting business in Maryland.

An "elevator contractor" or an "elevator mechanic" must be licensed by the board before conducting business in Maryland. An "elevator contractor" is a person who is engaged in the business of erecting, constructing, wiring, altering, replacing, maintaining, dismantling, or servicing elevators, dumbwaiters, escalators, and moving walks. An "elevator mechanic" is a person who physically works on elevators, dumbwaiters, escalators, and moving walks. The statute establishes an application process, minimal qualifications for an applicant, and disciplinary and hearing procedures. The statute also limits the total amount of licensing and application fees required to be paid in a year to no more than $100 for an elevator mechanic and to no more than $150 for an elevator contractor. The legislation addressed the lack of specific regulations governing the field of elevator maintenance.

At the time of enactment, DLLR estimated that there were 1,250 elevator mechanics and 150 elevator contractors in the State. A board was appointed in 2001 and several meeting were held to discuss regulations and to process grandfathered applications. However, to date, the department has not processed any applications, issued any licenses, or collected any related fees.

The department should discuss its plans for licensing elevator mechanics and contractors as required by State law.

2. Bank Mergers

In October 2006, it was announced that an out-of-state financial institution would purchase Mercantile Bankshares, Corp., the State's largest independent bank. As such, the regulation of Mercantile would no longer fall under the purview of the department.

The regulation of financial institutions is a shared responsibility between state and federal governments. Under the direction and authority of the State's Commissioner of Financial Regulation, the Division of Financial Regulation regulates State-chartered and State-licensed financial institutions operating in Maryland. These include commercial banks, savings banks, trust companies, credit unions, money transmitters, consumer lenders, sales finance companies, installment lenders, collection agencies, debt management services providers, check cashers, mortgage lenders, and credit services businesses.

National banks are chartered by the U.S. Comptroller of the Currency, the counterpart of the State regulator. State-chartered banks and trust companies are examined at least once every 18 months by the Division of Financial Regulation. In response to federal law, Maryland law includes an application and approval process through the Commissioner of Financial Regulation for bank holding companies that want to acquire Maryland banks or Maryland bank holding companies. In approving the acquisition, the commissioner must consider whether the acquisition would be detrimental to the safety and soundness of the Maryland bank or Maryland bank holding company or result in an undue concentration of resources or a reduction of competition in the State.

State-chartered banks and trust companies are subject to an annual assessment of $1,000, plus $.08 for each $1,000 of the assets of the institution over $1.0 million. Based on the fiscal 2006 assessment, the department collected about $3.3 million in general fund revenue. The recent acquisition of Mercantile Bankshares by PNC will result in the loss of about $1,121,500 in general fund revenue. This transition will leave the State with 49 State-chartered banks to regulate.

The department should brief the budget committees on how these changes impact State revenues and the workload of the Division of Financial Regulation.

3. Accord Struck within the Racing Industry

Maryland horse racing is comprised of thoroughbred and standardbred (harness) racing. Currently most thoroughbred racing occurs at Pimlico and the Laurel Race Track, both run by the Maryland Jockey Club. Standardbred racing occurs at Rosecroft Raceway and Ocean Downs, both independently owned. There is a history of infighting between track owners.

Since the advent of simulcast wagering in the State, the owners and operators of the State's thoroughbred and harness racing tracks have operated under some type of revenue sharing agreement whereby the amount of money wagered via simulcasting at the various tracks was pooled and then divided among the tracks. Under a revenue sharing agreement that expired in April 2004, from the total revenues realized by the Maryland Jockey Club and Rosecroft Raceway from simulcasting at all the tracks, the Jockey Club received 80% and Rosecroft received 20% of the revenues. Under the agreement, the Jockey Club was also allowed to receive simulcast signals after 6:15 p.m. and Rosecroft was allowed to receive its simulcast signals during the day.

After that agreement expired, Rosecroft began paying the Maryland Jockey Club 12% of its revenue received from wagers on thoroughbred signals received at Rosecroft, and the Jockey Club paid Rosecroft 12% of its revenue received from wagers on harness signals received at Laurel and Pimlico.

Effective April 2006, a new 15-year revenue sharing agreement went into effect. Under this agreement, generally (1) the Maryland Jockey Club and Cloverleaf Enterprises (Rosecroft) agree and grant to the other the required authorizations to conduct cross-breed thoroughbred and standardbred simulcast wagering on both Maryland and out-of-state races during the day and evening hours at Laurel, Pimlico, and Rosecroft; (2) Rosecroft agrees to pay the Maryland Jockey Club $5.9 million annually for the right to accept wagers at Rosecroft on all live races conducted at Pimlico and Laurel and all out-of-state thoroughbred races, provided that Rosecroft continues to receive signals from and accept wagers on substantially all races from the thoroughbred tracks it accepted wagers from in

2005; and (3) each facility will contract for the simulcasting of out-of-state races directly with the sending track and Maryland racing will be the featured component of each simulcast program. The agreement also provides for the distribution of any future State aid and wagering revenue received from off-track betting. The Allegany Racing Association has a separate revenue sharing agreement in effect with the Maryland Jockey Club for Ocean Downs Raceway.

The agreement is believed to encourage cooperation between thoroughbred and harness racing tracks and will minimize revenue disputes.

The department should comment on the new agreement and the likelihood that it will facilitate the debate on future funding enhancements for the industry.

4. Reporting Needed for Oversight of UI Account

Late last fall, Governor Robert Ehrlich announced that UI taxes on employers were being reduced. The reason was not executive action, but the result of legislation passed in the 2005 session (Chapter 169). That legislation altered the UI charging and taxation system by creating a schedule of tax rates based on the balance in the UI trust fund. The legislation provided that once the balance exceeded 5% of total taxable wages in the State, as it did last fall, a reduced rate would be imposed.

Because of this change, in addition to the use of Reed Act funds in the UI account for operational costs, additional oversight of the UI account balance is warranted.

The Department of Legislative Services recommends that narrative be adopted requiring the department to report on aggregate inflows, outflows, and balances of the UI trust fund on a quarterly basis to allow the committees to monitor changes in the financial position of the fund.

Recommended Actions

		Amount Reduction		Position Reduction
1.	Delete funds for consultant's services to analyze survey and Managing for Results data. The department should complete this task in-house by filling an existing vacancy within the Program Analysis and Audit office.	\$ 331 \$ 569 \$ 2,600	GF SF FF	
2.	Delete three long-term vacant positions. Position #045458 is within the Office of the Secretary and has been vacant for over 18 months. Positions #073673 and #033234 are within the Division of Labor and Industry and have been vacant for over two years. The divisions appear to be meeting performance goals without these positions.	11,528 89,879 73,189	GF SF FF	3.0
3.	Delete funding for two of the proposed new Deputy Boiler Inspector positions and reduce related travel and equipment funding. The department currently has two long-term vacancies within the Boiler Inspection Unit and continues to struggle with persistent vacancy issues. Examining and making appropriate adjustments to the unit's salary structure and filling long-term vacancies will lessen the boiler inspection backlog, negating the need for two of the new positions.	109,376	SF	2.0
4.	Delete the increase in out-of-state travel expenditures in the Racing Commission. This action returns funding to fiscal 2007 levels.	7,828	GF	
5.	Delete grants given to certain charities to aid immigrants from Russia. The utility of the program is waning as immigration from former Soviet Republics declines. Fewer clients are served by the program each year.	75,000	GF	

6. Adopt the following narrative:

Oversight of the Unemployment Insurance Trust Fund Balance:

Recent legislative changes to the unemployment insurance (UI) charging and taxation system and use of Reed Act funds for administration costs will have a significant impact on the UI trust fund balance. To monitor the impact of these changes, additional oversight of the financial condition of the fund is necessary. As such, the committees request that the Department of Labor, Licensing, and Regulation (DLLR) report on aggregate inflows, outflows, and balances of the UI trust fund on a quarterly basis to allow the committees to monitor changes in the financial position of the fund.

Information Request	**Author**	**Due Date**
Quarterly reporting on UITF balance	DLLR	31 days after the quarter ending September 30, 2007, and quarterly thereafter.

Total Reductions	**$ 370,300**	**5.0**
Total General Fund Reductions	**$ 94,687**	
Total Special Fund Reductions	**$ 199,824**	
Total Federal Fund Reductions	**$ 75,789**	

Updates

1. Use of the Special Administrative Expense Fund

Chapter 527 of 2006 expanded the uses of the Unemployment Insurance Special Administrative Expense Fund (SAEF) to include (1) acquisition of office space; (2) costs of furnishing, maintenance, repair, improvement, and enhancement of office space; (3) purchase, lease, and maintenance of information technology systems and services; (4) purchase, lease, maintenance of telecommunication systems and services; or (5) other administrative costs that the Secretary determines are necessary to administer the unemployment insurance program.

The legislation was in response to some ambiguity in the statute as to proper usage of the fund. In a June 2002 report, the Office of Legislative Audits (OLA) found that DLLR had improper special fund expenditures from the fund. Instead of reverting the funds, DLLR used them for various expenditures that OLA determined were normal operating expenditures and, therefore, not allowed. The Attorney General reviewed the law and issued an opinion regarding the proper use of Special Administrative Expense Funds.

In an opinion issued November 3, 2004 (89 Opinions of the Attorney General 172 (2004)), the Attorney General stated, "SAEF funds may be used for the various administrative purposes set forth in the SAEF statute. Neither the budget bill nor a budget amendment may expand those purposes. Among the purposes listed in the SAEF statute is the *acquisition* of space used for the administration of the Unemployment Insurance Law. While there is no specific provision in the SAEF statute that allows for the payment from the Fund of costs related to occupancy, such as utilities, maintenance, and security, in some circumstances these costs may be considered part of the cost of acquisition. Money in the SAEF may not be devoted to a use not allowed by the SAEF statute, such as operational expenses, unless the General Assembly passes a law permitting that use."

The opinion goes on to state that "The General Assembly has specified those purposes [for using SAEF money] in the Unemployment Insurance Law. The appropriation of moneys from the SAEF in the budget bill is limited to those purposes. Of course, the General Assembly may expand those purposes in separate legislation." The legislation enacted in 2006 was a result of this opinion.

The fiscal 2008 allowance includes $4.1 million in SAEF funds across eight budget units in the department.

Appendix 1

Current and Prior Year Budgets

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

	General Fund	Special Fund	Federal Fund	Reimb. Fund	Total
Fiscal 2006					
Legislative Appropriation	$17,421	$19,374	$134,787	$1,870	$173,452
Deficiency Appropriation	1,169	-41	0	0	1,128
Budget Amendments	430	5,073	0	0	5,503
Reversions and Cancellations	-2,338	-2,770	-12,209	-23	-17,340
Actual Expenditures	**$16,682**	**$21,636**	**$122,578**	**$1,847**	**$162,743**
Fiscal 2007					
Legislative Appropriation	$16,036	$25,738	$136,203	$6,780	$184,757
Budget Amendments	190	204	0	0	394
Working Appropriation	**$16,226**	**$25,942**	**$136,203**	**$6,780**	**$185,151**

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

Fiscal 2006

General fund spending was approximately $16.7 million in fiscal 2006. The original appropriation was increased by budget amendments that added funds for the cost-of-living adjustment (COLA) ($164,355), health insurance ($206,780), and telecommunications ($58,367).

There was a $1.1 million fiscal 2006 general fund deficiency to provide funds for statewide indirect cost recovery for the department. The Department of Budget and Management had previously granted the department exemptions so that it could keep its statewide share of the cost of administering federal grants. Fiscal 2006 budget language has prohibited the use of these exemptions.

General fund reversions totaled approximately $2.3 million due almost exclusively to staff vacancies and to the special funding of the Mortgage Lender Originator Program as discussed below.

Approximately $41,000 was transferred from special funds to general funds as a result of Chapter 613 of 2005 which expanded the Board of Examining Engineers and changed its funding source to general funds.

Special fund spending increased by about $5.0 million over the fiscal 2006 original appropriation. Budget amendments added $2,351,045 in special funds to the Division of Financial Regulation. The funds will be used to fund the Mortgage Lender Originator Program established by Chapter 590 of 2005. The legislation was effective October 1, 2005, and requires the licensure and regulation of individuals who act as mortgage originators. An additional amendment appropriated $2,722,000 in special funds to fund the acquisition and design costs associated with the planned construction of a new regional unemployment insurance claims center in Wicomico County. The claims center is expected to cost approximately $6.7 million to design and construct with an estimated completion date of September 2008.

The department cancelled approximately $2.8 million in special funds, largely due to lower then expected rent costs, deferred purchases, and staff vacancies.

The department canceled approximately 9% of its appropriated federal funds. The majority of these funds were canceled due to lower than expected grant funds for the Governor’s Workforce Investment Board, the Division of Workforce Development, and the Unemployment Insurance program.

Fiscal 2007

General and special funds increase by about $190,000 and $204,000, respectively, due to a cost-of-living and an annual salary review adjustment that had been budgeted in the Department of Budget and Management and subsequently distributed to the agencies.

Appendix 2

Audit Findings

Audit Period for Last Audit:	March 25, 2002 – November 8, 2005
Issue Date:	April 2006
Number of Findings:	2
Number of Repeat Findings:	2
% of Repeat Findings:	100%
Rating: (if applicable)	n/a

This audit was of the department's Division of Labor and Industry.

Finding 1: **Safety inspections for boilers, pressure vessels, and elevators were not performed timely in accordance with State law. The auditors have noted this condition regarding boilers and pressure vessels since 1977 and regarding elevators since 1997.**

Finding 2: **The Division of Labor and Industry did not always bill debtors and refer related delinquent accounts in a timely manner to the State's Central Collection Unit.**

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

Object/Fund Difference Report
Department of Labor, Licensing, and Regulation

Object/Fund	FY06 Actual	FY07 Working Appropriation	FY08 Allowance	FY07-FY08 Amount Change	Percent Change
Positions					
01 Regular	1,459.55	1,474.55	1,480.15	5.60	0.4%
02 Contractual	201.66	191.26	177.20	-14.06	-7.4%
Total Positions	**1,661.21**	**1,665.81**	**1,657.35**	**-8.46**	**-0.5%**
Objects					
01 Salaries and Wages	$ 87,561,660	$ 95,621,433	$ 96,899,175	$ 1,277,742	1.3%
02 Technical and Spec Fees	5,651,144	5,724,639	5,580,089	-144,550	-2.5%
03 Communication	2,924,458	3,584,814	3,395,005	-189,809	-5.3%
04 Travel	1,252,948	1,230,001	1,460,789	230,788	18.8%
06 Fuel and Utilities	835,006	756,489	966,213	209,724	27.7%
07 Motor Vehicles	457,466	490,453	450,626	-39,827	-8.1%
08 Contractual Services	9,655,099	14,131,084	16,508,554	2,377,470	16.8%
09 Supplies and Materials	1,822,249	1,729,515	1,774,937	45,422	2.6%
10 Equip – Replacement	983,644	581,268	700,832	119,564	20.6%
11 Equip – Additional	511,615	237,286	229,782	-7,504	-3.2%
12 Grants, Subsidies, and Contributions	45,388,006	57,575,519	36,389,747	-21,185,772	-36.8%
13 Fixed Charges	2,977,163	3,232,844	3,171,216	-61,628	-1.9%
14 Land and Structures	2,722,000	256,206	604,206	348,000	135.8%
Total Objects	**$ 162,742,458**	**$ 185,151,551**	**$ 168,131,171**	**-$ 17,020,380**	**-9.2%**
Funds					
01 General Fund	$ 16,681,497	$ 16,226,289	$ 15,986,872	-$ 239,417	-1.5%
03 Special Fund	21,636,194	25,941,942	37,940,230	11,998,288	46.3%
05 Federal Fund	122,578,320	136,202,916	107,487,096	-28,715,820	-21.1%
09 Reimbursable Fund	1,846,447	6,780,404	6,716,973	-63,431	-0.9%
Total Funds	**$ 162,742,458**	**$ 185,151,551**	**$ 168,131,171**	**-$ 17,020,380**	**-9.2%**

Note: The fiscal 2007 appropriation does not include deficiencies, and the fiscal 2008 allowance does not reflect contingent reductions.

Appendix 3

Fiscal Summary
Department of Labor, Licensing, and Regulation

Program/Unit	FY06 Actual	FY07 Wrk Approp	FY08 Allowance	Change	FY07-FY08 % Change
0A Department of Labor, Licensing, and Regulation	$ 13,347,503	$ 12,125,317	$ 11,054,063	-$ 1,071,254	-8.8%
0B Division of Administration	15,948,258	17,982,780	17,861,474	-121,306	-0.7%
0C Division of Financial Regulation	5,842,794	6,869,359	7,207,199	337,840	4.9%
0D Division of Labor and Industry	11,828,226	13,477,796	14,141,516	663,720	4.9%
0E Division of Racing	6,115,745	6,877,353	6,895,795	18,442	0.3%
0F Division of Occupational and Professional Licensing	7,419,122	8,348,216	8,158,629	-189,587	-2.3%
0G Division of Employment and Training	52,735,803	58,705,671	46,966,566	-11,739,105	-20.0%
0H Division of Unemployment Insurance	49,505,007	60,765,059	55,845,929	-4,919,130	-8.1%
Total Expenditures	**$ 162,742,458**	**$ 185,151,551**	**$ 168,131,171**	**-$ 17,020,380**	**-9.2%**
General Fund	$ 16,681,497	$ 16,226,289	$ 15,986,872	-$ 239,417	-1.5%
Special Fund	21,636,194	25,941,942	37,940,230	11,998,288	46.3%
Federal Fund	122,578,320	136,202,916	107,487,096	-28,715,820	-21.1%
Total Appropriations	**$ 160,896,011**	**$ 178,371,147**	**$ 161,414,198**	**-$ 16,956,949**	**-9.5%**
Reimbursable Fund	$ 1,846,447	$ 6,780,404	$ 6,716,973	-$ 63,431	-0.9%
Total Funds	**$ 162,742,458**	**$ 185,151,551**	**$ 168,131,171**	**-$ 17,020,380**	**-9.2%**

Note: The fiscal 2007 appropriation does not include deficiencies, and the fiscal 2008 allowance does not reflect contingent reductions.