



GOVERNOR'S OFFICE OF
BUDGET AND PROGRAM PLANNING

Fiscal Note 2021 Biennium

Bill # HB0694

Title: Revise certain licensing fees for investment-related advisors

Primary Sponsor: Hamilton, Jim

Status: As Amended

- Significant Local Gov Impact
 Needs to be included in HB 2
 Technical Concerns
 Included in the Executive Budget
 Significant Long-Term Impacts
 Dedicated Revenue Form Attached

FISCAL SUMMARY

	<u>FY 2019 Difference</u>	<u>FY 2020 Difference</u>	<u>FY 2021 Difference</u>	<u>FY 2022 Difference</u>	<u>FY 2023 Difference</u>
Expenditures:					
General Fund	\$0	\$45,347	\$43,107	\$43,766	\$44,222
Revenue:					
General Fund	\$306,200	\$7,758,000	\$7,969,000	\$8,225,000	\$8,477,000
Net Impact-General Fund Balance:	<u>\$306,200</u>	<u>\$7,712,653</u>	<u>\$7,925,893</u>	<u>\$8,181,234</u>	<u>\$8,432,778</u>

Description of fiscal impact: HB 694, as amended, increases the annual fees paid by broker-dealer firms, investment advisor firms, non-resident securities salespeople, non-resident investment adviser representatives, and certain exemptions requests, resulting in additional general fund revenue. Because of the structure of the national registration system for securities licenses there are expenditures to implement the no-change to resident registration fees.

FISCAL ANALYSIS

Assumptions:

State Auditor's Office

- Under current law, all individuals and firms that sell securities in Montana must register with the State Auditor's Office (SAO) and pay fees as specified in 30-10-209, MCA. The fee to register as a broker-dealer or investment advisor is \$200 a year. The fee for salespersons and representatives working for a broker-dealer or investment advisor is \$50. The fee for broker-dealer firms and investment advisor firms is \$1,000.
- HB 694 as amended, doubles these registration fees for various non-resident investment professionals including broker-dealers, investment advisers, and their salespeople. HB 694 raises the fee for certain exemption request fees which are expected to increase by \$1,000 annually (20 exemption request fees at \$50 each).

3. All investment advisors, broker-dealers, their representatives and firms register and pay fees through the (national) Financial Industry Regulatory Authority (FINRA) electronic clearinghouse. Most securities agents and sales representatives registered to do business in Montana are not located in the state.
4. FINRA reports that nationally there are 630,000 registered individuals. The SAO reports that in January 2019 approximately 17 % (114,823) of salespeople and investment advisor representatives were licensed to do business in Montana and 2,191 were physically located in Montana in June 2018.
5. Individuals pre-register and pay fees using the FINRA electronic centralized registration database. Most renewals are filed in December. The State accounting system shows that 79% of fiscal year revenue is posted in January. On average about 2% of revenue is posted in each of the eleven other months of the year.
6. At end of FY 2017 there were 108,374 individuals and 2,286 firms registered in Montana. This represents \$5,875,900 in fee revenue. Collections of investment fee revenue in FY 2017 was \$7,327,295. A similar pattern is seen in the FY 2016 data. SAO reports that individual registrations are tied to firms; if an individual changes company the new firm re-registers the individual. This leads to an apparent high level of turnover in registrations. This can be seen in fiscal year revenue as FY 2016 and FY 2017 collections and registration counts show that collections are 125% of the fee revenue you would expect with fiscal year-end registered individuals and firms alone.
7. Investment license and permit revenue collections are forecast in HJ 2 to be \$7,963,000 for FY 2019, \$8,282,000 for FY 2020, \$8,504,000 for FY 2021, \$8,774,000 for FY 2022 and \$9,039,000 for FY 2023.
8. Under HB 694 this revenue would be expected to generally double. Because of the change in fee, it is assumed that there would be 2.5% reduction in the number of registrations. This estimate is based on roughly half of the typical annual marginal growth in registrations.
9. Registered individuals submit their applications for registration to FINRA, which collects the registration fees and remits Montana's portion. FINRA does not distinguish between "resident" and "non-resident" registrations. The resident exclusion reduces fee revenue by about \$110,000 per year (2,200 Montana registrants at \$50 each).
10. This results in revenue of \$7,868,000 in FY 2020, \$8,079,000 in FY 2021, \$8,335,000 in FY 2022, and \$8,587,000 in FY 2023. This bill is effective upon passage and approval, so it is assumed that the fee increases would be in effect for the last two months of FY 2019, resulting in a marginal increase of \$306,200 due to individuals changing firms or registering in May and June 2019.

Administrative Costs

11. The SAO would create a process to review applications, verify the state of residency, and rebate the differential collected by FINRA.
12. In order to review, verify residency, and rebate any fee collection SAO will need a 0.50 FTE Compliance Specialist. The band 6 salary and benefits are \$34,427 in each of FY 2020 and FY 2021; \$34,943 in FY 2022; and \$35,467 in FY 2023. Operating costs for the 0.50 FTE are \$10,920 in FY 2020, which includes \$2,240 for one-time purchase of office packages and computers; \$3,258 rent; \$2,400 training and travel; \$1,392 computer costs; and other miscellaneous costs of \$1,630. The ongoing operating costs are \$8,680 in FY 2021; \$8,823 in FY 2022; and \$8,955 in FY 2023

Fiscal Note Request – As Amended

(continued)

<u>Fiscal Impact:</u>	<u>FY 2019</u>	<u>FY 2020</u>	<u>FY 2021</u>	<u>FY 2022</u>	<u>FY 2023</u>
State Auditor's Office	<u>Difference</u>	<u>Difference</u>	<u>Difference</u>	<u>Difference</u>	<u>Difference</u>
FTE	0.00	0.50	0.50	0.50	0.50
<u>Expenditures:</u>					
Personal Services	\$0	\$34,427	\$34,427	\$34,943	\$35,467
Operating Expenses	\$0	\$10,920	\$8,680	\$8,823	\$8,955
TOTAL Expenditures	\$0	\$45,347	\$43,107	\$43,766	\$44,422
<u>Funding of Expenditures:</u>					
General Fund (01)	\$0	\$45,347	\$43,107	\$43,766	\$44,422
TOTAL Funding of Exp.	\$0	\$45,347	\$43,107	\$43,766	\$44,422
<u>Revenues:</u>					
General Fund (01)	\$306,200	\$7,758,000	\$7,969,000	\$8,225,000	\$8,477,000
TOTAL Revenues	\$306,200	\$7,758,000	\$7,969,000	\$8,225,000	\$8,477,000
<u>Net Impact to Fund Balance (Revenue minus Funding of Expenditures):</u>					
General Fund (01)	\$306,200	\$7,712,653	\$7,925,893	\$8,181,234	\$8,432,578



 Sponsor's Initials

4/2/19

 Date

TL

 Budget Director's Initials

4/1/19

 Date