

LEGISLATIVE FISCAL OFFICE
Fiscal Note



Fiscal Note On: **HB 532** HLS 19RS 433

Bill Text Version: **ORIGINAL**

Opp. Chamb. Action:

Proposed Amd.:

Sub. Bill For.:

Date: April 22, 2019 3:32 PM	Author: WRIGHT
Dept./Agy.: Office of Financial Institutions	Analyst: Alan M. Boxberger
Subject: Provides relative to regulation of virtual currency	

COMMERCE OR +\$546,052 SG EX See Note
Provides relative to the licensing and regulation of virtual currency

Page 1 of 2

Proposed law provides for the licensing and regulation of virtual currency; provides for definitions; requires a person to obtain a license prior to engaging in any virtual currency business and provides for exemptions; provides that an applicant for licensure pay an application fee of \$1,000; provides for the application process; allows the Commissioner of the Office of Financial Institutions to conduct examinations in compliance with **proposed law**; requires the licensee to file certain reports with the commissioner; provides for enforcement; allows the commissioner to levy fees sufficient to meet expenses of administering the provisions of **proposed law**; requires a licensee to disclose certain information to consumers; and requires the licensee to provide the customer with a receipt in a prescribed manner. **Proposed law** is effective July 1, 2019.

EXPENDITURES	2019-20	2020-21	2021-22	2022-23	2023-24	5 -YEAR TOTAL
State Gen. Fd.	\$0	\$0	\$0	\$0	\$0	\$0
Agy. Self-Gen.	\$546,052	\$589,701	\$619,737	\$632,028	\$664,227	\$3,051,745
Ded./Other	\$0	\$0	\$0	\$0	\$0	\$0
Federal Funds	\$0	\$0	\$0	\$0	\$0	\$0
Local Funds	\$0	\$0	\$0	\$0	\$0	\$0
Annual Total	\$546,052	\$589,701	\$619,737	\$632,028	\$664,227	\$3,051,745

REVENUES	2019-20	2020-21	2021-22	2022-23	2023-24	5 -YEAR TOTAL
State Gen. Fd.	DECREASE	\$0	\$0	\$0	\$0	\$0
Agy. Self-Gen.	\$8,800	\$589,701	\$619,737	\$632,028	\$664,227	\$2,514,493
Ded./Other	\$0	\$0	\$0	\$0	\$0	\$0
Federal Funds	\$0	\$0	\$0	\$0	\$0	\$0
Local Funds	\$0	\$0	\$0	\$0	\$0	\$0
Annual Total		\$589,701	\$619,737	\$632,028	\$664,227	\$2,505,693

EXPENDITURE EXPLANATION

Proposed law will result in a significant increase in SGR expenditures for the Office of Financial Institutions (OFI). **Proposed law** requires OFI to license and regulate virtual currency businesses, defined as any entity engaging in the exchange, transfer or storage of virtual currency.

OFI reports that it will require significant staffing resources to provide for the full range of agency requirements established in **proposed law**. OFI provided a staged plan to bring the unit to full staffing and provided the following estimated expenditure requirements:

FY 20 - \$546,052

OFI reports that it will hire six full-time T.O. positions over twelve months and provide for initial operating equipment. The anticipated expenditures include hiring the first staff cohort (with personal services costs including salary and related benefits) in the first quarter of FY 20: Deputy Chief Examiner (\$140,169), Review Examiner (\$122,425), Attorney (\$99,938) and Compliance Investigator (\$71,258). These employees will prepare OFI policies, procedures, rules and examination of work papers in the first half of FY 20 in order to fully implement the program by the 3rd quarter. In the 3rd quarter of FY 20, OFI will hire two Compliance Examiner I positions (\$68,262 total, \$34,131 each for 6 mos.). First year costs include one-time acquisitions of computer equipment at \$1,500 per employee, or \$9,000 total, and \$35,000 to upgrade OFI's internal database to provide for oversight of virtual currency businesses. (**SEE NOTES on page 2**)

SEE EXPENDITURE EXPLANATION CONTINUED ON PAGE TWO

REVENUE EXPLANATION

Proposed law will result in a significant increase in SGR revenues for the Office of Financial Institutions (OFI), and will likely impact reversions to the SGF by OFI at the end of FY 20 (**see "Deficit in FY 20" at bottom of page 2**).

OFI estimates potential SGR revenues based on an assumption of eight new applicants in the 1st year, an average of three new applicants each year thereafter, a 100% renewal rate and two change of control applications per year. **Proposed law** provides for a \$1,000 non-refundable application fee, a \$100 annual renewal fee, a \$500 change of control fee, and provides for the Commissioner to levy an assessment each fiscal year in an amount sufficient to meet the expenses for administering the virtual currency program. OFI provided the following revenue estimates:

FY 20 - \$8,800 total

New applications \$8,000 (8 x \$1,000 application fee)
Renewal applications \$800 (8 x \$100 renewal fee)
No assessment issued

SEE REVENUE EXPLANATION CONTINUED ON PAGE TWO

Senate Dual Referral Rules
 13.5.1 >= \$100,000 Annual Fiscal Cost {S & H}
 13.5.2 >= \$500,000 Annual Tax or Fee Change {S & H}

House
 6.8(F)(1) >= \$100,000 SGF Fiscal Cost {H & S}
 6.8(G) >= \$500,000 Tax or Fee Increase or a Net Fee Decrease {S}

Evan Brasseaux
Evan Brasseaux
Staff Director



LEGISLATIVE FISCAL OFFICE
Fiscal Note

Fiscal Note On: HB 532 HLS 19RS 433
Bill Text Version: ORIGINAL
Opp. Chamb. Action:
Proposed Amd.:
Sub. Bill For.:

Date: April 22, 2019 3:32 PM Author: WRIGHT
Dept./Agy.: Office of Financial Institutions Analyst: Alan M. Boxberger
Subject: Provides relative to regulation of virtual currency

CONTINUED EXPLANATION from page one:
EXPENDITURE EXPLANATION CONTINUED FROM PAGE ONE

FY 21 - \$589,701

OFI's expenditure assumptions include market rate adjustments of 2% for the first-hired staffing cohort and a 4% adjustment for each of the Compliance Examiner 1 positions. OFI assumed \$5,250 in ongoing IT related maintenance fees.

FY 22 - \$619,737

OFI's expenditure assumptions include market rate adjustments of 2% for the first-hired staffing cohort and a 4% adjustment for each Compliance Examiner 1 position. The cost estimate also includes a 10.5% reallocation adjustment for the Examiner 1 positions, which would be eligible for advancement from a Compliance Examiner 1 to a Compliance Examiner 2 as part of the OFI's job training series. OFI assumed \$5,250 in ongoing IT related maintenance fees.

FY 23 - \$632,028

OFI's expenditure assumptions include market rate adjustments of 2% for the first-hired staffing cohort and a 4% adjustment for each of the Compliance Examiner 2 positions. OFI assumed \$5,250 in ongoing IT related maintenance fees.

FY 24 - \$664,227

OFI's expenditure assumptions include market rate adjustments of 2% for the first-hired staffing cohort and a 4% adjustment for each Compliance Examiner 2 position. The cost estimate also includes a 10.5% reallocation adjustment for the Examiner 2 positions, which would be eligible for advancement from a Compliance Examiner 2 to a Compliance Examiner 3 as part of the OFI's job training series. OFI assumed \$5,250 in ongoing IT related maintenance fees.

NOTE 1: The LFO is unable to corroborate the exact workload requirements necessary to provide for the oversight, licensure and regulation of virtual currency businesses. The LFO acknowledges historical reports by OFI detailing staffing pressures and shortages. Proposed law requires OFI to undertake regulatory activities over a recent and developing industry. Both the number of currently operating virtual currency businesses, the breadth of virtual currency activity in the state, and the future of this industry are unknown and could potentially be volatile. The LFO acknowledges that the workload will be significant and require the department to develop new expertise and formulate new regulations and policies, likely through consultation with other states undertaking similar regulatory efforts. To the extent that the virtual currency business community is greater than or less than that assumed in this fiscal note, the projected and assumed expenditures may be impacted by an unknown amount either greater than or less than those contained herein. The part of the regulatory oversight function that is most likely scalable is the number of Compliance Examiners that may be required.

NOTE 2: OFI projects expenditures of \$546,052 in FY 20, but only anticipates \$8,800 in new revenues in FY 20 as provided in proposed law. The deficit amount of \$537,252 will require an additional SGR appropriation either through the General Appropriations Bill or by BA-7 during FY 20 (see REVENUE EXPLANATION for impact).

REVENUE EXPLANATION CONTINUED FROM PAGE ONE

FY 21 - \$589,701

New applications \$3,000 (3 x \$1,000)
Renewal applications \$1,100 (11 x \$100)
Change of control fees \$1,000 (2 x \$500 change of control fee)
*Total Dollar Amount of Annual Assessment \$584,601 (\$589,701 in expenses less \$5,100 in fees collected)

FY 22 - \$619,737

New applications \$3,000 (3 x \$1,000)
Renewal applications \$1,400 (14 x \$100)
Change of control fees \$1,000 (2 x \$500 change of control fee)
*Total Dollar Amount of Annual Assessment \$614,337 (\$619,737 in expenses less \$5,400 in fees collected)

FY 23 - \$632,028

New applications \$3,000 (3 x \$1,000)
Renewal applications \$1,700 (17 x \$100)
Change of control fees \$1,000 (2 x \$500 change of control fee)
*Total Dollar Amount of Annual Assessment \$626,328 (\$632,028 in expenses less \$5,700 in fees collected)

FY 24 - \$664,227

New applications \$3,000 (3 x \$1,000)
Renewal applications \$2,000 (20 x \$100)
Change of control fees \$1,000 (2 x \$500 change of control fee)
*Total Dollar Amount of Annual Assessment \$658,227 (\$664,227 in expenses less \$6,000 in fees collected)

*OFI projects the annual assessment on each virtual currency business in each fiscal year as follows: FY 21 at \$584,601 or \$53,146 per licensee; FY 22 at \$614,337 or \$43,881 per licensee; FY 23 at \$626,328 or \$36,843 per licensee; and FY 24 at \$658,227 or \$32,911 per licensee. The impact of the annual assessment on business activity is indeterminable.

Deficit in FY 20:

OFI projects a deficit of revenues to cover expenditures in FY 20 of \$537,252. OFI regularly collects SGR in excess of appropriation each fiscal year and these amounts revert to the SGF. In order to effectuate the activities prescribed in proposed law, OFI would require an appropriation to expend a portion of these SGR overcollections during FY 20, which would result in a decrease of SGF reversions at the end of the fiscal year by an equal amount. For informational purposes, OFI reverted \$13.23 M at the end of FY 18.

Senate Dual Referral Rules
[X] 13.5.1 >= \$100,000 Annual Fiscal Cost {S & H}
[X] 13.5.2 >= \$500,000 Annual Tax or Fee Change {S & H}

House
[] 6.8(F)(1) >= \$100,000 SGF Fiscal Cost {H & S}
[] 6.8(G) >= \$500,000 Tax or Fee Increase or a Net Fee Decrease {S}

Evan Brasseaux
Evan Brasseaux
Staff Director