

LEGISLATIVE FISCAL OFFICE
Fiscal Note



Fiscal Note On: **HB 564** HLS 22RS 1053

Bill Text Version: **ORIGINAL**

Opp. Chamb. Action:

Proposed Amd.:

Sub. Bill For.:

Date: April 4, 2022	4:10 PM	Author: AMEDEE
Dept./Agy.: Office of Financial Institutions		Analyst: Monique Appeaning
Subject: Financial Technology Regulatory Sandbox Program		

FINANCIAL INSTITUTIONS

OR INCREASE SG EX See Note

Page 1 of 2

Creates a regulatory sandbox program within the office of financial institutions

Proposed law creates the Financial Technology Regulatory Sandbox (FTRS) Program. Proposed law provides for the administration, standards and procedures for application, fees allowed, standards of review and procedures for approval and denial of the FTRS Program. Proposed law provides that the Office of Financial Institution (OFI) shall manage the FTRS Program and be overseen by the Financial Technology Sandbox Council (FTSC). Proposed law creates a FTSC with nine (9) members, serving four (4) year terms, and guidelines for meeting. Proposed law provides that FTSC purpose is to support innovation, investments, and job creation in this state by encouraging participation in the regulatory sandbox. Proposed law provides for definitions. Proposed law provides that the Department of Economic Development (LED) shall provide administrative staff support to the FTSC. Proposed law exempts the FTRS Program from specific parts of present law that pertains to the sale of checks and money transmission, virtual currency businesses, and the Louisiana Consumer Credit Law.

CONTINUED ON PAGE TWO

EXPENDITURES	2022-23	2023-24	2024-25	2025-26	2026-27	5 -YEAR TOTAL
State Gen. Fd.	SEE BELOW	SEE BELOW	SEE BELOW	SEE BELOW	SEE BELOW	
Agy. Self-Gen.	INCREASE	INCREASE	INCREASE	INCREASE	INCREASE	
Ded./Other	\$0	\$0	\$0	\$0	\$0	\$0
Federal Funds	\$0	\$0	\$0	\$0	\$0	\$0
Local Funds	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
Annual Total						

REVENUES	2022-23	2023-24	2024-25	2025-26	2026-27	5 -YEAR TOTAL
State Gen. Fd.	SEE BELOW	SEE BELOW	SEE BELOW	SEE BELOW	SEE BELOW	
Agy. Self-Gen.	INCREASE	INCREASE	INCREASE	INCREASE	INCREASE	
Ded./Other	\$0	\$0	\$0	\$0	\$0	\$0
Federal Funds	\$0	\$0	\$0	\$0	\$0	\$0
Local Funds	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
Annual Total						

EXPENDITURE EXPLANATION

Proposed law will result in new costs for the OFI to set up and administer a new financial technology regulatory sandbox program (SGR expenses and possibly SGF as well). The new application process will increase the volume of applications received and processed by OFI. The agency estimates the need for 3.5 FTEs of staff time in FY 23 for roughly half the year, then all year in FY 24 and beyond; costing about \$252,007 in FY 23, then stepping up to \$407,657 in FY 24, and growing from that level to \$417,649 by FY 27. First-year cost details are delineated below and are based on an OFI assumption of at least five (5) applications for the new program each year. Actual costs will depend on the number and complexity of applications to participate in the program.

- 1) Attorney III (1/2 FTE for 1/2 of FY) salary = \$20,611 + \$11,347 for employee benefits = \$31,958;
- 2) Reviewer Examiner (1/2 FTE for 1/2 of FY) salary = \$20,611 + \$11,040 for employee benefits = \$31,958;
- 3) Examiner III (1/2 FTE for 1/2 of FY) salary = \$18,003 + \$9,994 for employee benefits = \$28,297;
- 4) Deputy Chief Examiner (1/2 FTE for 1/2 of FY) salary = \$23,598 + \$12,554 for employee benefits = \$36,152
- 5) Info. Tech. Management Consultant 1 (1/2 FTE for 1/2 of FY) salary = \$18,900 + \$10,656 for employee = \$29,556
- 6) Administrative Program Specialists A (1 FTE for 1/2 of FY) salary = \$25,627 + \$16,414 for employee benefits = \$42,086;
- 7) Computer Equipment - \$7,000;

EXPENDITURE EXPLANATION CONTINUED ON PAGE TWO

REVENUE EXPLANATION

Proposed law would likely result in an increase in SGR revenue to OFI from fees authorized for the sandbox program. Proposed law will presumably result in an increase in the volume of applications received and processed by OFI, and authorizes a fee for the application to be established through the rulemaking process. OFI assumes at least 5 applications per year and suggested a \$2,000 application fee, which may generate the following illustrative revenue scenario:

FY 23, FY 24, FY 25, FY 26, and FY 27

Average # of new applications per year 5 X \$2,000 application fee = \$10,000

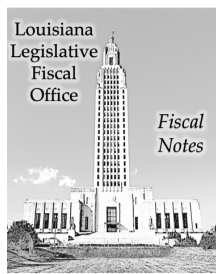
Based upon the revenue and expenditure projections above, OFI projects program expenditures to exceed fee revenue each fiscal year. However, funding deficiencies can be addressed to some extent by a higher fee levy. Annual fee receipts will depend on the number of applications and the specific fee promulgated by OFI. In addition, while under this scenario, OFI anticipates program costs in excess of program fee revenue, the agency generates excess fee revenue in the aggregate annually that could cover excess costs of the new program. However, total agency fee collections in excess of those budgeted are already incorporated into the Revenue Estimating Conference (REC) forecast as SGF resources. Utilization to cover new program costs would be reflected in a reduction in SGF resources for the state operating budget in general. OFI projected excess revenue totaling \$10.6 M for FY 23.

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
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Interim Deputy Fiscal Officer

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**CONTINUED EXPLANATION from page one:
SUMMARY CONTINUED FROM PAGE ONE**

Proposed law provides caveats for the adherence to present law in order to protect consumer health and safety and to ensure a successful test during the period of sandbox program participation. Proposed law provides that sandbox participants are subject to civil penalty provisions that are otherwise applicable to the sandbox participant under applicable licensure laws and rules. Proposed law shall not create a private cause of action against the state. Proposed law provides that sandbox participants shall retain records in the ordinary course of business regarding the innovation and the test to the extent the office requires. Proposed law provides that sandbox participants are required to submit reports to the FTSC and the OFI annually. Proposed law provides OFI with authority to suspend if it determines the innovation is causing consumer harm or the innovation participant is violating the terms of the waiver. Proposed law requires annual reports be submitted to the legislature. Proposed law provides that the legislature shall annually consider whether state laws and regulations that would otherwise apply to innovation participants should remain unchanged, be repealed, or be revised in order to avoid inhibiting sandbox participants' success or that of future similar innovations in the state and to provide a less restrictive means or to protect consumer health and safety. Proposed law provides for reciprocity where the FTSC or OFI may enter into agreements with other states, federal, or foreign regulators to advance the purpose of the regulator sandbox. Proposed law provides December 31, 2023, as the annual report to the legislature.

EXPENDITURE EXPLANATION CONTINUED FROM PAGE ONE

- 8) Programming Costs for system modifications related to the new FTRS program - \$20,000
- 9) Website Modification - \$25,000

FY 23 Total Dollar Amount of Expenditures = \$252,007. Estimates include salaries, employee benefits (retirement and insurance), and \$7,000 for computer equipment. System modifications are required to add the workflow for this new regulatory sandbox program to OFI's current workflow system and website modifications funding at \$25,000. Based on historical workflow programming, \$20,000 of associated programming costs could be incurred. Three of the positions are estimated at one-quarter the annual salary for FY 23 and one-half from FY 24 through FY 27. One of the positions is estimated at one-half of the annual salary for the same period in FY 23 and one (1) full position in FY 27. The out-year projections include market adjustments and reallocations (if applicable).

Louisiana Department of Economic Development (LED)

Proposed law will result in a workload impact on LED. LED anticipates that existing departmental resources should be sufficient to allow LED to provide administrative support for the Council. Additional resources may be required (e.g., additional staffing) if the Council's meetings exceed the once-per-quarter frequency outlined in the bill.

Office of the Attorney General (OAG)

Proposed law may result in an indeterminable workload impact in the OAG if the FTSC request that the OAG provides a letter of no action to the applicant to allow him to offer his product in Louisiana or if the FTSC notifies the Attorney General and request that a letter of no action be issued to the applicant for the duration of the test to allow the product to be offered in the state. The OAG reports that proposed law will not result in an expenditure increase to its office.

Statewide Travel

Proposed law may result in an indeterminable but minimal increase in SGF expenditures associated with meal, mileage, and lodging expenses to attend meetings pursuant to state travel regulations.

Proposed law establishes the Financial Technology Sandbox Council. The council consists of nine (9) members. The council members shall not receive compensation for their services or attendance at council meetings. However, to the extent that a member incurs travel expenses to attend meetings, the member may request reimbursement pursuant to state travel regulations. The bill indicates that there shall be a minimum of four (4) meetings per year.

Proposed law may result in an increase in expenditures to the Legislature to the extent legislators receive a per diem and travel expenses. The current legislative per diem is \$168 and the cost of related benefits (7.65% FICA tax) is approximately \$13 for a daily cost of approximately \$181 per day.

Note: There may be additional cost associated with travel allowances, which is currently \$0.56 per mile, not to exceed a maximum of 99 miles per round trip and/or day.

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