

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 2313H.01I
 Bill No.: HB 1340
 Subject: Banks and Financial Institutions
 Type: Original
 Date: April 17, 2023

Bill Summary: This proposal establishes provisions relating to money transmission.

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2024	FY 2025	FY 2026
General Revenue	(\$23,748)	(\$58,134)	(\$59,297)
Total Estimated Net Effect on General Revenue	(\$23,748)	(\$58,134)	(\$59,297)

ESTIMATED NET EFFECT ON OTHER STATE FUNDS			
FUND AFFECTED	FY 2024	FY 2025	FY 2026
Division of Finance (0550)*	\$0	\$0	\$0
Total Estimated Net Effect on <u>Other State Funds</u>*	\$0	\$0	\$0

*Distributions of Revenue less Cost net to zero – The Money Transmission Modernization Act (361.900 – 361.1035) replaces existing money transmission laws (361.700 – 361.727).
 Numbers within parentheses: () indicate costs or losses.

ESTIMATED NET EFFECT ON FEDERAL FUNDS			
FUND AFFECTED	FY 2024	FY 2025	FY 2026
Total Estimated Net Effect on <u>All</u> Federal Funds	\$0	\$0	\$0

ESTIMATED NET EFFECT ON FULL TIME EQUIVALENT (FTE)			
FUND AFFECTED	FY 2024	FY 2025	FY 2026
Division of Finance (0550)	0 net FTE	0 net FTE	0 net FTE
Total Estimated Net Effect on FTE	0 net FTE	0 net FTE	0 net FTE

- Estimated Net Effect (expenditures or reduced revenues) expected to exceed \$250,000 in any of the three fiscal years after implementation of the act or at full implementation of the act.
- Estimated Net Effect (savings or increased revenues) expected to exceed \$250,000 in any of the three fiscal years after implementation of the act or at full implementation of the act.

ESTIMATED NET EFFECT ON LOCAL FUNDS			
FUND AFFECTED	FY 2024	FY 2025	FY 2026
Local Government	\$0	\$0	\$0

FISCAL ANALYSIS

ASSUMPTION

Officials from the **Department of Commerce and Insurance (DCI)** assume the following:

Assumptions

These sections authorize the commissioner of the Division of Finance (DOF) to administer, interpret, and enforce Sections 361.900-361.1035. It provides rulemaking authority for DOF and addresses confidentiality of information submitted by licensees and applicants. It further permits the commissioner to enforce sections and regulations pertaining to money transmitters including the federal Bank Secrecy Act and the USA Patriot Act; and outlines required submissions by applicants for a money transmitter license.

All revenue and expenses would be deposited and deducted from the Division of Finance Fund (0550).

Revenue Estimate

Money transmitter companies are currently licensed under Sections 361.700-361.727. If passed these sections would be repealed and replaced by Sections 361.900-361.1035. For the purposes of this estimate, DOF assumes all of the 182 entities currently licensed under 361.700-361.727 would convert their license to that which is authorized by Sections 361.900-361.1035.

Section 361.921

This section allows DOF to charge each money transmitter licensed under these sections for costs associated with their annual examinations DOF assumes the commissioner will set licensure and renewal fees at a level to sustain the program without charging for licensee examinations.

Section 361.936

An Initial Application Fee and a License Fee set by the commissioner are required with the submission of an application for license. The fee would be set based on the cost to sustain operation of the licensure program. Licenses would be effective on the date of issuance by DOF and would expire on December 31 of each year. Annual renewal fees would be set by the commissioner based on the total operating expenses of the program.

Section 361.951

A fee set by the commissioner is required to accompany a request to acquire control of a licensee along with an application for acquisition. DOF estimates that 10%, or 18 such transactions would take place each year. The fee would be set at an amount sufficient to sustain operation of the

program based on estimated operating costs.

Section 361.1026

This section authorizes the director to assess civil penalties for violations of 361.900-361.1035. DOF does not anticipate any violations will occur and therefore estimates revenue from these penalties at \$0.

Revenue Loss

Since all of those currently licensed under Sections 361.700-361.727 are assumed to transition to these new licenses, DOF expects a loss of revenue from renewals under 361.700-361.727. The fee for renewals is \$300 annually, resulting in a revenue loss of an estimated \$54,600.

Expense Estimate

Expense estimates include a 2% annual inflation rate.

Section 361.921.1(1) authorizes examinations of licensees which would be conducted by a Senior Consumer Credit Examiner. Regular examinations would take place biennially, with half of the licensees examined each year. This would require an estimated ninety-one examinations be performed each year. It is estimated that a Senior Consumer Credit Examiner would spend an average of forty hours to complete an examination. Completed examinations would be submitted to the central office of the Division for compilation and formatting by an Administrative Office Support Assistant (AOSA). Examinations would be reviewed and approved by the Supervisor of Consumer Credit, estimated to take three hours for each examination.

Based on the average salaries of \$43.63 for a Senior Consumer Credit Examiner; \$20.76 per hour for an AOSA; and \$56.47 for the Supervisor of Consumer Credit. The personal service cost for each examination is estimated at \$1,977. Travel expenses are estimated at \$500 - \$5,000 per examination depending on the location of the licensee. For this estimate, the median of \$2,750 per exam was used.

Applications submitted pursuant to Section 361.936 would be reviewed by a Senior Consumer Credit Examiner, requiring an estimated 12 hours each; the Supervisor of Consumer Credit would spend an average of 1 hour reviewing recommendations of the Senior Consumer Credit Examiner regarding licensure approval or denial. It would take an average of 1 hour for the AOSA to process the approval or denial of each application.

Renewal of licenses for money transmitters would be completed on an annual basis, beginning January 1 after of the date of original issuance. DOF assumes the first set of licenses would expire December 31, 2023. Because the number of money transmitters has been fairly stable, it is estimated that ten would opt not to renew their licenses in FYs 2025 and 2026, but would be replaced by new licensees. Renewal requests would be reviewed by a Senior Consumer Credit Examiner, taking an average of 6 hours each. Review of the recommendation for approval or denial would be handled by the Supervisor of Consumer Credit taking approximately one hour. The AOSA would then process the renewal license or denial at one hour per license.

Those entities seeking to acquire control of a money transmitter license are required to submit an application for acquisition. DOF assumes approximately 10% of licenses would have an acquisition application filed each year. For these eighteen applications, an average of eight hours would be required for review by a Senior Consumer Credit Examiner, one hour of review of the recommendation of approval or denial by the Supervisor of Consumer Credit, and one hour to process the approval or denial of the acquisition.

Sections 361.957 – 361.963 require money transmitters to submit several reports to the Division including financial statements, reports of condition, and special events that affect the licensee. DOF estimates it would take a Senior Consumer Credit Examiner six hours to review each report and the Supervisor of Consumer Credit an average of one hour each to address any concerns identified by the Examiner.

Fringe Benefits are estimated at the standard rate.

Supplies and expenses for employees assigned to this program are estimated at \$11,040 per FTE annually. Because the majority of Consumer Credit examination staff are telecommuters, rent and janitorial expenses would only be necessary for the AOSA and Supervisor positions.

DOF administrative support services, including general administration, training, human resources, accounting, budget, legal, and information technology services are covered in a 15% administrative overhead rate. This includes promulgation of rules and development of forms and websites to support these sections.

Cost Savings

Since those currently licensed under Sections 361.700-361.727 would transition to these new licenses, DOF expects that 182 renewals will not be processed, saving an estimated \$54,600.

DOF assumes that this workload would be picked up by existing staff since repealed Sections 361.700-361.727 would eliminate some existing workload.

Because the commissioner determines the fees associated with licensures and renewals under 361.900-361.1035, DOF assumes the fees would be set at a level sufficient to sustain the operations of the program. Therefore, the net effect on the Division of Finance Fund (0550) would be \$0.

Oversight does not have information to the contrary and therefore, Oversight will reflect the estimates as provided by the DCI.

Officials from the **Department of Corrections (DOC)** assume this proposal establishes provisions relating to money transmission.

Section 361.981 is modified to include new penalty provisions relating to authorized delegates. A delegate holding money in trust for a licensee and knowingly failing to remit more than one thousand dollars of such money is a class E felony. Should the value of the money entrusted in the delegate be equal to or under one thousand dollars, the penalty is a class A misdemeanor.

Section 361.1023 is modified to include new penalty provisions relating to intentionally making false statements or omitting material entries in records. Such actions are punishable with a class E felony. Furthermore, this section also includes penalty provisions relating to knowingly engaging in activities which require a license under sections 361.900 to 361.1035 without the proper license. Such activity, when the person in question receives more than five hundred dollars in compensation within a thirty-day period, is a class E felony. Should the compensation value be equal to or under five hundred dollars, the penalty is a class A misdemeanor.

As misdemeanors fall outside the purview of the DOC, which will not be analyzing their projected impact. Thus, as it relates to DOC, the intent of the bill is to create three new class E felony offenses.

For each new nonviolent class E felony, the department estimates one person could be sentenced to prison and two to probation. The average sentence for a nonviolent class E felony offense is 3.4 years, of which 2.1 years will be served in prison with 1.4 years to first release. The remaining 1.3 years will be on parole. Probation sentences will be 3 years.

The cumulative impact on the department is estimated to be 6 additional offenders in prison and 21 additional offenders on field supervision by FY 2026.

Change in prison admissions and probation openings with legislation

	FY2024	FY2025	FY2026	FY2027	FY2028	FY2029	FY2030	FY2031	FY2032	FY2033
New Admissions										
Current Law	0	0	0	0	0	0	0	0	0	0
After Legislation	3	3	3	3	3	3	3	3	3	3
Probation										
Current Law	0	0	0	0	0	0	0	0	0	0
After Legislation	6	6	6	6	6	6	6	6	6	6
Change (After Legislation - Current Law)										
Admissions	3	3	3	3	3	3	3	3	3	3
Probations	6	6	6	6	6	6	6	6	6	6
Cumulative Populations										
Prison	3	6	6	6	6	6	6	6	6	6
Parole	0	0	3	3	3	3	3	3	3	3
Probation	6	12	18	18	18	18	18	18	18	18
Impact										
Prison Population	3	6	6	6	6	6	6	6	6	6
Field Population	6	12	21	21	21	21	21	21	21	21
Population Change	9	18	27	27	27	27	27	27	27	27

	# to prison	Cost per year	Total Costs for prison	Change in probation & parole officers	Total cost for probation and parole	Change to probation & parole	Grand Total - Prison and Probation (includes 2% inflation)
Year 1	3	(\$9,499)	(\$23,748)	0	\$0	6	(\$23,748)
Year 2	6	(\$9,499)	(\$58,134)	0	\$0	12	(\$58,134)
Year 3	6	(\$9,499)	(\$59,297)	0	\$0	21	(\$59,297)
Year 4	6	(\$9,499)	(\$60,482)	0	\$0	21	(\$60,482)
Year 5	6	(\$9,499)	(\$61,692)	0	\$0	21	(\$61,692)
Year 6	6	(\$9,499)	(\$62,926)	0	\$0	21	(\$62,926)
Year 7	6	(\$9,499)	(\$64,185)	0	\$0	21	(\$64,185)
Year 8	6	(\$9,499)	(\$65,468)	0	\$0	21	(\$65,468)
Year 9	6	(\$9,499)	(\$66,778)	0	\$0	21	(\$66,778)
Year 10	6	(\$9,499)	(\$68,113)	0	\$0	21	(\$68,113)

Oversight does not have any information contrary to that provided by DOC. Therefore, Oversight will reflect DOC's impact for fiscal note purposes.

* If this impact statement has changed from statements submitted in previous years, it could be due to an increase/decrease in the number of offenders, a change in the cost per day for institutional offenders, and/or an increase in staff salaries.

If the projected impact of legislation is less than 1,500 offenders added to or subtracted from the department's institutional caseload, the marginal cost of incarceration will be utilized. This cost of incarceration is \$26.024 per day or an annual cost of \$9,499 per offender and includes such costs as medical, food, and operational E&E. However, if the projected impact of legislation is 1,500 or more offenders added or removed to the department's institutional caseload, the full cost of incarceration will be used, which includes fixed costs. This cost is \$87.46 per day or an annual cost of \$31,921 per offender and includes personal services, all institutional E&E, medical and mental health, fringe, and miscellaneous expenses. None of these costs include construction to increase institutional capacity.

DOC's cost of probation or parole is determined by the number of P&P Officer II positions that are needed to cover its caseload. The DOC average district caseload across the state is 51 offender cases per officer. An increase/decrease of 51 cases would result in a cost/cost avoidance equal to the salary, fringe, and equipment and expenses of one P&P Officer II. Increases/decreases smaller than 51 offender cases are assumed to be absorbable.

In instances where the proposed legislation would only affect a specific caseload, such as sex offenders, the DOC will use the average caseload figure for that specific type of offender to calculate cost increases/decreases.

Officials from the **Office of the State Public Defender** assume the proposal creates a new offense under section 361.981 which could result in additional cases eligible for SPD representation. The number of additional cases is unknown and as a result the fiscal impact is unknown.

Oversight notes in FY22 the SPD was appropriated moneys for 53 additional FTE. Oversight assumes this proposal will create a minimal number of new cases and that the SPD can absorb the additional caseload required by this proposal with current staff and resources. Therefore, Oversight will reflect no fiscal impact to the SPD for fiscal note purposes. However, if multiple bills pass which require additional staffing and duties, the SPD may request funding through the appropriation process.

Officials from the **Sheriff's Retirement System** assume this proposal may have a negative impact if this legislation passes. The Retirement system hires investment managers to invest its assets based on the investment policy. Setting constraints on investing or banking guidelines has a potential of limiting investment earnings used to finance the retirement system.

Officials from the **Attorney General's Office, the Office of Administration - Administrative Hearing Commission, the Department of Economic Development, the Department of Elementary and Secondary Education, the Department of Higher Education and Workforce Development, the Department of Health and Senior Services, the Department of Mental Health, the Department of Natural Resources, the Department of Labor and Industrial Relations, the Department of Revenue, the Department of Public Safety (Division of Alcohol and Tobacco Control, Capitol Police, Fire Safety, Office of the Director, Missouri Gaming Commission, Missouri Highway Patrol, Missouri Veterans Commission and State Emergency Management Agency), the Department of Social Services, the Missouri Office of Prosecution Services, the Office of the Governor, the Missouri Department of Agriculture, the Missouri Department of Conservation, the Missouri Ethics Commission, the Missouri Department of Transportation, the Missouri National Guard, the MoDOT & Patrol Employees' Retirement System, the Office of Administration, Missouri State Employee's Retirement System, the City of Kansas City, the City of Springfield, the Kansas City Employees' Retirement System, the Kansas City Firefighter's Pension System, the Kansas City Police Retirement System, the Kansas City Public School Retirement System, the Kansas City Supplemental Retirement Plan, the Metropolitan St. Louis Sewer District Employees Pension Plan, the Rock Community Fire Protection District Retirement Plan, the Office of the Lieutenant Governor, the Office of the State Auditor, the Joint Committee on Administrative Rules, the Joint Committee on Education, the Joint Committee on Public Employee Retirement, Legislative Research, the Oversight Division, the Missouri Senate, the Missouri Lottery, the Missouri Consolidated Health Care Plan and**

the **State Tax Commission** each assume the proposal will have no fiscal impact on their respective organizations. **Oversight** does not have any information to the contrary. Therefore, Oversight will reflect a zero impact in the fiscal note for these agencies.

Officials from the **Office of the Secretary of State (SOS)** note many bills considered by the General Assembly include provisions allowing or requiring agencies to submit rules and regulations to implement the act. The SOS is provided with core funding to handle a certain amount of normal activity resulting from each year's legislative session. The fiscal impact for this fiscal note to the SOS for Administrative Rules is less than \$5,000. The SOS recognizes that this is a small amount and does not expect that additional funding would be required to meet these costs. However, the SOS also recognizes that many such bills may be passed by the General Assembly in a given year and that collectively the costs may be in excess of what the office can sustain with its core budget. Therefore, the SOS reserves the right to request funding for the cost of supporting administrative rules requirements should the need arise based on a review of the finally approved bills signed by the governor.

Oversight only reflects the responses received from state agencies and political subdivisions; however, other cities and counties were requested to respond to this proposed legislation but did not. A listing of political subdivisions included in the Missouri Legislative Information System (MOLIS) database is available upon request.

<u>FISCAL IMPACT – State Government</u>	FY 2024 (10 Mo.)	FY 2025	FY 2026
GENERAL REVENUE			
<u>Cost – DOC – increased incarceration costs p. 7</u>	<u>(\$23,748)</u>	<u>(\$58,134)</u>	<u>(\$59,297)</u>
ESTIMATED NET EFFECT ON THE GENERAL REVENUE FUND	<u>(\$23,748)</u>	<u>(\$58,134)</u>	<u>(\$59,297)</u>
DIVISION OF FINANCE (0550)			
<u>Savings – DCI – repealing §§361.700 to 361.729 p. 5</u>	\$54,600	\$54,600	\$54,600
<u>Revenue loss – DCI – of licensing fees (§§361.700 to 361.727) p. 4</u>	(\$54,600)	(\$54,600)	(\$54,600)
<u>Revenue – DCI – money transmitter fees p. 4-5</u>	\$903,874	\$912,214	\$929,332

Cost – DCI p. 4-5			
Personal Services	(\$347,197)	(\$354,141)	(\$361,224)
Fringe Benefits	(\$172,672)	(\$167,658)	(\$170,032)
Expenses	(\$306,025)	(\$312,145)	(\$318,388)
Administrative Overhead (15%)	(\$77,980)	(\$78,270)	(\$79,688)
Total Cost	(\$903,874)	(\$912,214)	(\$929,332)
FTE Change – DCI	0 FTE	0 FTE	0 FTE
ESTIMATED NET EFFECT TO THE DIVISION OF FINANCE	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
Estimated Net FTE Change on the Division of Finance	0 net FTE	0 net FTE	0 net FTE

<u>FISCAL IMPACT – Local Government</u>	FY 2024 (10 Mo.)	FY 2025	FY 2026
	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>

FISCAL IMPACT – Small Business

Certain small businesses that are small money transmitter businesses could be impacted by this proposal.

FISCAL DESCRIPTION

This bill establishes the "Money Transmission Modernization Act" (MTMA) which replaces existing money transmission laws and ensures that states coordinate in areas of regulation and licensing to eliminate unnecessary regulatory burden; protect the public from financial crime and protect customer funds. The bill provides for uniformity with respect to the subject matter with other states that have enacted the MTMA (Sections 361.900, 361.903 and 361.1032, RSMo).

DEFINITIONS AND EXEMPTIONS (Sections 361.906 and 361.909)

The MMTA contains several definitions as described in the bill, including "money", "outstanding money transmission obligations", "control", "average daily money transmission liability", "multistate licensing process", "passive investor", "payment instrument", and "payroll processing services". The MTMA eliminates technical differences between states that make compliance and reporting difficult for companies operating in multiple states. The bill set forth exemptions from money transmitter licensing to promote consistency among states. The exemptions include, but are not limited to an operator of a payment system that provides processing, clearing, or settlement services between persons who are exempted under the bill; a person appointed as an agent of a payee to collect and process a payment from a payer to the payee for goods and

services, other than money transmission itself; a person that acts as an intermediary between an entity and sender; the United States government; state, county, city or governmental agency of subdivision; federally insured depository financial institution; and person registered as a securities broker-dealer under federal or state securities laws.

COMMISSIONERS POWERS AND AUTHORITY (Sections 361.912, 361.915, 361.918 and 361.921)

The bill tasks the Commissioner of the Division of Finance with the Missouri Department of Commerce and Insurance with overseeing the claimed exemptions, entering into agreements with government officials; adopting analytical software systems, accepting from other federal and state government agencies licensing, examination or investigative reports and audit reports. The Commissioner also has broad administrative authority as detailed in the bill. Further, the bill protects the confidentiality of the information and explains the requirements on what information is regarded as protected and confidential. The Commissioner is authorized to administer and enforce the provisions of the MTMA. The Commissioner is also authorized to participate in multistate supervisory processes between the states and coordinated through the Conference of State Bank Supervisors and Money Transmitter Regulators Association.

CONFLICT OF LAWS (Sections 361.927 and 361.1035)

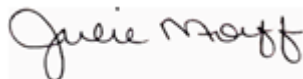
Inconsistencies between the provisions of MTMA and federal law governing money transmission shall be governed by federal law. A person licensed in Missouri to engage in the business of money transmission is not subject to the requirements of MTMA to the extent that they conflict with current law or establish new requirements not imposed under current law, until such time as the licensee renews the licensee's current license.

This legislation is not federally mandated, would not duplicate any other program and would not require additional capital improvements or rental space.

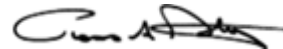
SOURCES OF INFORMATION

Department of Commerce and Insurance
Department of Corrections
Office of the State Public Defender
Sheriff's Retirement System
Attorney General's Office
Office of Administration - Administrative Hearing Commission
Department of Economic Development
Department of Elementary and Secondary Education
Department of Higher Education and Workforce Development
Department of Health and Senior Services
Department of Mental Health
Department of Natural Resources
Department of Labor and Industrial Relations
Department of Revenue

Department of Public Safety
Department of Social Services
Office of the Governor
Missouri Department of Agriculture
Missouri Department of Conservation
Missouri Ethics Commission
Missouri Department of Transportation
Missouri National Guard
MoDOT & Patrol Employees' Retirement System
Office of Administration
Missouri State Employee's Retirement System
Missouri Office of Prosecution Services
City of Kansas City
City of Springfield
Kansas City Employees' Retirement System
Kansas City Firefighter's Pension System
Kansas City Police Retirement System
Kansas City Public School Retirement System
Kansas City Supplemental Retirement Plan
Metropolitan St. Louis Sewer District Employees Pension Plan
Rock Community Fire Protection District Retirement Plan
Office of the Lieutenant Governor
Office of the State Auditor
Joint Committee on Administrative Rules
Joint Committee on Education
Joint Committee on Public Employee Retirement
Legislative Research
Oversight Division
Missouri Senate
Missouri Lottery
Missouri Consolidated Health Care Plan
State Tax Commission
Office of the Secretary of State



Julie Morff
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April 17, 2023



Ross Strobe
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April 17, 2023