Department of Legislative Services

Maryland General Assembly
2003 Session

FISCAL AND POLICY NOTE

House Bill 1155 (Chairman, Economic Matters Committee)
(By Request – Departmental – Labor, Licensing, and Regulation)

Economic Matters

Office of the Commissioner of Financial Regulation - Fees

This departmental bill establishes a State Financial Regulation Fund in the Office of the Commissioner of Financial Regulation to pay for the direct and indirect expenses in fulfilling the commissioner's statutory and regulatory duties.

The bill is effective June 1, 2003.

Fiscal Summary

State Effect: General fund revenues and expenditures attributable to the Division of Financial Regulation would become special fund revenues and expenditures. In FY 2004, revenues attributable to the division are approximately $7.45 million, and the total for direct and indirect expenditures is approximately $5.89 million. The bill would also increase fee revenues to the division by approximately $435,000 in even-numbered fiscal years and approximately $199,000 in odd-numbered fiscal years.

(in dollars)	FY 2004	FY 2005	FY 2006	FY 2007	FY 2008
GF Revenue	($7,453,000)	($5,998,100)	($8,293,500)	($6,500,100)	($9,288,700)
SF Revenue	7,888,000	6,197,100	8,728,500	6,699,100	9,723,700
GF Expenditure	(5,896,100)	(6,789,600)	(6,807,100)	(7,146,900)	(7,499,300)
SF Expenditure	5,896,100	6,789,600	6,807,100	7,146,900	7,499,300
Net Effect	$435,000	$199,000	$435,000	$199,000	$435,000

Note:() = decrease; GF = general funds; FF = federal funds; SF = special funds; - = indeterminate effect

Local Effect: None.

Small Business Effect: The Department of Labor, Licensing, and Regulation has determined that this bill has minimal or no impact on small business (attached). Legislative Services concurs with this assessment.

Analysis

Bill Summary: The Secretary of Labor, Licensing, and Regulation or the Secretary's designee must administer the fund. The commissioner must calculate the direct and indirect expenses in fulfilling the commissioner's statutory and regulatory duties on an annual basis.

All fees charged by the commissioner are credited to the Financial Regulation Fund. Generally, no part of the fund may revert or be credited to the State's general fund or any other special fund. Costs of the Office of Administrative Hearings attributable to the commissioner and capital expenses related to electronic licensing are not included in the computation of the commissioner's costs and must be paid from the State's general fund. At the end of each odd-numbered fiscal year beginning June 30, 2007, any unspent portion of the Financial Regulation Fund that exceeds 110% of the commissioner's budgeted costs for the following fiscal year reverts to the State's general fund.

The bill moves all fees charged by the commissioner from various sections of the Financial Institutions Article to a single section and increases specified fees. The bill repeals the Money Transmission Fund established for the regulation of money transmitters and transfers the monies in that fund to the Financial Regulation Fund.

The bill repeals the provisions establishing charges for out-of-state examinations and generally requires institutions being examined to pay the commissioner's expenses incurred during the examination. For specified examinations and investigations, persons being examined by the commissioner must pay travel and lodging expenses and a per diem for examiners, in addition to an amount equal to the examiners' salaries for each day of the examination. The commissioner must present the person examined with a detailed account of the expenses incurred.

Current Law: Generally, the Division of Financial Regulation, under the commissioner's direction is general funded and housed within the Department of Labor, Licensing, and Regulation. The commissioner's regulatory oversight includes the activities of banks, trust companies, savings banks, credit unions, safe deposit companies, sales finance companies, installment loan lenders, credit service businesses, check cashers, debt collection agencies, mortgage lenders, and money transmitters. Chapter

539 of 2002 established the Money Transmission Fund as a special fund to pay the commissioner's expenditures for the regulation of the money transmission industry.

Generally, a licensee whose place of business being examined is located outside Maryland must pay for examiner travel and living expenses. However, this charge does not apply if the licensee provides all documentation deemed by the commissioner to be necessary or appropriate to the examination to be physically produced in the State at a designated location. Any payments collected under this provision are reserved in a special fund specifically for examination expenses. It should be noted that no payments have been made under this provision.

State Fiscal Effect: The bill makes the Division of Financial Regulation a special funded agency. All expenditures that are currently general fund expenditures would become special fund expenditures. In addition, the division's indirect costs, which include items charged to the Secretary's office such as the services of the Office of the Attorney General, would be paid from the fund. The division's general fund appropriation for fiscal 2004 is approximately $4.72 million. The division's indirect cost attribution for fiscal 2004 is approximately $1.17 million, making the division's total expenditures approximately $5.89 million.

Most general fund revenues currently generated by the division's operations would become special fund revenues. Fine and penalty revenues would remain as general fund revenues. There are approximately 80 depository institutions and approximately 4,600 nondepository institutions licensed by the division. Most of the licensees operate on a two-year licensing cycle. The bill raises licensing and other fees charged to several depository and nondepository institutions. The combined effect of these fee increases is expected to be approximately $199,000 annually beginning in fiscal 2004 based on a three-year average activity.

The bill also increases fees for sales finance companies and collection agencies. Sales finance company fees would increase by $250 for a license (from $250 to $500) and $100 (from $100 to $200) for an investigation, which must be performed each time a two-year license is obtained. Licensing fees for collection agencies would increase by $100 (from $100 to $200). There are approximately 480 licensed sales finance companies and approximately 980 collection agencies. Based on this, the division would receive an additional $236,000 in licensing revenues in even-numbered fiscal years beginning in fiscal 2004.

The bill also transfers special fund revenues currently slated for the Money Transmission Fund to the Financial Regulation Fund. This is expected to be approximately $250,000 in even-numbered fiscal years, reflecting the two-year licensing cycle.

In addition to the fees in the bill, depository institutions and trust companies pay an annual assessment of $1,000 plus $0.08 for each $1,000 of the institution's assets over $1 million. Because of the two-year licensing cycles, the division would receive more revenues during even-numbered fiscal years. The bulk of the division's revenues in odd-numbered fiscal years would come from assessments, examinations, and some industry growth in licensee categories. Special fund revenues in fiscal 2004 under the bill would be approximately $7.45 million.

The bill requires a reversion of excess monies to the general fund at the end of odd-numbered fiscal years beginning at the end of fiscal 2007. It is estimated that this reversion in fiscal 2007 would be approximately $450,000.

Additional Information

Prior Introductions: A similar bill, HB 1322, was introduced during the 2002 session. The bill was heard in the House Commerce and Government Matters Committee, where no further action was taken.

Cross File: None.

Information Source(s): Department of Labor, Licensing, and Regulation; Department of Legislative Services

Fiscal Note History: First Reader - March 18, 2003
mam/jr

Analysis by: Ryan Wilson

Direct Inquiries to:
(410) 946-5510
(301) 970-5510