

## INVESTMENT LICENSES AND PERMITS

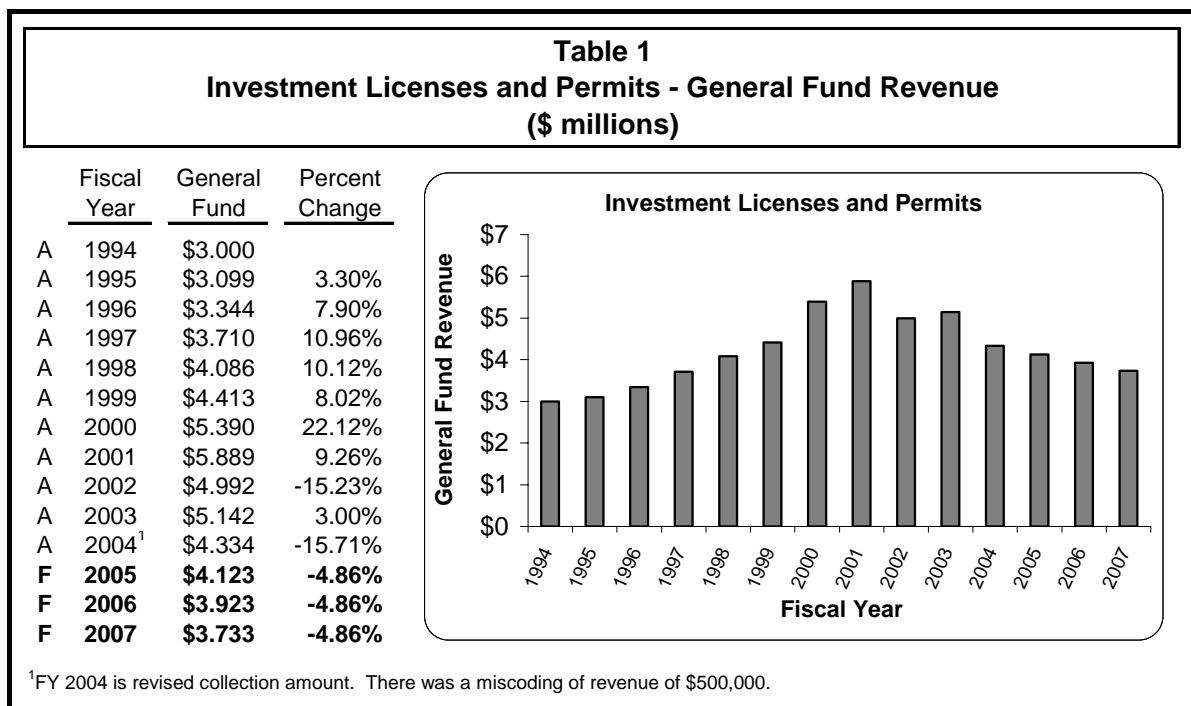
### Revenue Description

Persons who plan to sell securities in Montana must register with the State Auditor 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.

Newly issued securities that are not regulated at the federal level, traded on a regulated or self-regulating exchange, or otherwise exempt from state regulation must be registered with the State Auditor's office. The first year they are offered, the registration fee is \$200 plus 0.1% of the value over \$100,000, up to a maximum fee of \$1,000. In succeeding years, the registration may be renewed for a fee of 0.1% of the value of securities to be offered that year with a minimum of \$200 and a maximum of \$1,000.

### Historical and Projected Revenues

Table 1 shows actual collections for investment licenses and permits for FY 1994 through FY 2004, and projected revenue for FY 2005 through FY 2007.

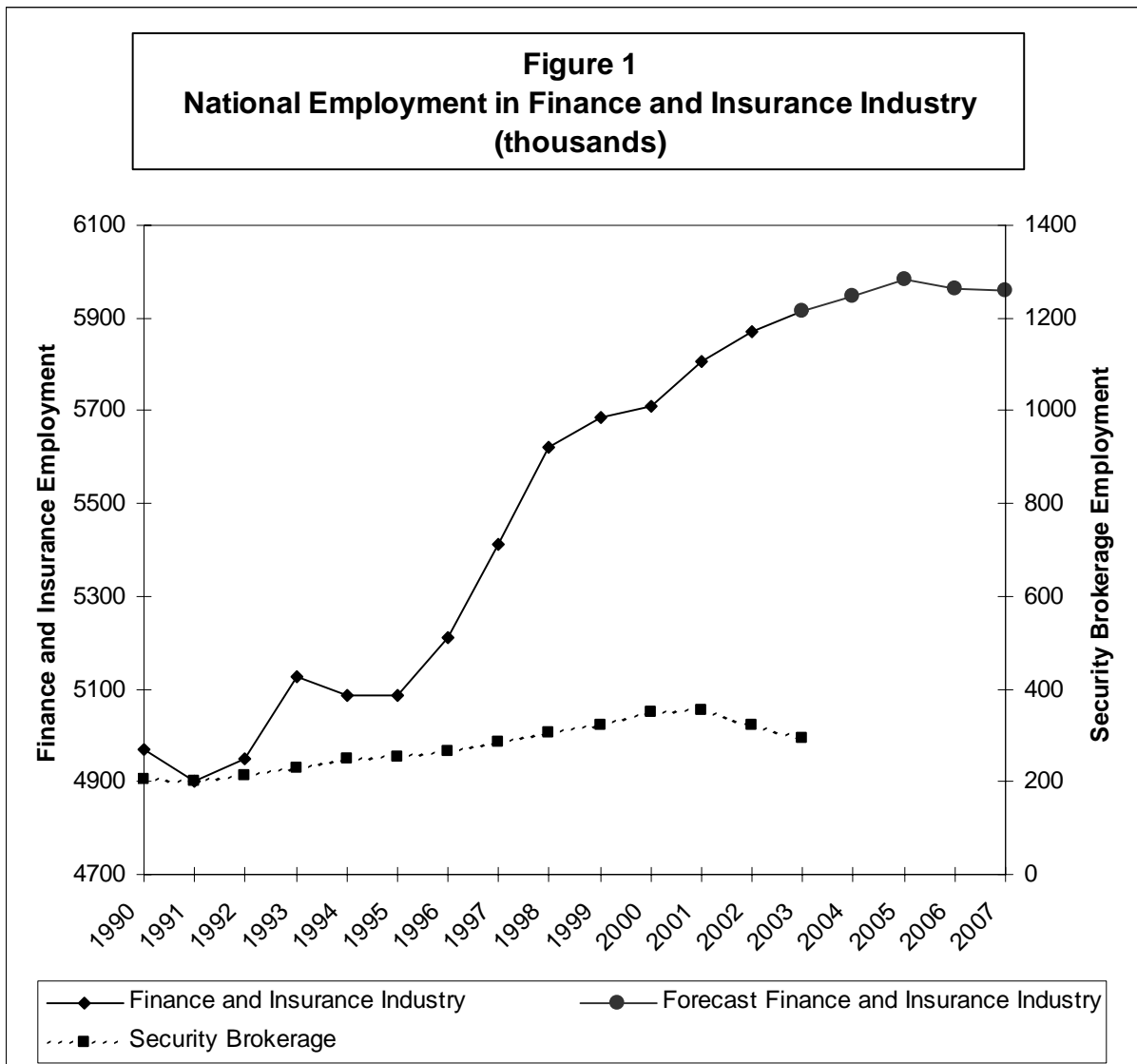


Revenue grew rapidly during the stock market boom from 1994 through 2001 as more persons registered to sell securities. Following the stock market collapse, revenue has been lower and is projected to continue to decline toward the levels of the mid-1990s.

## Forecast Methodology and Projection Calculation

The basic fee structure of securities licenses and permits has not changed during the period shown in Table 1. Revenue growth has resulted from increases in the number of securities licenses, and the value of state-regulated securities issued in Montana.

The security brokerage industry grew rapidly from 1990 through 2001, both nationally and in Montana. Figure 1 shows national employment in the security brokerage industry, and in the finance and insurance sector as a whole from 1990 through 2003, along with Global Insight's forecast of employment in the finance and insurance sector for 2004 through 2007. Employment in the finance and insurance sector is measured on the left axis, and employment in the security brokerage industry is measured on the right axis.



National employment in the security brokerage industry grew 83.3% from April 1991 to April 2001. Over one-quarter of that growth occurred in 2000 and 2001. National employment in the industry peaked in April 2001 and has declined by 20% since then. Investment license revenue peaked in FY 2001, at the same time that national employment in the industry peaked.

Global Insight does not forecast employment for the security brokerage industry, but does forecast employment for the finance and insurance sector. In 2003, about 5% of employment in the finance and insurance sector was in the security brokerage industry. Employment in the sector as a whole continued to grow through 2003. Global Insight expects employment in this sector to continue to grow slowly in 2004 and 2005, then decline slightly in 2006 and 2007.

Growth of the securities brokerage industry through early 1991 was fueled by the run up in stock prices, and by an increase in the number of people participating in financial markets. As people saw significant increases in the value of their financial portfolios, they were willing to pay for more services from brokerage firms such as financial advice and frequent securities trades to take advantage of changes in the market.

With the decline in the stock market in 2001, individuals have been less willing to pay for some of the extra services that they bought during the 1990s. At the same time, there have been significant increases in productivity in supplying basic brokerage services. Customers can place orders online and the processing of trades has become more automated. Customers can buy and sell securities with less labor cost per transaction than in the past.

The result of all these changes is declining employment in the security brokerage industry. This is reflected in security license revenue, which fell by 15.2% in FY 2002, grew slowly in FY 2003, and then declined again by 15.7% in FY 2004. The average annual change from FY 2001 through FY 2004 is -9.7%.

Over the next several years, demand for services of the security brokerage industry is likely to show little growth, and productivity is likely to continue to grow as automation of routine processes in the industry continues to expand. This will cause employment to continue to drop, but not as quickly as in 2002 and 2003. National employment in the security brokerage industry decreased by 8.4% in 2003. If employment decreases at half that rate over the next three years, it will be about the same in 2007 as in 1994. For purposes of this analysis, it is assumed that revenue will decrease 4.86%, or at half the average annual change in revenue observed from FY 2001 to FY 2004 ( $-9.7\% \div 2$ ).