

INVESTMENT LICENSES AND PERMITS

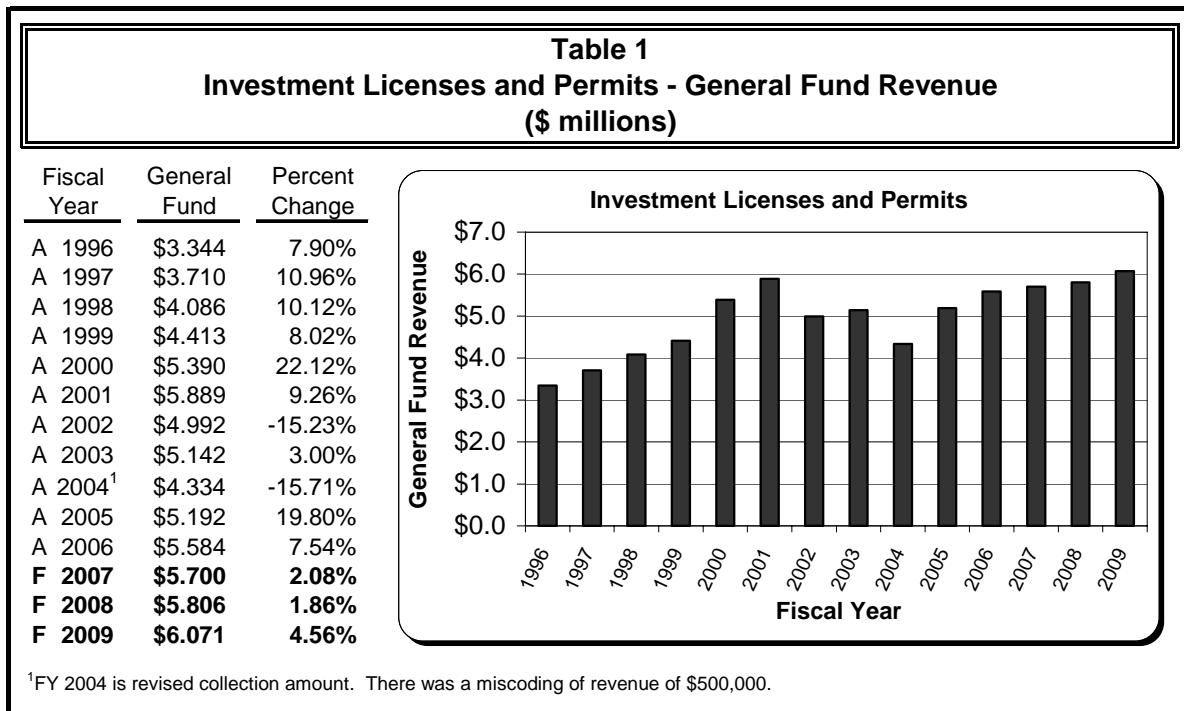
Revenue Description

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 general fund revenue from investment licenses and permits for FY 1996 through FY 2006 and forecast revenue for FY 2007 through FY 2009.

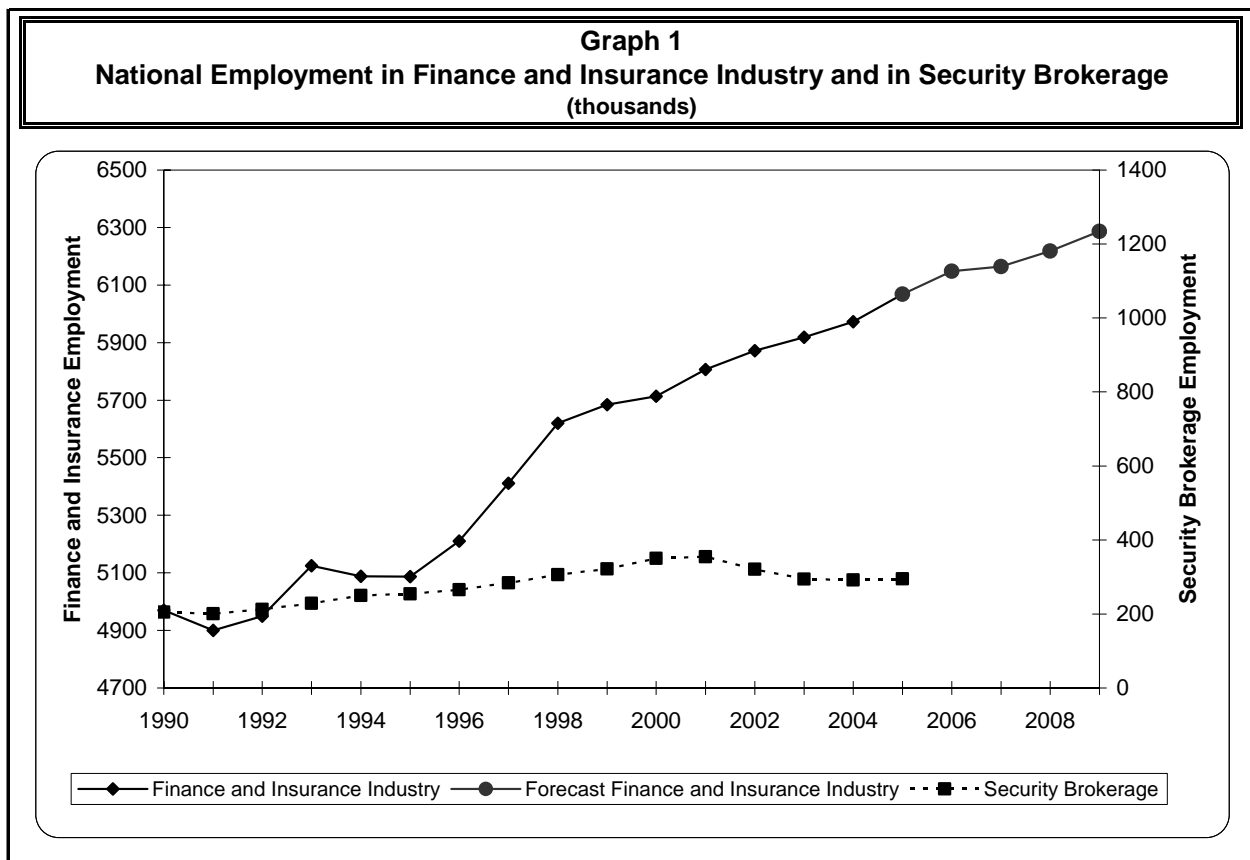


Revenue grew rapidly during the stock market boom from 1994 through 2001 as more persons registered to sell securities. Following the stock market decline, revenue dropped

significantly but has recovered substantial ground since FY 2004. Revenue is projected to continue to grow at a modest rate over the forecast time period.

Forecast Methodology and Projection Calculation

The basic fee structure of securities licenses and permits has not changed during the period shown in Table 1. Changes in revenue have resulted from increases or decreases in the number of securities licenses issued in the state. However, the industry itself has gone through changes. The security brokerage industry grew rapidly from 1990 through 2001, both nationally and in Montana. Graph 1 shows national employment in the security brokerage industry and in the finance and insurance sector as a whole from 1990 through 2005, along with Global Insight’s forecast of employment in the finance and insurance sector for 2006 through 2009. 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.

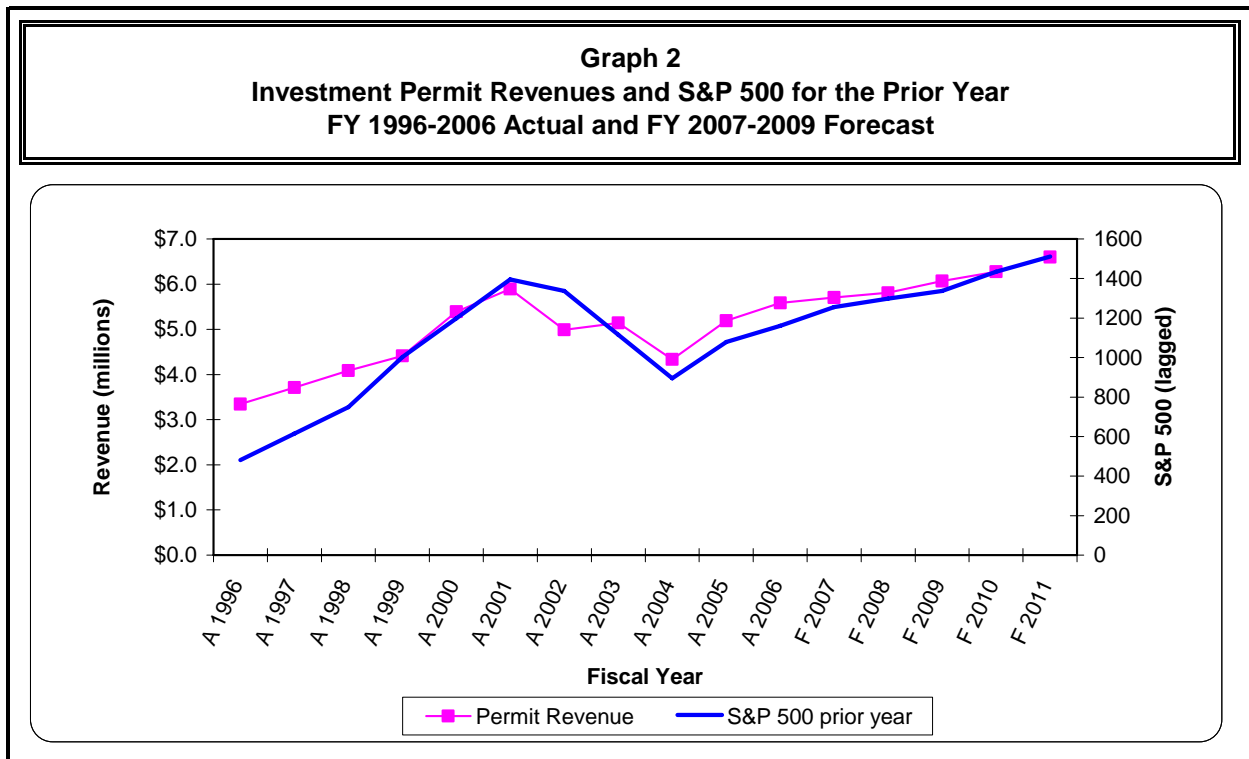


National employment in the security brokerage industry peaked in April 2001 and has declined by 17% since then. Investment license revenue peaked in FY 2001, at the same time that national employment in the industry peaked. During that same period both the number and value of shares traded increased substantially; for example, on the New York

Stock Exchange the volume of round lots (a unit of trade) went from 39.9 billion in 1990 to 311 billion in 2001 and the annual value of shares traded went from \$1,336 billion in 1990 to \$10,645 billion in 2001.

Growth of the securities brokerage industry through early 2001 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. After 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 productivity increases in supplying basic brokerage services. Customers can place orders online and the processing of trades has become more automated. Many securities transactions require less labor per transaction than in the past. The result of all these changes was 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.

Since 2003, investment permit revenues appear to have returned to a more consistent relationship to the general equity markets. Graph 2 illustrates the relationship between revenue from investment permits (scale shown on the left side of the graph) and the Standard & Poor's common stock index of 500 companies (scale shown on the right side of the graph). The Standard & Poor's 500 Index (the S&P 500) shown in Graph 2 is the average for the prior year.



The relationship between the prior year S&P 500 index average and investment permit revenues was used to estimate a linear regression model. Based upon the model results, an increase of 1 point in the prior year S&P 500 index means an increase of \$2,614.42 in investment permit revenues. As can be seen in Graph 2 the chosen explanatory variable, prior year S&P 500 index average, has a fairly good relationship with permit revenue. Statistically this is represented by the relationship having an adjusted R-square of .86 (where 1.00 represents perfect correlation).

The model was used to forecast permit revenues for FY 2007 through FY 2009 on the basis of the level of the S&P 500 (lagged) as forecast by Global Insight. Table 2 shows the forecast revenues based on the model. General fund revenue from investment licenses and permits is expected to grow by 2.08% to \$5.7 million in FY 2007, by 1.86% to \$5.8 million in FY 2008, and by 4.56% to \$6.071 million in FY 2009.

Table 2 Forecast Investment Permit Revenue Collections (\$ millions)		
Fiscal Year	S&P 500 Average (Prior Year)	Forecast Collections
F 2007	1254.9	\$5.700
F 2008	1297.7	\$5.806
F 2009	1336.9	\$6.071

Data Sources

General fund revenue from investment licenses and permits is from SABHRS. Past employment is from the Bureau of Labor Statistics of the U.S. Department of Labor. Employment and equity market forecasts are from Global Insight's July 2006 national forecast. Data on the New York Stock Exchange is from the *2006 Statistical Abstract of the United States*, Census Bureau, U.S. Department of Commerce.