

### Agency Budget Comparison

The following table summarizes the total proposed budget by year, type of expenditure, and source of funding.

Agency Budget Comparison								
Budget Item	Base Fiscal 2014	Approp. Fiscal 2015	Budget Fiscal 2016	Budget Fiscal 2017	Biennium Fiscal 14-15	Biennium Fiscal 16-17	Biennium Change	Biennium % Change
FTE	87.80	87.80	80.54	80.54	87.80	80.54	(7.26)	(8.27)%
Personal Services	5,565,902	6,245,600	6,443,209	6,442,354	11,811,502	12,885,563	1,074,061	9.09%
Operating Expenses	1,665,580	3,333,398	1,352,797	1,198,917	4,998,978	2,551,714	(2,447,264)	(48.96)%
Equipment & Intangible Assets	47,374	8,695	47,374	47,374	56,069	94,748	38,679	68.98%
Benefits & Claims	813,624	10,004,758	5,059,713	0	10,818,382	5,059,713	(5,758,669)	(53.23)%
<b>Total Costs</b>	<b>\$8,092,480</b>	<b>\$19,592,451</b>	<b>\$12,903,093</b>	<b>\$7,688,645</b>	<b>\$27,684,931</b>	<b>\$20,591,738</b>	<b>(\$7,093,193)</b>	<b>(25.62)%</b>
General Fund	0	6,763,375	4,769,387	0	6,763,375	4,769,387	(1,993,988)	(29.48)%
State/Other Special Rev. Funds	8,092,480	12,829,076	8,133,706	7,688,645	20,921,556	15,822,351	(5,099,205)	(24.37)%
Federal Spec. Rev. Funds	0	0	0	0	0	0	0	0.00%
<b>Total Funds</b>	<b>\$8,092,480</b>	<b>\$19,592,451</b>	<b>\$12,903,093</b>	<b>\$7,688,645</b>	<b>\$27,684,931</b>	<b>\$20,591,738</b>	<b>(\$7,093,193)</b>	<b>(25.62)%</b>

### Mission Statement

The mission of the State Auditor's Office is to assure compliance with the Montana insurance and securities laws, promote captive insurance formations, administer the Insure Montana program, and assist consumers with complaints involving the securities and insurance industries.

For more information, please refer to the agency profile: <http://leg.mt.gov/fbp-2017.asp>

### Agency Highlights

<b>State Auditor's Office Major Budget Highlights</b>
<ul style="list-style-type: none"> <li>• The 2017 biennium Governor's budget for the State Auditor's Office is a net \$7.1 million lower than the FY 2015 biennium, including \$2.0 million general fund <ul style="list-style-type: none"> <li>◦ However, the main budget table includes one-time appropriations in FY 2015 for Insure Montana (\$9.8 million, including \$6.8 million general fund) and for examination of insurance and securities firms (\$0.5 million)</li> <li>◦ If one one-time appropriations are removed, the total change from the 2017 biennium to the 2015 biennium is a net \$3.1 million increase, including \$4.8 million general fund</li> <li>◦ There is a \$1.6 million reduction in state special revenue funding to balance expenditures and insurance fee revenue</li> </ul> </li> <li>• The executive includes extension of the Insure Montana program, which was funded from a one-time appropriation in the 2015 biennium, for the first half of FY 2016 - \$4.8 million general fund</li> <li>• Personal services increases due to market adjustments funded by the 2013 Legislature, annualization of pay plan increases, funding for positions that were vacant during FY 2014, and addition of 1.00 new FTE - \$1.5 million</li> <li>• FTE are a net 7.26 FTE lower due to the following changes: <ul style="list-style-type: none"> <li>◦ A reduction of 3.26 FTE reduction to comply with legislative intent included in HB 2</li> <li>◦ Removal of 5.00 FTE funded from a one-time appropriation and inadvertently included in the base budget</li> <li>◦ An increase of 1.00 FTE for examination of securities firms</li> </ul> </li> <li>• The State Auditor submitted two elected official budget requests that were not included in the executive budget, which are presented for legislative review as a courtesy to elected officials: <ul style="list-style-type: none"> <li>◦ Contracted health insurance rate review - \$300,000</li> <li>◦ 1.00 FTE for captive insurance regulation - \$150,000</li> </ul> </li> </ul>
<b>Legislative Action Issues</b>
<ul style="list-style-type: none"> <li>• The legislature may wish to review the insurance tax and fee state special revenue account and the captive insurance fee account to determine whether additional funds should be allocated to the account to support mandated work functions <ul style="list-style-type: none"> <li>◦ The legislature may wish to ask the State Auditor's Office whether it would increase fee revenue to cover projected shortfalls</li> </ul> </li> <li>• The legislature may wish to review the plan to terminate the state high risk insurance pool (Montana Comprehensive Health Association) and adjust the amount of funding needed <ul style="list-style-type: none"> <li>◦ Changes in funding for the high risk pool can be used to offset general fund costs of state Medicaid match for services provided through the Healthy Montana Kids program administered by the Department of Public Health and Human Services</li> </ul> </li> </ul>

**Agency Discussion**

The Governor's budget includes \$26.6 million, including a one-time appropriation of \$4.8 million general fund, for the 2017 biennium for the State Auditor's Office. Major increases over the 2015 biennium are:

- \$4.8 million to continue the Insure Montana premium assistance program for the last six months of 2015 (first six months of FY 2016)
- \$1.5 million in personal services to fund 2015 biennium pay plan increases, fully fund positions that were vacant during FY 2014, and fund 1.00 additional FTE
- \$0.4 million for contracted examinations of insurance and security firms

**Agency Personal Services**

Personal services costs grow despite a decrease in the number of FTE funded in the 2017 biennium. The reduction in FTE is net of the following changes:

- Security examination – addition of 1.00 new FTE
- FTE funded from one-time appropriations inadvertently included in the base budget – reduction of 5.00 FTE
- FTE removed to comply with HB 2 boilerplate language – 3.26 FTE

*5% Reduction Plan*

Statute requires that agencies submit plans to reduce general fund and certain state special revenue funds by 5%. A summary of the entire 2015 biennium 5% plan submitted for this agency is in the appendix.

**Comparison of FY 2015 Legislative Base to FY 2015 Appropriation**

The legislative budget analysis uses the FY 2015 legislative appropriation as the budget starting point. The following figure compares the FY 2015 legislative starting point compared to the executive implementation of the FY 2015 appropriation, which is the FY 2015 value included in the main table.

FY 2015 Appropriation Transactions - State Auditor's Office				
Program	Legislative Appropriation	Legislative Approps OTO	Program Transfers	Total Executive Implementation
Central Management	\$1,748,278	\$33,915	\$391,128	\$2,173,322
Personal Services	1,287,800	-	-	1,446,289
Operating Expenses	458,795	33,915	-	725,350
Equipment & Intangible Assets	1,683	-	-	1,683
Insurance	6,375,278	10,248,822	(278,006)	16,346,094
Personal Services	3,603,964	448,029	-	3,966,734
Operating Expenses	1,822,509	739,030	-	2,368,792
Equipment & Intangible Assets	5,109	701	-	5,810
Benefits & Claims	943,696	9,061,062	-	10,004,758
Securities	1,186,158	-	(113,122)	1,073,036
Personal Services	905,807	-	-	832,578
Operating Expenses	279,149	-	-	239,256
Equipment & Intangible Assets	1,202	-	-	1,202
<b>Agency Total</b>	<b>\$9,309,714</b>	<b>\$10,282,737</b>	<b>-</b>	<b>\$19,592,451</b>

The legislative appropriation is \$10.3 million lower than the executive implementation. As noted previously, the legislative appropriation does not include one-time appropriations for Insure Montana and examination of insurance and security firms. In addition, the legislative appropriation does not include a program transfer that moved FTE and operating expenditures to align appropriation authority among programs.

**FY 2015 Legislative Base Budget Compared to FY 2014 Expenditures**

The legislative staff analysis of the executive budget uses the FY 2015 legislative appropriation with adjustments as a base or starting point. The FY 2015 legislative base is \$1.2 million higher than FY 2014 expenditures. As shown in the following figure, the major differences are:

- Operating costs - \$0.9 million
- Personal services costs - \$0.2 million
- Benefits and claims - \$0.1 million

State Auditor's Office - FY14 Expenditures Compared to FY 2015 Legislative Base			
Expenditure /Fund	FY 2014	FY 2015 Leg Base	FY 2015 Over (Under) FY 2014
FTE	87.80	87.80	-
Personal Services	\$5,565,902	\$5,797,571	\$231,669
Operating Expenses	1,665,580	2,560,453	894,873
Equipment	47,374	7,994	(39,380)
Benefits and Claims	<u>813,624</u>	<u>943,696</u>	<u>130,072</u>
Total Expenditures	8,092,480	9,309,714	1,217,234
State Special Revenue	8,092,480	9,309,714	1,217,234
Total Funding	\$8,092,480	\$9,309,714	\$1,217,234

Operating costs were lower in FY 2014 compared to the FY 2015 appropriation due to fewer contracted examinations of insurance and securities firms. Part of the reduction in contracted services costs was due to staff performing the audits.

Personal services costs were lower due to vacancies in FY 2014 and the increase in pay plan from FY 2014 to FY 2015.

Benefits and claims costs were lower in FY 2014 due to the phase out of the Montana Comprehensive Health Association, which was the state high risk pool for persons who were unable to obtain insurance in the private market. The Affordable Care Act (ACA) made changes requiring insurance companies to sell a policy to any willing buyer (guaranteed issue), eliminating the need for state high risk pools.

Statute allocated a portion of the tobacco settlement interest to fund the MCHA. However, the full amount was not needed in FY 2014 and as outstanding claims are paid, the amount needed in the 2017 biennium will decline.

**2017 Biennium Change Using Legislative Base Budget**

The figure below shows the 2017 executive budget request for the State Auditor’s Office using FY 2015 as a starting point. The biennial change is a net \$2.0 million lower than the main program budget table, which uses FY 2014 expenditures. General fund is \$5.0 million above the FY 2015 base, while state special revenue is \$3.0 million below.

State Auditor's Office Biennial Change Using FY 2015 Legislative Base Budget				
Expenditure /Funding	2015 Bien	2017 Bien	Difference	%
FTE	87.80	80.54	(7.26)	-8.3%
Personal Services	\$11,595,142	\$12,885,563	\$1,290,421	11.1%
Operating Expenses	5,120,906	2,551,714	(2,569,192)	-50.2%
Equipment	15,988	94,721	78,733	492.5%
Benefits and Claims	<u>1,887,392</u>	<u>5,059,713</u>	<u>3,172,321</u>	<u>168.1%</u>
Total Expenditures	18,619,428	20,591,711	1,972,283	10.6%
General Fund	-	4,769,387	4,769,387	n/a
State Special Rev.	18,619,428	15,822,351	(2,797,077)	-15.0%
Total	\$18,619,428	\$20,591,738	\$1,972,310	10.6%

**Elected Official Requests**

As a courtesy to elected officials, the LFD Budget Analysis includes any proposals they intend to bring to the legislature that are different and/or excluded from the executive budget. The State Auditor submitted two elected official requests that total about \$450,000 over the biennium and 1.00 FTE, which are not reflected in the table above. Both requests are funded from state special revenue and would raise the biennial difference to \$2.4 million. The figure below shows each request.

Elected Official Requests				
Purpose	FY 2016		FY 2017	
	FTE	Cost	FTE	Cost
Insurance Rate Review	-	\$150,000	-	\$150,000
Captive Insurance FTE	1.00	75,135	1.00	74,924
Total	1.00	\$225,135	1.00	\$224,924

**Contracted Health Insurance Rate Review**

The State Auditor is requesting funds to contract with actuaries to conduct health insurance rate reviews. State law requires the State Auditor’s Office to review rate filings for each health insurance insurer that issues, delivers, or renews any health plan in the individual or small employer group.

**Convert One Time Only (OTO) Position to Permanent**

The 2013 Legislature funded 1.00 FTE to support the captive insurance program for the 2015 biennium. This request would make the funding permanent.

<b>LFD COMMENT</b>	<p>Adequacy of State Special Revenue</p> <p>The Governor’s budget for the State Auditor’s Office includes a \$1.5 million unspecified reduction in funding from the insurance fee state special revenue account to bring expenditures and funding in balance. There is inadequate funding to support the elected official requests. The legislature may wish to ask what actions the State Auditor’s Office may take to bring expenditures and funding into alignment. Statute would need to be amended to raise the fee that supports the insurance functions.</p>
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**Funding**

The following table shows proposed agency funding by source of authority as proposed. Funding for each program is discussed in detail in the individual program narratives that follow.

Total State Auditors Office Funding by Source of Authority 2017 Biennium Budget - State Auditors Office						
Funds	HB2	Non-Budgeted Proprietary	Statutory Appropriation	Total All Sources	% Total All Funds	
General Fund	4,769,387	0	64,025,951	68,795,338	81.14 %	
State Special Total	15,822,351	0	166,876	15,989,227	18.86 %	
Federal Special Total	0	0	0	0	0.00 %	
Proprietary Total	0	0	0	0	0.00 %	
Other Total	0	0	0	0	0.00 %	
<b>Total All Funds</b>	<b>\$20,591,738</b>	<b>\$0</b>	<b>\$64,192,827</b>	<b>\$84,784,565</b>		
<b>Percent - Total All Sources</b>	<b>24.29 %</b>	<b>0.00 %</b>	<b>75.71 %</b>			

The State Auditor’s Office is funded from general fund and state special revenue. General fund supports a one-time appropriation to continue the Insure Montana through the end of calendar year 2015. Insurance and securities fees provide the funding for ongoing operation of the office.

**Budget Summary by Category**

The following summarizes the total budget utilizing the FY 2015 Legislative base, present law adjustments, and new proposals.

Budget Summary by Category								
Budget Item	-----General Fund-----				-----Total Funds-----			
	Leg. Budget Fiscal 2016	Leg. Budget Fiscal 2017	Leg. Biennium Fiscal 16-17	Percent of Budget	Leg. Budget Fiscal 2016	Leg. Budget Fiscal 2017	Leg. Biennium Fiscal 16-17	Percent of Budget
2015 Budget	0	0	0	0.00 %	9,309,714	9,309,714	18,619,428	90.42 %
PL Adjustments	0	0	0	0.00 %	(131,850)	(575,079)	(706,929)	(3.43)%
New Proposals	4,769,387	0	4,769,387	100.00 %	3,725,229	(1,045,990)	2,679,239	13.01 %
<b>Total Budget</b>	<b>\$4,769,387</b>	<b>\$0</b>	<b>\$4,769,387</b>		<b>\$12,903,093</b>	<b>\$7,688,645</b>	<b>\$20,591,738</b>	