

### Agency Budget Comparison

The following table compares 2014 actuals expenditures without one-time appropriations plus 2015 estimated appropriations including one-time appropriations, but excluding certain base appropriations to the 2017 biennial total legislative budget. The comparison is listed by year, type of expenditure, and source of funding. The biennial percent change column has been eliminated to allow for the transition to a comparison of biennial appropriations consistent with SB 140 in the future. The biennial appropriation growth/decline is listed in the agency highlight tables and the expenditure section of Volume 1 of this Fiscal Report.

Agency Budget Comparison							
Budget Item	Base Fiscal 2014	Approp. Fiscal 2015	Legislative Budget 2016	Legislative Budget 2017	Biennium Fiscal 14-15	Biennium Fiscal 16-17	Biennium Change
FTE	87.80	87.80	81.04	81.04	87.80	81.04	(6.76)
Personal Services	5,565,902	6,245,600	6,197,864	6,199,223	11,811,502	12,397,087	585,585
Operating Expenses	1,665,580	3,333,398	2,045,792	2,132,000	4,998,978	4,177,792	(821,186)
Equipment & Intangible Assets	47,374	8,695	27,994	27,994	56,069	55,988	(81)
Benefits & Claims	813,624	10,004,758	5,041,580	(18,133)	10,818,382	5,023,447	(5,794,935)
<b>Total Costs</b>	<b>\$8,092,480</b>	<b>\$19,592,451</b>	<b>\$13,313,230</b>	<b>\$8,341,084</b>	<b>\$27,684,931</b>	<b>\$21,654,314</b>	<b>(\$6,030,617)</b>
General Fund	0	6,763,375	4,500,000	0	6,763,375	4,500,000	(2,263,375)
State/Other Special Rev. Funds	8,092,480	12,829,076	8,813,230	8,341,084	20,921,556	17,154,314	(3,767,242)
Federal Spec. Rev. Funds	0	0	0	0	0	0	0
<b>Total Funds</b>	<b>\$8,092,480</b>	<b>\$19,592,451</b>	<b>\$13,313,230</b>	<b>\$8,341,084</b>	<b>\$27,684,931</b>	<b>\$21,654,314</b>	<b>(\$6,030,617)</b>

### Agency Description

The office of the State Auditor is authorized under Article VI of the Montana Constitution. The State Auditor is the ex-officio Commissioner of Securities and Insurance (CSI), and is responsible for licensing and regulating insurance companies and agents, and registering and regulating securities firms and representatives that transact business to or from Montana. The Commissioner of Securities and Insurance adopts rules and enforces the law in the securities and insurance industries. The Commissioner serves as a member of the Land Board and the Crop Hail Insurance Board.

The Commissioner is also responsible to collect and transfer funding for local police and firefighter retirement programs (Municipal Police Officers' Retirement System, Firefighters' Unified Retirement System, the Volunteer Fire Fighters' Compensation Act, local fire department relief associations, municipalities with police department trust funds, and local police pension funds for supplemental benefits). The retirement programs are funded from general insurance premium taxes (33-2-705, MCA) and fire insurance premium taxes (50-3-109, MCA) - \$62.8 million estimated over the 2017 biennium. Because these funds are statutorily appropriated, the expenditures are not included in the general appropriations act or the table above.

The State Auditor's Office consists of three divisions with the following functions:

- The Central Management Division provides management and administrative services for the agency including agency leadership, accounting, budgeting, and human resources.
- The Insurance Division is responsible for oversight and regulation of the insurance industry in Montana.
- The Securities Division is responsible for oversight and regulation of the securities industry

**Agency Highlights**

<b>State Auditor's Office Major Budget Highlights</b>
<ul style="list-style-type: none"> <li>• The 2017 biennium appropriation is \$17.6 million lower than the 2015 biennium appropriation</li> <li>• Personal services increases due to market adjustments funded by the 2013 Legislature and annualization of pay plan increases</li> <li>• FTE are a net 6.76 FTE lower due to the following changes:                         <ul style="list-style-type: none"> <li>◦ A reduction of funding for 3.26 FTE reduction to comply with boiler plate language included in HB 2 of the 2013 Legislature</li> <li>◦ Removal of funding for 5.00 FTE supported by the one-time appropriation for Insure Montana in FY 2015 that were inadvertently continued in the executive budget request</li> <li>◦ Approval of funding for 1.50 new FTE</li> </ul> </li> <li>• Operating costs are \$0.8 million lower due primarily to adjustments in contracted examination costs of insurance and security firms</li> <li>• Benefits and claims costs are lower since the Insure Montana program will cease at the end of FY 2016</li> </ul>

**Summary of Legislative Action**

The 2017 biennium legislative appropriation for the State Auditor's Office is lower than the 2015 biennium appropriation. The primary reason for the difference is due to a inclusion of the one-time general fund appropriation of about \$9.5 million in FY 2015 for the Insure Montana Program, which funds premium assistance and tax credit programs for small employers who offer health insurance to their employees. The legislature added a one-time appropriation of \$4.5 million general fund to continue Insure Montana for the first half of FY 2016. The differences between these two one-time appropriations constitute the majority of the change between the 2015 and 2017 biennia.

Major changes from the ongoing FY 2015 appropriation (not including the one-time funds for Insure Montana) are:

- 1.50 new FTE to assist in management of the captive insurance industry and in analysis of insurance rate changes - \$210,000 state special revenue
- Other personal services changes to fund statutorily required pay adjustments and other changes implemented by the agency in FY 2014

Operating costs are anticipated to be lower than the FY 2015 appropriation due to fewer and less complex insurance and securities firms reviews.

**Funding**

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

Funds	HB2	Non-Budgeted Proprietary	Statutory Appropriation	Total All Sources	% Total All Funds
General Fund	4,500,000	0	62,768,206	67,268,206	79.66 %
State Special Total	17,154,314	0	26,678	17,180,992	20.34 %
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>\$21,654,314</b>	<b>\$0</b>	<b>\$62,794,884</b>	<b>\$84,449,198</b>	
<b>Percent - Total All Sources</b>	<b>25.64 %</b>	<b>0.00 %</b>	<b>74.36 %</b>		

The State Auditor's Office is funded with state special revenue derived from insurance and securities fees. The office has a one-time general fund appropriation in FY 2016 to continue the Insure Montana through December 31, 2015.

**Budget Summary by Category**

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

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	85.98 %
PL Adjustments	0	0	0	0.00 %	(601,646)	(1,073,591)	(1,675,237)	(7.74)%
New Proposals	4,500,000	0	4,500,000	100.00 %	4,605,162	104,961	4,710,123	21.75 %
<b>Total Budget</b>	<b>\$4,500,000</b>	<b>\$0</b>	<b>\$4,500,000</b>		<b>\$13,313,230</b>	<b>\$8,341,084</b>	<b>\$21,654,314</b>	

**Other Legislation**

Three bills were passed and approved that affect the State Auditor's Office funding or revenues.

**SB 52** - This bill generally revises and clarifies captive insurance laws, provides a penalty for failure to file annual statements and prorates distribution of taxes in the year of closure.

**SB 123** - This bill requires the Montana State Fund to be subject to insurance laws in Title 33. The bill requires that the State Auditor conduct financial examinations of the State Fund and an actuarial review of rates. It also requires the State Fund to transfer funds to the State Auditor to support 2.00 new FTE (an attorney and an insurance examiner) and to pay operating costs for the State Auditor to accomplish functions required by the bill. These appropriations are not included in HB 2 since they are funded by a transfer of appropriation authority between agencies.

**SB 234** - This bill reduces fees on insurance premium taxes and annual renewal fees for legal professional liability policies. The fiscal note estimated that general fund revenues would decline by \$85,760 and Healthy Montana Kids state special revenue would decline by \$42,240 over the biennium.

**Executive Budget Comparison**

The following table compares the legislative budget for the 2017 biennium to the budget requested by the Governor, by type of expenditure and source of funding.

Executive Budget Comparison								
Budget Item	Base Budget Fiscal 2014	Executive Budget Fiscal 2016	Legislative Budget Fiscal 2016	Leg — Exec. Difference Fiscal 2016	Executive Budget Fiscal 2017	Legislative Budget Fiscal 2017	Leg — Exec. Difference Fiscal 2017	Biennium Difference Fiscal 16-17
FTE	87.80	80.54	81.04	0.50	80.54	81.04	0.50	0.50
Personal Services	5,565,902	6,443,209	6,197,864	(245,345)	6,442,354	6,199,223	(243,131)	(488,476)
Operating Expenses	1,665,580	1,352,797	2,045,792	692,995	1,198,917	2,132,000	933,083	1,626,078
Equipment & Intangible Assets	47,374	47,374	27,994	(19,380)	47,374	27,994	(19,380)	(38,760)
Benefits & Claims	813,624	5,059,713	5,041,580	(18,133)	0	(18,133)	(18,133)	(36,266)
<b>Total Costs</b>	<b>\$8,092,480</b>	<b>\$12,903,093</b>	<b>\$13,313,230</b>	<b>\$410,137</b>	<b>\$7,688,645</b>	<b>\$8,341,084</b>	<b>\$652,439</b>	<b>\$1,062,576</b>
General Fund	0	4,769,387	4,500,000	(269,387)	0	0	0	(269,387)
State/other Special Rev. Funds	8,092,480	8,133,706	8,813,230	679,524	7,688,645	8,341,084	652,439	1,331,963
Federal Spec. Rev. Funds	0	0	0	0	0	0	0	0
<b>Total Funds</b>	<b>\$8,092,480</b>	<b>\$12,903,093</b>	<b>\$13,313,230</b>	<b>\$410,137</b>	<b>\$7,688,645</b>	<b>\$8,341,084</b>	<b>\$652,439</b>	<b>\$1,062,576</b>

The legislative biennial appropriation for the State Auditor's Office is \$1.1 million and 0.50 FTE higher than the executive request. The legislative appropriation for operating costs is higher than the executive request because the legislature did not accept unspecified reductions in spending from the insurance fee state special revenue account that were included in the executive budget request. The legislature reviewed FY 2015 spending projections and appropriations for the 2017 biennium from the account and concluded that revenues were sufficient to fund operations during the 2017 biennium.

The legislature approved three requests made by the State Auditor that were not included in the executive budget and funded:

1. A 0.50 statistical aide FTE
2. Contracted services for insurance rate review, which is restricted for that use
3. A 1.00 FTE financial examiner

These increases were partially offset by reductions to the executive request for personal services, primarily in not funding executive implementation of the FY 2015 pay plan, and not funding several increases implemented by the State Auditor in FY 2014. In addition, the SAO withdrew its request for a new 1.00 FTE in the Securities Division that had been included in the executive budget.