Agency Budget Comparison

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

Agency Budget Comparison Budget Item	Base Fiscal 2012	Approp. Fiscal 2013	Budget Fiscal 2014	Budget Fiscal 2015	Biennium Fiscal 12-13	Biennium Fiscal 14-15	Biennium Change	Biennium % Change
FTE	85.80	85.80	83.80	79.80	85.80	79.80	(6.00)	(6.99%)
Personal Services	5,163,890	5,228,420	5,414,590	5,214,565	10,392,310	10,629,155	236,845	2.28%
Operating Expenses	2,452,750	2,256,566	3,504,568	3,628,028	4,709,316	7,132,596	2,423,280	51.46%
Equipment & Intangible Assets	8,695	13,751	7,994	7,994	22,446	15,988	(6,458)	(28.77%)
Benefits & Claims	10,448,099	10,678,166	5,686,832	925,563	21,126,265	6,612,395	(14,513,870)	(68.70%)
Transfers	0	0	0	0	0	0	0	n/a
Total Costs	**$18,073,434**	**$18,176,903**	**$14,613,984**	**$9,776,150**	**$36,250,337**	**$24,390,134**	**($11,860,203)**	**(32.72%)**
State Special	18,073,434	18,176,903	14,613,984	9,776,150	36,250,337	24,390,134	(11,860,203)	(32.72%)
Federal Special	0	0	0	0	0	0	0	n/a
Total Funds	**$18,073,434**	**$18,176,903**	**$14,613,984**	**$9,776,150**	**$36,250,337**	**$24,390,134**	**($11,860,203)**	**(32.72%)**

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 additional information, please refer to the agency profile.

Agency Highlights

State Auditor's Office
Major Budget Highlights

- The 2015 biennium Governor's budget for the State Auditor's Office is a net $11.9 million and 6.00 FTE lower than the 2013 biennium budget due to elimination of the Insure Montana program. Some of the increases that partially offset the reduction are:
  - $2.0 million for contracted examinations of insurance and security firms
  - $0.7 million in net personal services statewide present law adjustments due to increases in pay and longevity, as well as a longer work year
  - $0.1 million for continuation of 1.00 FTE funded from a one-time appropriation in the 2013 biennium
- The State Auditor has submitted several elected official budget requests that were not included in the executive budget:
  - $13.3 million, including funding for 7.00 FTE, to continue the Insure Montana program
  - $0.8 million to upgrade and maintain information technology systems
  - $0.4 million for market pay adjustments in the 2015 biennium
  - A $1.0 million reduction to contract examination costs

Major LFD Issues

- If the legislature continues funding for the Insure Montana program it may wish to consider how the program could best complement insurance changes that will become effective January 1, 2014 if the Patient Protection and Affordable Care Act (ACA) is implemented without significant changes
- The legislature could consider whether to continue the state funding contribution for the state high risk insurance pool (Montana Comprehensive Health Association) if the ACA is implemented without significant changes
- The health and Medicaid initiatives account balance is insufficient to fund the executive budget and State Auditor elected official requests

The Governor's budget includes $24.4 million for the 2015 biennium, or a reduction of $11.9 million and 6.00 FTE compared to the 2013 biennium budget. The Governor's budget eliminates funding for Insure Montana, a state funded program that provides assistance to small employers and their employees to provide health insurance through premium assistance and tax credits. The State Auditor did not include elimination of the program in the agency budget request submitted to the Governor's budget office. The State Auditor will request that the legislature reinstate funding for the program.

Increases in the Governor's budget request are:
- $2.0 million for contracted examinations of insurance and security firms
- $0.2 million for 1.00 new FTE, which was funded from a one-time appropriation in the 2013 biennium
- $0.3 million for increases to base pay

The legislative budget analysis contains all elected official requests, which are in addition to budget increases included in the executive budget recommendation. These requests are presented for legislative review and consideration.

Elected Official Request

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 elected official requests that total $16.0 million, including funding for 8.00 FTE. The majority of the request restores funding for the Insure Montana program. Most of the items included in Figure 1 were included in the State Auditor's budget request submitted to the Governor's budget office. Figure 2 shows each request.

Figure 1

State Auditor's Office
Elected Official Requests not Included in Governor's Budget

Proposal	FTE	FY 2014	FY 2015
Restore Insure Montana Program Funding*	7.00	5,090,001	10,206,715
Insure Montana 5% Limitation Restoration*		156,181	156,181
IT Decision Package		493,685	276,946
Market Adjustments		183,797	183,797
Market Conduct Staff Continuing Education*		18,800	11,900
Central Management Continuing Education*		33,915	33,915
Insurance Agent Outreach*		15,000	15,000
Captive Insurance FTE*	1.00	64,736	60,091
Biennial Market Conduct Exams		(336,000)	(650,000)
Total	8.00	5,720,115	10,294,545
Biennial Total Elected Official Requests			16,014,660
Total Included in Original Budget Request*			$15,862,435

*These items were included in the State Auditor's budget request submitted to the Governor's budget office, but were not included in the Governor's budget.

The most significant changes requested by the State Auditor are:

- $15.3 million and 7.00 FTE to continue the Insure Montana program
- $0.3 million to restore the base level appropriation for Insure Montana since 33-22-2008, MCA requires that businesses may be enrolled in the program up to 95% of the total appropriation
- $0.8 million for information technology system improvements
- $0.4 million for pay increases to fund market adjustments
- A reduction in market conduct examination cost increases of $1.0 million

Each of these requests except pay increases is discussed in the budget request of the division that manages the budget of the respective program. Since the request for pay increases affects all divisions it is discussed in the agency overview.

LFD ISSUE

Pay Increases

The figure below shows pay increases implemented by the State Auditor during the 2013 biennium by division. 2013 biennium pay increases ranged from an average of 4% in the Insurance Division to 13% in Central Management. Increases to base pay were not uniformly granted to all positions and the amount of pay raise varied among positions. A few of the increases were related to reclassification or changes in duties. The elected official request for market adjustments to pay, would bring all position salary levels to 85% of the market survey.

Figure 2

State Auditor's Office - Change in Salaries* for Present Law FTE

Division	Base FTE	Base Salaries* FY 2013**	FY 2014	Difference	Percent Change
Central Management	16.80	$756,316	$851,731	$95,415	13%
Insurance Division	58.00	2,642,071	2,741,636	99,565	4%
Securities Division	11.00	518,828	580,706	61,878	12%
Total	85.80	$3,917,214	$4,174,073	$256,859	7%

*Salaries include base pay for the position. Salaries does not include other components of pay - longevity, payroll taxes, and employee benefits.
**FY 2013 has 2080 work hours while FY 2014 and FY 2015 each have 2,088 or 8 hours more. The FY 2013 total has been adjusted upward by 8 hours so that a valid comparison can be made.

The legislature may wish to consider whether or how much to appropriate for pay increases for the State Auditor's Office (SAO) in the 2015 biennium. If the legislature approves a pay plan, it may wish consider whether to grant additional HB 2 authority for pay adjustments.

Summary of Issues

Legislative staff has identified several other issues that legislators may want to consider when establishing appropriations for the State Auditor's Office. These issues are discussed in relationship to division appropriation decisions and are:

- The legislature may wish to consider how some programs overseen by the State Auditor may be affected by implementation of the Patient Protection and Affordable Care Act (if it remains unchanged) including:
  - The state high risk pool since all persons will be able to purchase health insurance on the health insurance exchange without regard to health status
  - If the legislature opts to reinstate funding for Insure Montana, there are federal tax credits for two years for some small employers that provide health insurance to their employees and some low-income employees of small employers can purchase subsidized health insurance on the the individual health insurance exchange without penalties
  - Expansion of Medicaid - if approved by the legislature – since that would provide health coverage for some low-income persons currently receiving premium assistance through Insure Montana (if the legislature continues the program).

- There is inadequate funding in the health and Medicaid initiatives account to fund the executive budget request and the State Auditor's elected official proposals

Agency Personal Services Narrative

The pay philosophy followed by the office is:

- Providing funding is available, the State Auditor will attempt to place new hires at 95% of market based on the benchmarks

The State Auditor was able to place about 40% of new hires at 95% of market.

Some of the challenges faced are:

- There is not a sufficient career track in the programs to enable a career track for advancement
- Entry level positions have the highest turnover as employees move up in this agency, move to another state agency, or leave for more pay in the private sector.
- When entry level positions are vacant, for any amount of time, it results in increased workloads for other employees, as well as desirable but optional tasks being delayed in completion
- There are six employees in the Insurance Division who could retire by the end of the 2015 biennium

Funding

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

Total State Auditor's Office Funding by Source of Authority
2015 Biennium Budget

Funds	HB 2	Non-Budgeted Proprietary	Statutory Appropriation	Total All Sources	% Total All Funds
General Fund	$0	$0	$58,177,683	$58,177,683	70.0%
State Special Total	24,390,134	-	582,500	24,972,634	30.0%
Federal Special Total	-	-	-	-	0.0%
Proprietary Total	-	-	-	-	0.0%
Current Unrestricted	-	-	-	-	0.0%
Other Total	-	-	-	-	0.0%
Total All Funds	$24,390,134	$0	$58,760,183	$83,150,317	
Percent - Total All Sources	29.3%	0.0%	70.7%		

The State Auditor's Office is funded entirely by state special revenue from:

- Fees paid by insurance companies and security firms for insurance and security oversight
- Tobacco tax revenues for Insure Montana
- Tobacco settlement funds the state high risk pool (Montana Comprehensive Health Association)

Some of the fee revenue collected by the office is transferred to the general fund via a statutory appropriation, while revenue remaining in selected state special revenue accounts is transferred to the general fund at fiscal yearend .

The SAO received some federal grant funds that are not ongoing in the 2015 biennium.

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 2015 biennium 5% plan submitted for this agency is in the appendix and totals $51,735. Refer to the appendix.

Budget Summary by Category

The following summarizes the total budget by base, present law adjustments, and new proposals.

Budget Summary by Category	General Fund				Total Funds			
Budget Item	Budget Fiscal 2014	Budget Fiscal 2015	Biennium Fiscal 14-15	Percent of Budget	Budget Fiscal 2014	Budget Fiscal 2015	Biennium Fiscal 14-15	Percent of Budget
Base Budget	0	0	0	0.00%	18,073,434	18,073,434	36,146,868	148.20%
Statewide PL Adjustments	0	0	0	0.00%	417,122	382,547	799,669	3.28%
Other PL Adjustments	0	0	0	0.00%	1,211,977	1,525,432	2,737,409	11.22%
New Proposals	0	0	0	0.00%	(5,088,549)	(10,205,263)	(15,293,812)	(62.70%)
Total Budget	**$0**	**$0**	**$0**		**$14,613,984**	**$9,776,150**	**$24,390,134**	

The Governor's budget lowers total spending for the State Auditor's Office by $15.3 million due to the elimination of funding for the Insure Montana program. Present law adjustments fund insurance market and security firm examination costs and funding to continue an FTE funded from one-time appropriations in the last two biennia.