

Agency Proposed Budget								
Budget Item	Base Budget Fiscal 2000	PL Base Adjustment Fiscal 2002	New Proposals Fiscal 2002	Total Leg. Budget Fiscal 2002	PL Base Adjustment Fiscal 2003	New Proposals Fiscal 2003	Total Leg. Budget Fiscal 2003	Total Leg. Budget Fiscal 02-03
FTE	67.00	1.50	1.00	69.50	1.50	1.00	69.50	69.50
Personal Services	2,517,995	200,315	32,053	2,750,363	216,686	32,167	2,766,848	5,517,211
Operating Expenses	694,976	188,171	28,023	911,170	102,396	25,377	822,749	1,733,919
Equipment	0	15,655	0	15,655	15,655	0	15,655	31,310
Grants	0	0	0	0	0	0	0	0
Total Costs	\$3,212,971	\$404,141	\$60,076	\$3,677,188	\$334,737	\$57,544	\$3,605,252	\$7,282,440
General Fund	1,006,595	(656,296)	(12,039)	338,260	(657,601)	(12,071)	336,923	675,183
State/Other Special	2,206,376	1,060,437	72,115	3,338,928	992,338	69,615	3,268,329	6,607,257
Total Funds	\$3,212,971	\$404,141	\$60,076	\$3,677,188	\$334,737	\$57,544	\$3,605,252	\$7,282,440

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 Insurance and Securities and is responsible for licensing and regulating insurance companies and agents, and registering and regulating securities dealers in the state. The auditor also adopts rules and administers reform for the insurance and securities industries operating in the state.

Summary of Legislative Action

The total budget for the State Auditor for the 2003 biennium is \$7.3 million, including \$6.6 million in state special revenue. The budget includes \$738,878 in present law adjustments and \$117,620 in new proposals. The agency budget includes statewide assessments and 4 percent vacancy savings. The appropriation for the State Auditor is \$7,282,440, or 18.4 percent lower than the 2001 biennium appropriation of \$8,924,075. Much of the agency budget decrease is based on elimination of a \$2.0 million restricted biennial appropriation for the Montana Comprehensive Health Association. The overall decrease includes a reduction in general fund from \$3,434,473 in the 2001 biennium to \$675,183 in the 2003 biennium (see the Agency Discussion below).

The legislature approved 2.5 new FTE for the State Auditor. These FTE include: 1) a 0.5 FTE personnel specialist in the Central Management Program; 2) one new attorney in a shared position (0.5 FTE in the Insurance Program and 0.5 FTE in the Securities Program); and 3) a 1.0 FTE compliance specialist in the Insurance Program.

The agency will also replace two lektreiver circular filing systems during the 2003 biennium.

Other Legislation

House Bill 542 – This bill provides for the surplus lines stamping fee operation collection to be conducted by the Auditor's Office. This process requires 1.0 FTE and \$101,730 in state special revenue during the 2003 biennium. Funding for this bill is included in HB 2.

Senate Bill 373 – SB 373 provides for licensing and regulation of captive insurers. This includes \$30,000 general fund and \$40,000 state special revenue during the 2003 biennium. Funding for this bill is included in HB 2.

Senate Bill 315 – The Montana Comprehensive Health Association is a health insurer of last resort supported by an assessment on all health insurance carriers and participant paid premiums. SB 315 allows the Montana Comprehensive Health Association to adopt a sliding scale of premium rates for participation by low-income persons.

Agency Discussion

The budget approved by the legislature reflects a shift in funding for the Auditor's Office away from reliance on the general fund and more toward reliance on state special revenue from increased Insurance and Securities Fees. The State Auditor's Office, with legislative support, increased and consolidated Insurance and Securities Fees to the industry during

the 2001 biennium. Phased-in over the biennium, fees that were deposited to the general fund are now deposited to the state special revenue account, and general fund appropriations were reduced and state special revenue appropriations were increased.

The change in revenue flow and legislative appropriation indicate a current ratio of 10 cents general fund for every 90 cents of state special revenue in the 2003 biennium. The 2001 biennial ratio was 70 cents general fund to 30 cents state special revenue. This revenue change is reflected across all of the Auditor's Office programs.

Agency Budget Comparison								
Budget Item	Base Budget Fiscal 2000	Executive Budget Fiscal 2002	Legislative Budget Fiscal 2002	Leg – Exec. Difference Fiscal 2002	Executive Budget Fiscal 2003	Legislative Budget Fiscal 2003	Leg – Exec. Difference Fiscal 2003	Biennium Difference Fiscal 02-03
FTE	67.00	68.50	69.50	1.00	68.50	69.50	1.00	
Personal Services	2,517,995	2,718,310	2,750,363	32,053	2,734,681	2,766,848	32,167	64,220
Operating Expenses	694,976	883,795	911,170	27,375	798,020	822,749	24,729	52,104
Equipment	0	15,655	15,655	0	15,655	15,655	0	0
Grants	0	0	0	0	0	0	0	0
Total Costs	\$3,212,971	\$3,617,760	\$3,677,188	\$59,428	\$3,548,356	\$3,605,252	\$56,896	\$116,324
General Fund	1,006,595	350,370	338,260	(12,110)	349,065	336,923	(12,142)	(24,252)
State/Other Special	2,206,376	3,267,390	3,338,928	71,538	3,199,291	3,268,329	69,038	140,576
Total Funds	\$3,212,971	\$3,617,760	\$3,677,188	\$59,428	\$3,548,356	\$3,605,252	\$56,896	\$116,324

Executive Budget Comparison

With the exception of global adjustments made to all agencies, the legislature approved the budget as proposed by the executive with two exceptions: 1) state special revenue and 1.0 FTE compliance specialist were added as a result of the passage of HB 542, which provides for regulation of surplus lines; and 2) state special revenue was added to implement SB 373, which provides for licensure of captive insurers.

Language

Item [Securities] includes a reduction of general fund of \$2,890 in fiscal 2002 and \$2,890 in fiscal 2003. This reduction is the equivalent of a 10 percent reduction in fiscal 2000 base budget travel expenses. The department may reallocate this reduction in funding among divisions when developing 2003 biennium operating plans. The Office of Budget and Program Planning shall provide a report that details reallocation to the Legislative Finance Committee by October 15 of each year.

Item [Securities] includes a reduction of \$9,149 in fiscal 2002 and \$9,181 in fiscal 2003 of general fund. The office may reallocate this reduction in funding among divisions when developing 2003 biennium operating plans. The Office of Budget and Program Planning shall provide a report that details reallocation to the Legislative Finance Committee by October 15 of each fiscal year.

Program Legislative Budget								
Budget Item	Base Budget Fiscal 2000	PL Base Adjustment Fiscal 2002	New Proposals Fiscal 2002	Total Leg. Budget Fiscal 2002	PL Base Adjustment Fiscal 2003	New Proposals Fiscal 2003	Total Leg. Budget Fiscal 2003	Total Leg. Budget Fiscal 02-03
FTE	9.50	0.50	0.00	10.00	0.50	0.00	10.00	10.00
Personal Services	332,473	72,264	0	404,737	74,722	0	407,195	811,932
Operating Expenses	91,019	35,865	0	126,884	27,062	0	118,081	244,965
Total Costs	\$423,492	\$108,129	\$0	\$531,621	\$101,784	\$0	\$525,276	\$1,056,897
General Fund	152,416	(152,416)	0	0	(152,416)	0	0	0
State/Other Special	271,076	260,545	0	531,621	254,200	0	525,276	1,056,897
Total Funds	\$423,492	\$108,129	\$0	\$531,621	\$101,784	\$0	\$525,276	\$1,056,897

Program Description

The Central Management Division Program provides administrative, personnel, budgeting, and accounting functions for the Auditor's Office. The division also supports the Auditor with representation on the State Land Board and the Hail Insurance Board.

Funding

This program is funded from the Insurance Fee and the Securities Fee accounts, which draw their revenue from percentages charged to the industry on the sale of insurance and securities in the State of Montana.

Present Law Adjustments										
-----Fiscal 2002-----					-----Fiscal 2003-----					
	FTE	General	State Special	Federal Special	Total Funds	FTE	General	State Special	Federal Special	Total Funds
Personal Services					61,429					63,895
Vacancy Savings					(8,392)					(8,456)
Inflation/Deflation					(180)					(163)
Fixed Costs					22,108					15,721
Total Statewide Present Law Adjustments					\$74,965					\$70,997
DP 1 - Rent Adjustment	0.00	0	11,129	0	11,129	0.00	0	11,596	0	11,596
DP 2 - Personnel Position	0.50	0	26,305	0	26,305	0.50	0	23,482	0	23,482
DP 696 - Data Network Fixed Cost Reduction	0.00	0	(92)	0	(92)	0.00	0	(92)	0	(92)
DP 699 - Vacancy Savings at 4 Percent	0.00	0	(4,178)	0	(4,178)	0.00	0	(4,199)	0	(4,199)
Total Other Present Law Adjustments	0.50	\$0	\$33,164	\$0	\$33,164	0.50	\$0	\$30,787	\$0	\$30,787
Grand Total All Present Law Adjustments					\$108,129					\$101,784

Present Law Adjustments

The "Present Law Adjustments" table shows the primary changes to the adjusted base budget made by the legislature. "Statewide Present Law" adjustments are standard categories of adjustments made to all agencies. Legislative decisions on these items were applied globally to all agencies. The other numbered adjustments in the table correspond to the narrative descriptions.

DP 1 - Rent Adjustment - The legislature approved funds for rental adjustment based on the lease agreement negotiated by the General Services Division of the Department of Administration. The annual rate will increase at two percent per year and is consistent with the annual rent rate paid by other state agencies.

DP 2 - Personnel Position - The legislature approved \$49,787 state special revenue funds for the 2003 biennium for the Auditor's Office to hire a 0.5 FTE personnel director. This eliminates the need to share personnel duties between two current full-time employees.

DP 696 - Data Network Fixed Cost Reduction - The legislature approved fees and charges for data network support provided by the Information Services Division of the Department of Administration at a level lower than that proposed by the executive and used to develop the associated fixed cost budget requests. This adjustment removes the corresponding fixed costs from the agency budget.

DP 699 - Vacancy Savings at 4 Percent - The legislature approved increasing the statewide vacancy savings rate to 4 percent and including the state share of health insurance premiums in the calculation for determining the amount.

Program Legislative Budget								
Budget Item	Base Budget Fiscal 2000	PL Base Adjustment Fiscal 2002	New Proposals Fiscal 2002	Total Leg. Budget Fiscal 2002	PL Base Adjustment Fiscal 2003	New Proposals Fiscal 2003	Total Leg. Budget Fiscal 2003	Total Leg. Budget Fiscal 02-03
FTE	46.00	0.50	1.00	47.50	0.50	1.00	47.50	47.50
Personal Services	1,804,457	77,944	41,202	1,923,603	88,766	41,348	1,934,571	3,858,174
Operating Expenses	507,730	125,350	30,913	663,993	54,561	28,267	590,558	1,254,551
Equipment	0	15,655	0	15,655	15,655	0	15,655	31,310
Grants	0	0	0	0	0	0	0	0
Total Costs	\$2,312,187	\$218,949	\$72,115	\$2,603,251	\$158,982	\$69,615	\$2,540,784	\$5,144,035
General Fund	512,384	(512,384)	0	0	(512,384)	0	0	0
State/Other Special	1,799,803	731,333	72,115	2,603,251	671,366	69,615	2,540,784	5,144,035
Total Funds	\$2,312,187	\$218,949	\$72,115	\$2,603,251	\$158,982	\$69,615	\$2,540,784	\$5,144,035

Program Description

The Insurance Division Program regulates all Montana insurance industries. The Policyholder Services Bureau resolves insurance consumer inquiries involving coverage, agents, and companies. The Examinations Bureau monitors financial solvency of insurance companies, collects taxes and fees, and audits annual statements. The Rates and Forms Bureau reviews form and rate filings for compliance with the insurance code. The Licensing Bureau educates and licenses agents, agencies, and adjustors. The Investigations Bureau investigates and refers prosecution of alleged civil and criminal insurance code and rule violations.

Funding

This program is funded from the insurance fee account, which draws its revenue from a percentage charge against every insurance policy sold in the state, as well as from charges for insurance company examinations, and fees paid by individual agents.

Present Law Adjustments										
	-----Fiscal 2002-----					-----Fiscal 2003-----				
	FTE	General	State Special	Federal Special	Total Funds	FTE	General	State Special	Federal Special	Total Funds
Personal Services					127,739					138,917
Vacancy Savings					(52,974)					(53,309)
Inflation/Deflation					113					1,339
Fixed Costs					(18,908)					(37,276)
Total Statewide Present Law Adjustments					\$55,970					\$49,671
DP 1 - Rent Adjustment										
	0.00	0	38,906	0	38,906	0.00	0	41,709	0	41,709
DP 2 - Insurance/Securities Attorney										
	0.50	0	29,049	0	29,049	0.50	0	27,690	0	27,690
DP 3 - Records Retention										
	0.00	0	12,655	0	12,655	0.00	0	12,655	0	12,655
DP 4 - Examination Costs										
	0.00	0	107,234	0	107,234	0.00	0	52,234	0	52,234
DP 696 - Data Network Fixed Cost Reduction										
	0.00	0	(445)	0	(445)	0.00	0	(445)	0	(445)
DP 699 - Vacancy Savings at 4 Percent										
	0.00	0	(24,420)	0	(24,420)	0.00	0	(24,532)	0	(24,532)
Total Other Present Law Adjustments	0.50	\$0	\$162,979	\$0	\$162,979	0.50	\$0	\$109,311	\$0	\$109,311
Grand Total All Present Law Adjustments					\$218,949					\$158,982

Present Law Adjustments

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on these items were applied globally to all agencies. The other numbered adjustments in the table correspond to the narrative descriptions.

DP 1 - Rent Adjustment - The legislature approved \$80,615 state special revenue funds in the 2003 biennium for rental adjustments based on the lease agreement for space in the old Shodair Hospital that was negotiated by the General Services Division. The annual rate will increase at two percent per year and is consistent with the annual rent rate paid by other state agencies.

DP 2 - Insurance/Securities Attorney - The legislature approved \$56,739 funds in the 2003 biennium to provide a 1.0 FTE attorney at grade 17. This is half of the funding for this position with the other half of the funding in the Securities Program. For workload, this position is allocated halftime to the Insurance Program and halftime to the Securities Program.

DP 3 - Records Retention - The legislature approved \$25,310 state special revenue funds in the 2003 biennium to begin replacement of the six 25-year-old lektriever carousal filing systems used to store records. Replacement will be one lektriever per year during the next biennium. The legislature encouraged the Auditor to select newer designed systems if they are available at the time of purchase.

DP 4 - Examination Costs - The legislature approved \$159,468 state special revenue funds to conduct insurance examinations in both years of the 2003 biennium.

DP 696 - Data Network Fixed Cost Reduction - The legislature approved fees and charges for data network support provided by the Information Services Division of the Department of Administration at a level lower than that proposed by the executive and used to develop the associated fixed cost budget requests. This adjustment removes the corresponding fixed costs from the agency budget.

DP 699 - Vacancy Savings at 4 Percent - The legislature approved increasing the statewide vacancy savings rate to 4 percent and including the state share of health insurance premiums in the calculation for determining the amount.

New Proposals											
Prgm	FTE	Fiscal 2002				Fiscal 2003				Total Funds	
		General	State Special	Federal Special	Total Funds	FTE	General	State Special	Federal Special		
DP 504 - Licensing Captive Insurers 03	0.00	0	20,000	0	20,000	0.00	0	20,000	0	20,000	
DP 505 - Surplus Lines Fees 03	1.00	0	52,115	0	52,115	1.00	0	49,615	0	49,615	
Total	1.00	\$0	\$72,115	\$0	\$72,115	1.00	\$0	\$69,615	\$0	\$69,615	

New Proposals

DP 504 - Licensing Captive Insurers - The legislature approved \$40,000 state special revenue in the 2003 biennium as a restricted appropriation to the State Auditor's Insurance Program to fund the licensing and regulation of captive insurers per SB 373.

DP 505 - Surplus Lines Fees - The legislature approved \$101,730 state special revenue in the 2003 biennium to fund the collection of stamping fees and the regulation of surplus lines per HB 542. This includes an additional 1.0 FTE.

Language

Item [SB 273-Licensing Captive Insurers] is contingent upon passage and approval of SB 373.

Program Legislative Budget								
Budget Item	Base Budget Fiscal 2000	PL Base Adjustment Fiscal 2002	New Proposals Fiscal 2002	Total Leg. Budget Fiscal 2002	PL Base Adjustment Fiscal 2003	New Proposals Fiscal 2003	Total Leg. Budget Fiscal 2003	Total Leg. Budget Fiscal 02-03
FTE	11.50	0.50	0.00	12.00	0.50	0.00	12.00	12.00
Personal Services	381,065	50,107	(9,149)	422,023	53,198	(9,181)	425,082	847,105
Operating Expenses	96,227	26,956	(2,890)	120,293	20,773	(2,890)	114,110	234,403
Total Costs	\$477,292	\$77,063	(\$12,039)	\$542,316	\$73,971	(\$12,071)	\$539,192	\$1,081,508
General Fund	341,795	8,504	(12,039)	338,260	7,199	(12,071)	336,923	675,183
State/Other Special	135,497	68,559	0	204,056	66,772	0	202,269	406,325
Total Funds	\$477,292	\$77,063	(\$12,039)	\$542,316	\$73,971	(\$12,071)	\$539,192	\$1,081,508

Program Description

The Securities Division Program administers and enforces the Securities Act of Montana, which includes the responsibility for registering securities dealers. The division is responsible for investigating unregistered and/or fraudulent securities transactions, including sole jurisdiction of investment firms with less than \$25 million in assets. This program also refers alleged violators for prosecution.

Funding

This program is funded with general fund and state special revenue from the Securities Fee Account, which derives revenue from Securities Portfolio Registration Fees.

Present Law Adjustments										
-----Fiscal 2002-----					-----Fiscal 2003-----					
	FTE	General	State Special	Federal Special	Total Funds	FTE	General	State Special	Federal Special	Total Funds
Personal Services					39,433					42,559
Vacancy Savings					(11,340)					(11,434)
Inflation/Deflation					(226)					(137)
Fixed Costs					(4,243)					(9,688)
Total Statewide Present Law Adjustments					\$23,624					\$21,300
DP 1 - Rent Adjustment	0.00	10,608	7,478	0	18,086	0.00	11,071	7,638	0	18,709
DP 2 - Insurance/Securities Attorney	0.50	0	29,049	0	29,049	0.50	0	27,690	0	27,690
DP 3 - Examination Costs	0.00	0	12,000	0	12,000	0.00	0	12,000	0	12,000
DP 696 - Data Network Fixed Cost Reduction	0.00	(71)	(40)	0	(111)	0.00	(71)	(40)	0	(111)
DP 699 - Vacancy Savings at 4 Percent	0.00	(3,895)	(1,690)	0	(5,585)	0.00	(3,918)	(1,699)	0	(5,617)
Total Other Present Law Adjustments	0.50	\$6,642	\$46,797	\$0	\$53,439	0.50	\$7,082	\$45,589	\$0	\$52,671
Grand Total All Present Law Adjustments					\$77,063					\$73,971

Present Law Adjustments

The "Present Law Adjustments" table shows the primary changes to the adjusted base budget made by the legislature. "Statewide Present Law" adjustments are standard categories of adjustments made to all agencies. Legislative decisions on these items were applied globally to all agencies. The other numbered adjustments in the table correspond to the narrative descriptions.

DP 1 - Rent Adjustment - The legislature approved \$36,795 in the 2003 biennium for rental adjustments based on the lease agreement for the old Shodair Hospital that was negotiated by the General Services Division. This includes \$21,679 general fund and \$15,116 state special revenue. The annual rate will increase at two percent per year and is consistent

with the annual rent rate paid by other state agencies.

DP 2 - Insurance/Securities Attorney - The legislature approved \$56,739 state special revenue funds in the 2003 biennium to provide a 1.0 FTE attorney at grade 17. This funding is half of the cost to fund this position. Workload for this position is to be allocated halftime to the Insurance Program and halftime to the Securities Program.

DP 3 - Examination Costs - The legislature approved \$24,000 state special revenue funds to conduct securities examinations. Funds will be used only if examinations are necessary.

DP 696 - Data Network Fixed Cost Reduction - The legislature approved fees and charges for data network support provided by the Information Services Division of the Department of Administration at a level lower than that proposed by the executive and used to develop the associated fixed cost budget requests. This adjustment removes the corresponding fixed costs from the agency budget.

DP 699 - Vacancy Savings at 4 Percent - The legislature approved increasing the statewide vacancy savings rate to 4 percent and including the state share of health insurance premiums in the calculation for determining the amount.

New Proposals	-----Fiscal 2002-----					-----Fiscal 2003-----					
	Prgm	FTE	General	State Special	Federal Special	Total Funds	FTE	General	State Special	Federal Special	Total Funds
DP 690 - Personal Services Reduction of General Funds											
04	0.00	(9,149)	0	0	(9,149)	0.00	(9,181)	0	0	(9,181)	
DP 693 - Statewide Travel Reduction											
04	0.00	(2,890)	0	0	(2,890)	0.00	(2,890)	0	0	(2,890)	
Total	0.00	(\$12,039)	\$0	\$0	(\$12,039)	0.00	(\$12,071)	\$0	\$0	(\$12,071)	

New Proposals

DP 690 - Personal Services Reduction of General Funds - The legislature reduced personal services by \$18,330 general fund. No actual FTE were reduced.

DP 693 - Statewide Travel Reduction - The legislature made a reduction in general fund each year equivalent to 10 percent of all general fund expenditures for travel in the fiscal 2000 budget base. This reduction equaled \$5,780 general fund. The entire reduction was made to this division, with the allowance that the agency could reallocate this reduction among divisions when developing 2003 biennium operating plans.

Language

Item [Securities Program] includes a reduction of general fund money of \$2,890 in fiscal 2002 and \$2,890 in fiscal 2003. This reduction is a reduction in fiscal 2000 base budget travel expenses. The department may reallocate this reduction in funding among divisions when developing 2003 biennium operating plans.

Item [Securities] includes a reduction of \$9,149 in fiscal 2002 and \$9,181 in fiscal 2003 of general fund. The office may reallocate this reduction in funding among divisions when developing 2003 biennium operating plans. The Office of Budget and Program Planning shall provide a report that details reallocation to the Legislative Finance Committee by October 15 of each fiscal year.