

Agency Biennium Comparison

The following table compares the 2019 biennium appropriated budget and the 2021 biennium budget request by type of expenditure and source of funding.

Agency Biennium Comparison				
Budget Item	Appropriated Budget 18-19	Requested Budget 20-21	Biennium Change	Biennium % Change
Personal Services	13,014,385	13,678,897	664,512	5.11 %
Operating Expenses	3,608,749	4,133,167	524,418	14.53 %
Equipment & Intangible Assets	15,988	15,988	0	0.00 %
Total Expenditures	\$16,639,122	\$17,828,052	\$1,188,930	7.15 %
State/Other Special Rev. Funds	16,639,122	17,828,052	1,188,930	7.15 %
Total Funds	\$16,639,122	\$17,828,052	\$1,188,930	7.15 %
Total Ongoing	\$16,639,122	\$17,828,052	\$1,188,930	7.15 %
Total OTO	\$0	\$0	\$0	0.00 %

Agency Biennium Comparison -

The biennium comparison table shows a total growth of 7.2%, which for the State Auditor’s Office is significantly influenced by the FY 2018 appropriation reductions. Compared to the FY 2019 base appropriation, the growth is 5.8%.

Mission Statement

The Commissioner of Securities and Insurance, Office of the Montana State Auditor advocates for consumers while working to empower Montanans with more insurance options and timely information. They endeavor to protect consumers from fraudulent and illegal practices, and to improve Montana’s economy by ensuring the securities and insurance industries can operate in a fair and efficient regulatory environment. They are committed to serving all Montanans in a caring, professional, and ethical manner as they perform the duties of the office.

For additional information, please refer to the agency profile. The profile may be viewed at: <https://leg.mt.gov/lfd/publications/>

Agency Highlights

State Auditor's Office Major Budget Highlights
<ul style="list-style-type: none"> • The State Auditor’s Office’s 2021 biennium budget request is approximately \$1.2 million or 7.2% higher than the 2019 biennium budget • Proposed changes include: <ul style="list-style-type: none"> ◦ Increases in state special revenue for statewide present law adjustments for personal services, fixed costs, and inflation/ deflation ◦ Increases in state special revenue for insurance contract examiners, market conduct examination contracts, and securities contract examinations ◦ A one-time-only decrease in state special revenue for captive insurance

Agency Actuals and Budget Comparison

The following table compares the 2019 biennium appropriated budget and the 2021 biennium budget request by type of expenditure and source of funding.

Agency Actuals and Budget Comparison					
Budget Item	Actuals Fiscal 2018	Approp. Fiscal 2018	Approp. Fiscal 2019	Request Fiscal 2020	Request Fiscal 2021
FTE	0.00	81.11	81.11	81.11	81.11
Personal Services	5,522,689	6,380,421	6,633,964	6,839,809	6,839,088
Operating Expenses	1,490,234	1,825,011	1,783,738	2,041,019	2,092,148
Equipment & Intangible Assets	9,725	7,994	7,994	7,994	7,994
Total Expenditures	\$7,022,648	\$8,213,426	\$8,425,696	\$8,888,822	\$8,939,230
State/Other Special Rev. Funds	7,022,648	8,213,426	8,425,696	8,888,822	8,939,230
Total Funds	\$7,022,648	\$8,213,426	\$8,425,696	\$8,888,822	\$8,939,230
Total Ongoing	\$7,022,648	\$8,213,426	\$8,425,696	\$8,888,822	\$8,939,230
Total OTO	\$0	\$0	\$0	\$0	\$0

Agency Discussion

FY 2018 Appropriations Compared to FY 2018 Actual Expenditures

The modified HB 2 budget of \$8.2 million for the State Auditor's Office was 85.5% expended in FY 2018. In addition to the \$5.5 million in expenditures for personal services, the agency also utilized approximately \$310,000 in carryforward authority to offset some of the personal services costs. Thus, the total amount expended on personal services in FY 2018 was approximately \$5.8 million. Personal services expenditures were low due to unfilled positions, and operating expenses were low due to the timing of contract examinations.

FY 2018 Appropriations Compared to FY 2019 Appropriations

FY 2019 total appropriations are approximately \$212,000 or 2.6% higher than the FY 2018 total appropriation due to:

- State share contribution reductions for FY 2018
- SB 294 pay plan increase in FY 2019
- Other differences between the fiscal years, due to statewide present law adjustments, workers' compensation adjustments, and program-specific differences

Executive Request

The total budget proposed by the executive is \$1.2 million or 7.2% greater than the 2019 biennium budget.

Personal services were approximately \$6.6 million or 78.7% of total FY 2019 appropriations. The executive proposes an increase from the base budget of approximately \$206,000 in FY 2020 and \$205,000 in FY 2021. This increase is primarily due to the statewide present law adjustment for personal services and other present law adjustments. These changes will be discussed in detail at the program level.

Operating expenses were approximately \$1.8 million or 21.2% of total FY 2019 appropriations. The executive proposes an increase of approximately \$257,000 in FY 2020 and \$308,000 in FY 2021. This increase is primarily due to the statewide present law adjustment for fixed costs and other present law adjustments, which will be discussed in detail at the program level.

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 for retirement payouts and additional spending authority from the captive insurance account, together which total approximately \$638,000.

Retirement Payouts

The State Auditor's Office has 28.00 FTE eligible to retire, comprising approximately 34.6% of the agency's total 81.00 FTE. The office estimates that 15.0% of current employees will retire in the next biennium. The office also estimates there will be approximately \$275,000 in retirement payouts for sick and vacation leave balances during FY 2020 and FY 2021 and is requesting additional authority for the payments. The amount requested for the Central Management Division is \$20,000; the amount for the Insurance Division is \$190,000; and the amount for the Securities Division is \$65,000. The State Auditor's Office is requesting a one-time-only, biennial appropriation of state special revenue funding to be restricted for retirement payouts.

Appropriation Authority for the Captive Regulatory and Supervision Account

The purpose of the captive insurance account is to provide the financial means for the State Auditor to administer the captive insurance program and for reimbursement of reasonable expenses incurred in promoting captive insurance in Montana. Statute requires 5.0% of the premium tax collected under 33-28-201 MCA, and all fees and assessments from captive insurance administration, be deposited to the captive account to be used for the administration of the program. The amounts deposited in the captive account are not reflective of the current costs of managing the program. The cost of the program in FY 2018 was approximately \$340,000, which was \$202,000 higher than the revenue reported in the state special revenue captive account, which totaled approximately \$138,000.

The State Auditor's Office requests additional authority to pay for the full cost of the program, contingent on the passage of the related legislation (LC 0242). The proposed legislation would increase the 5.0% of premium tax collected to 20.0%. Should this legislation pass, the State Auditor's Office is requesting an additional \$160,000 for personal services and \$21,334 for operating expenses, for a total of \$181,334 in both FY 2020 and FY 2021.

LFD COMMENT	<p>The captive insurance account is primarily used for captive insurance exams within the Insurance Program of the Office of the State Auditor.</p> <p>Figure 1 shows the actual revenues and expenditures for FY 2018 and the estimated revenues and expenditures for FY 2019 through 2021. The revenue estimates for FY 2019 through FY 2021 have been updated to reflect the most recent revenue estimates adopted by the Revenue and Transportation Interim Committee (RTIC) in November of 2018.</p>
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Figure 1
State Auditor's Office
Captive Account (02528)

	Actual FY 2018	Budgeted FY 2019	Proposed FY 2020	Proposed FY 2021
Beginning Fund Balance	\$2,530	\$0	(\$40,608)	\$4,389
Revenues				
Licenses and Permits	51,900	80,310	85,114	89,918
Taxes	83,562	97,749	103,884	110,019
Total	<u>135,462</u>	<u>178,059</u>	<u>188,998</u>	<u>199,937</u>
Adjustments	2,530	-	-	-
Total Revenues	<u>137,992</u>	<u>178,059</u>	<u>188,998</u>	<u>199,937</u>
HB 2 Budgeted Expenditures				
Base Budget	137,992	218,667	218,667	218,667
Executive Present Law Adjust.	-	-	(74,666)	(69,666)
Total Expenditures	<u>137,992</u>	<u>218,667</u>	<u>144,001</u>	<u>149,001</u>
Ending Fund Balance*	<u>\$0</u>	<u>(\$40,608)</u>	<u>\$4,389</u>	<u>\$55,325</u>

*Per 33-28-120, MCA: At the end of each fiscal year, the balance in the captive account must be transferred to the general fund.

The executive present law adjustment included in the HB 2 expenditures is an executive proposal to decrease captive insurance authority by approximately \$75,000 in FY 2020 and \$70,000 in FY 2021. This proposal was included by the executive in order to match the FY 2020 and FY 2021 revenue projections for the captive account.

The elected official request proposes an increase in captive insurance authority, contingent on the passage of related legislation (LC 0242), instead of the decrease proposed by the executive. The request would increase captive insurance authority by approximately \$181,000 in both FY 2020 and FY 2021.

5% Plan

Statute requires that agencies submit plans to reduce general fund and certain state special revenue funds by 5.0%. For the State Auditor's Office, the 5.0% plan includes reductions totaling approximately \$350,000 in state special revenue. The plan includes potential reductions in insurance program contracted services, travel, training, education, computer replacement, and legal costs. A summary of the entire 2019 biennium 5.0% plan submitted for this agency is in the Budget Analysis Appendix.

FY 2019 Legislative Budget to FY 2019 Executive Modified Base

Figure 2 illustrates the beginning FY 2019 budget as adopted by the 2017 Legislature compared to the finalized 2019 Base Budget, which includes modifications done by the executive (as authorized in statute) during the interim. The 2019 Base Budget was agreed upon by the executive and legislative branches to be the point from which any changes would be recorded for the 2021 biennium budgeting process.

Figure 2
FY 2019 Legislative Appropriations

	Legislative Action	Executive Modifications per Statutory Authority	Executive Base	% Change from Legislative Action
01 Central Management				
61000 Personal Services	1,483,013	-	1,483,013	0.0%
62000 Operating Expenses	662,506	-	662,506	0.0%
63000 Equipment & Intangible Assets	1,683	-	1,683	0.0%
03 Insurance				
61000 Personal Services	4,102,590	-	4,102,590	0.0%
62000 Operating Expenses	1,005,872	-	1,005,872	0.0%
63000 Equipment & Intangible Assets	5,109	-	5,109	0.0%
04 Securities				
61000 Personal Services	1,048,361	-	1,048,361	0.0%
62000 Operating Expenses	115,360	-	115,360	0.0%
63000 Equipment & Intangible Assets	1,202	-	1,202	0.0%
Program Total	1,164,923	-	1,164,923	0.0%
Grand Total	\$8,425,696	\$0	\$8,425,696	0.0%

The legislative action budget includes the FY 2019 budget as adopted during the November 2017 Special Session and other specific house and senate bills. The State Auditor's Office did not have any modifications to the legislative budget. The agency is funded entirely with state special revenue and did not have any general fund restorations in SB 9.

Agency Personal Services

In order to explain the factors influencing personal services changes, the proposed statewide personal services present law adjustment (DP 1) has been broken down into four categories, as follows:

1. Formula Based

Formula based changes are calculated independent of agency choices, such as: annualize personal services costs including FY 2019 statewide pay plan adjustments, changes to benefit rates, and longevity adjustments related to incumbents in each position at the time of the personal services snapshot, plus rate changes for workers' compensation and unemployment insurance.

A detailed illustration of this methodology is included in the Budget Analysis Appendix.

2. Personal Services Management Decisions

Any agency management decisions that adjusted employee pay or transferred personal services authority between programs. This includes raises or position changes that may increase or reduce a budget, such as hiring FTE at a lower rate to replace retired senior staff or moving FTE and funding between programs.

3. Proposed Reinstatement of Personal Services Base Budget Reductions

Most agencies requested reinstatement of personal services budget reductions taken last session. The single largest reinstatement is due to the lower vacancy savings rate requested by the executive. The FY 2019 personal services base included approximately 6.0% vacancy savings reduction as part of the funding adopted in HB 2. Generally, the executive requested a 2.0% vacancy savings reduction for 2021 biennium.

Agencies funded with general fund may have additional personal services reductions such as those reduced from the triggers in SB 261 from last session.

In some instances, the lower personal services budgets caused agencies to make management decisions that lowered the ongoing cost of personal services. When this occurred, the LFD reflected the lower reinstatement requested rather than the total of all personal services reductions made by the previous legislature.

4. Budget Modifications

This category includes modifications to the FY 2019 personal services budget such as transfer of personal services authority to operating expenses that occurred during the interim. These transfers may impact the overall size of the personal services present law adjustment (DP 1).

The Figure shows the analysis of the proposed changes.

Figure 3

Personal Services Present Law DP 1 - FY 2020					
Program	Formula Based	Management Decisions	Proposed Reinstatement of PS	Budget Modifications	DP1 SWPL
01 CENTRAL MANAGEMENT	25,756	(34,651)	41,683	-	32,788
03 INSURANCE	66,935	43,126	108,615	-	218,676
04 SECURITIES	8,856	(8,475)	-	-	381
Agency Total	\$101,547	\$0	\$150,298	\$0	\$251,845

Personal services were \$6.6 million or 78.7% of total FY 2019 appropriations. The executive proposes a statewide present law increase of approximately \$252,000 in FY 2020 and \$246,000 in FY 2021. In addition to the formula-based changes, the statewide present law adjustment for personal services includes:

- Wage changes due to FTE turnover
- FTE movement between programs
- The reinstatement of reductions from the 2017 Legislative Session
- Reinstatement of the additional 2.0% vacancy savings from the 2019 biennium
- The reinstatement of budget cuts from the November 2017 Special Session

Additional details of significant factors included in the statewide present law adjustment for personal services will be discussed at the program level.

The State Auditor's Office was able to address the 6.0% vacancy savings reduction in the 2019 biennium by leaving positions open and did not have to implement a reduction in force policy. However, staff members assumed higher workloads, and deadlines were extended whenever possible. Some positions were left open longer than normal to address vacancy savings requirements, but otherwise the agency has not had excessive turnover rates in any occupation.

The State Auditor's Office currently has a large number of employees who are eligible for retirement, and these employees comprise approximately 34.6% of the agency's total FTE. The agency has looked at succession planning, career paths and ladders, and cross training to help minimize the impact of these retirements on the current staff.

Funding

The following table shows proposed agency funding by source of authority.

Total State Auditor's Office Funding by Source of Authority 2021 Biennium Budget Request - State Auditor's Office						
Funds	HB2 Ongoing	HB2 OTO	Non-Budgeted Proprietary	Statutory Appropriation	Total All Sources	% Total All Funds
General Fund	0	0	0	70,955,956	70,955,956	79.65 %
State Special Total	17,828,052	0	0	300,000	18,128,052	20.35 %
Federal Special Total	0	0	0	0	0	0.00 %
Proprietary Total	0	0	0	0	0	0.00 %
Other Total	0	0	0	0	0	0.00 %
Total All Funds	\$17,828,052	\$0	\$0	\$71,255,956	\$89,084,008	
Percent - Total All Sources	20.01 %	0.00 %	0.00 %	79.99 %		

HB 2 Funding

The operations of the State Auditor's Office are funded entirely with state special revenue. There are two state special revenue funds that account for the majority of the funding for the office: the insurance fee account and the securities fee account. These funds will be discussed in further detail in the individual programs that utilize the funds.

Statutory Authority

The State Auditor's Office is responsible for passing through funding for local police and firefighter retirement programs. The retirement programs are funded from general insurance (33-2-705, MCA) and fire insurance premium taxes (50-3-109, MCA). Because these funds are statutorily appropriated, the expenditures are not included in the general appropriations act.

Budget Summary by Category

The following table summarizes the total budget by base, present law adjustments, and new proposals. For a description of these categories, please see the glossary section of the Budget Analysis.

Budget Item	-----General Fund-----				-----Total Funds-----			
	Budget Fiscal 2020	Budget Fiscal 2021	Biennium Fiscal 20-21	Percent of Budget	Budget Fiscal 2020	Budget Fiscal 2021	Biennium Fiscal 20-21	Percent of Budget
2019 Base Budget	0	0	0	0.00 %	8,425,696	8,425,696	16,851,392	94.52 %
SWPL Adjustments	0	0	0	0.00 %	257,792	203,200	460,992	2.59 %
PL Adjustments	0	0	0	0.00 %	205,334	310,334	515,668	2.89 %
New Proposals	0	0	0	0.00 %	0	0	0	0.00 %
Total Budget	\$0	\$0	\$0		\$8,888,822	\$8,939,230	\$17,828,052	

Program Biennium Comparison

The following table compares the 2019 biennium appropriated budget and the 2021 biennium budget request by type of expenditure and source of funding.

Program Biennium Comparison				
Budget Item	Appropriated Budget 18-19	Requested Budget 20-21	Biennium Change	Biennium % Change
Personal Services	2,917,724	3,030,602	112,878	3.87 %
Operating Expenses	1,335,935	1,288,056	(47,879)	(3.58)%
Equipment & Intangible Assets	3,366	3,366	0	0.00 %
Total Expenditures	\$4,257,025	\$4,322,024	\$64,999	1.53 %
State/Other Special Rev. Funds	4,257,025	4,322,024	64,999	1.53 %
Total Funds	\$4,257,025	\$4,322,024	\$64,999	1.53 %
Total Ongoing	\$4,257,025	\$4,322,024	\$64,999	1.53 %
Total OTO	\$0	\$0	\$0	0.00 %

Program Description

The Central Management Division is responsible for the administrative, personnel, budgeting, and accounting functions for the office. The division also provides support to the commissioner in fulfilling the duties as a member of the Land Board and Crop Hail Insurance Board.

Program Highlights

Central Management Division Major Budget Highlights
<ul style="list-style-type: none"> • The Central Management Division's 2021 biennium budget request is approximately \$65,000 or 1.5% higher than the 2019 biennium budget • Proposed changes include: <ul style="list-style-type: none"> ◦ Increases in state special revenue for statewide present law adjustments for personal services, fixed costs, and inflation/deflation

Program Actuals and Budget Comparison

The following table compares FY 2018 actual expenditures to the 2019 biennium appropriated budget and the 2021 biennium budget request by type of expenditure and source of funding.

Program Actuals and Budget Comparison					
Budget Item	Actuals Fiscal 2018	Approp. Fiscal 2018	Approp. Fiscal 2019	Request Fiscal 2020	Request Fiscal 2021
FTE	0.00	18.00	18.00	18.00	18.00
Personal Services	1,179,760	1,434,711	1,483,013	1,515,801	1,514,801
Operating Expenses	512,689	673,429	662,506	648,941	639,115
Equipment & Intangible Assets	9,725	1,683	1,683	1,683	1,683
Total Expenditures	\$1,702,174	\$2,109,823	\$2,147,202	\$2,166,425	\$2,155,599
State/Other Special Rev. Funds	1,702,174	2,109,823	2,147,202	2,166,425	2,155,599
Total Funds	\$1,702,174	\$2,109,823	\$2,147,202	\$2,166,425	\$2,155,599
Total Ongoing	\$1,702,174	\$2,109,823	\$2,147,202	\$2,166,425	\$2,155,599
Total OTO	\$0	\$0	\$0	\$0	\$0

Program Discussion -

FY 2018 Appropriations Compared to FY 2018 Actual Expenditures

The Central Management Division expended 80.7% of its \$2.1 million HB 2 modified budget in FY 2018. Expenditures for both personal services and operating expenses were low compared to the anticipated level at the end of FY 2018. The division held positions open to help meet the 6.0% vacancy savings requirement and also used carryforward authority to offset some of the personal services costs. As a result of having fewer positions filled, operating expenses were also lower than normal. The relatively small equipment budget was over-expended due to the purchase of a new server.

FY 2018 Appropriations Compared to FY 2019 Appropriations

FY 2019 total appropriations for the Central Management Division are approximately \$37,000 or 1.8% higher than the FY 2018 total appropriation.

There were several increases in the difference between the FY 2018 and FY 2019 appropriations due to:

- State share contribution reductions for FY 2018, in the amount of \$32,000
- SB 294 pay plan increase in FY 2019 of \$12,000
- Other differences due to statewide present law and workers' compensation adjustments

There was also a decrease in the difference between the FY 2018 and FY 2019 appropriations due to:

- A decrease in the statewide present law adjustments for fixed costs for FY 2019 totaling \$11,000

Executive Request

The Central Management Division budget proposed by the executive is \$65,000 or 1.5% greater than the 2019 biennium budget.

Personal services were approximately \$1.5 million or 69.1% of total FY 2019 appropriations. The executive proposes an increase of approximately \$33,000 in FY 2020 and \$32,000 in FY 2021. This increase is primarily due to the statewide present law adjustment for personal services, which will be discussed in detail in the Program Personal Services section below.

Operating expenses were approximately \$663,000 or 30.9% of total FY 2019 appropriations. The executive proposes a decrease of approximately \$14,000 in FY 2020 and a decrease of \$23,000 in FY 2021. This decrease is primarily due to the statewide present law adjustment for fixed costs, which will be discussed in detail in the Present Law Adjustments section below.

Program Personal Services

Personal services were approximately \$1.5 million or 69.1% of total FY 2019 appropriations for the Central Management Division. The executive proposes a statewide present law increase of approximately \$33,000 in FY 2020 and an increase of \$32,000 in FY 2021. In addition to the formula-based changes, the 2021 biennium personal services statewide present law request includes management decisions and the proposed reinstatement of personal services.

The personal services management decisions include:

- Broadband pay raises and wage changes due to employee turnover
- FTE movement between the Central Management Division and other programs within the State Auditor’s Office:
 - The transfer of 0.21 FTE to the Insurance Division and Securities Division in order to increase existing FTE in those programs

The proposed reinstatement of personal services includes:

- The reinstatement of the 2017 Regular Session budget cuts
- Increases due to changes in vacancy savings requirements
 - The change from the 2016 snapshot of 4.0% to the 2018 snapshot of 2.0%
 - The reduction of the extra 2.0% legislatively imposed vacancy savings in the 2017 Regular Session

Funding

The following table shows proposed program funding by source of authority.

State Auditor's Office, 01-Central Management Funding by Source of Authority							
Funds	HB2 Ongoing	HB2 OTO	Non-Budgeted Proprietary	Statutory Appropriation	Total All Sources	% Total All Funds	
General Fund	0	0	0	0	0	0.00 %	
02235 Insurance Fee Account	3,530,800	0	0	0	3,530,800	81.69 %	
02283 Securities Fee Account	791,224	0	0	0	791,224	18.31 %	
State Special Total	\$4,322,024	\$0	\$0	\$0	\$4,322,024	100.00 %	
Federal Special Total	\$0	\$0	\$0	\$0	\$0	0.00 %	
Proprietary Total	\$0	\$0	\$0	\$0	\$0	0.00 %	
Total All Funds	\$4,322,024	\$0	\$0	\$0	\$4,322,024		

HB 2 Funding

The Centralized Management Division is funded entirely from state special revenue. Insurance and securities fees are the two sources of funding, and the insurance fee account supports the majority of total division costs.

Program Budget Summary by Category

The following table summarizes the total budget by base, present law adjustments, and new proposals. For a description of these categories, please see the glossary section of the Budget Analysis.

Budget Item	-----General Fund-----				-----Total Funds-----			
	Budget Fiscal 2020	Budget Fiscal 2021	Biennium Fiscal 20-21	Percent of Budget	Budget Fiscal 2020	Budget Fiscal 2021	Biennium Fiscal 20-21	Percent of Budget
2019 Base Budget	0	0	0	0.00 %	2,147,202	2,147,202	4,294,404	99.36 %
SWPL Adjustments	0	0	0	0.00 %	19,223	8,397	27,620	0.64 %
PL Adjustments	0	0	0	0.00 %	0	0	0	0.00 %
New Proposals	0	0	0	0.00 %	0	0	0	0.00 %
Total Budget	\$0	\$0	\$0		\$2,166,425	\$2,155,599	\$4,322,024	

Present Law Adjustments

The “Present Law Adjustments” table shows the changes from the FY 2019 base appropriation to the budget proposed by the executive. “Statewide Present Law” adjustments are standard categories of adjustments made to all agencies. Decisions on these items were applied globally to all agencies.

Present Law Adjustments	-----Fiscal 2020-----					-----Fiscal 2021-----				
	FTE	General Fund	State Special	Federal Special	Total Funds	FTE	General Fund	State Special	Federal Special	Total Funds
DP 1 - Personal Services	0.00	0	32,788	0	32,788	0.00	0	31,788	0	31,788
DP 2 - Fixed Costs	0.00	0	(13,604)	0	(13,604)	0.00	0	(23,439)	0	(23,439)
DP 3 - Inflation Deflation	0.00	0	39	0	39	0.00	0	48	0	48
Grand Total All Present Law Adjustments	0.00	\$0	\$19,223	\$0	\$19,223	0.00	\$0	\$8,397	\$0	\$8,397

***Total Funds" amount includes funding from sources other than General Fund, State Special, or Federal Special (i.e. Proprietary).

DP 1 - Personal Services -

The executive requests adjustments to the present law personal services budget. This request has been broken into the following categories, and further detail is shown in the agency summary:

- Formula-based changes
- Personal services management decisions
- Reinstatement of personal services previously reduced
- Modifications made to the personal services budget in the 2019 biennium

DP 2 - Fixed Costs -

The executive requests adjustments to provide the funding required in the proposed budget to pay increases in fixed costs assessed by other agencies within state government for the services they provide. Examples include: warrant writer, motor pool, etc. The rates charged for these services are approved in the section of the budget that provides the services.

DP 3 - Inflation Deflation -

The executive requests adjustments to reflect budgetary changes generated from the application of inflation and deflation factors to specific expenditure accounts. Affected accounts include food, postage, gasoline, and others.

Program Biennium Comparison

The following table compares the 2019 biennium appropriated budget and the 2021 biennium budget request by type of expenditure and source of funding.

Program Biennium Comparison				
Budget Item	Appropriated Budget 18-19	Requested Budget 20-21	Biennium Change	Biennium % Change
Personal Services	8,036,758	8,551,086	514,328	6.40 %
Operating Expenses	2,035,195	2,554,621	519,426	25.52 %
Equipment & Intangible Assets	10,218	10,218	0	0.00 %
Total Expenditures	\$10,082,171	\$11,115,925	\$1,033,754	10.25 %
State/Other Special Rev. Funds	10,082,171	11,115,925	1,033,754	10.25 %
Total Funds	\$10,082,171	\$11,115,925	\$1,033,754	10.25 %
Total Ongoing	\$10,082,171	\$11,115,925	\$1,033,754	10.25 %
Total OTO	\$0	\$0	\$0	0.00 %

Program Description

The Insurance Division regulates the insurance industry in Montana through several bureaus:

- The Policyholder Services Bureau is responsible for resolving insurance consumer inquiries and complaints involving agents, coverage, and companies
- The Examinations Bureau is responsible for monitoring the financial solvency of insurance companies, collecting premium taxes and company fees, and auditing insurance company annual statements. Also housed in this bureau is the captive insurance program, which promotes Montana as a captive domicile and regulates captive insurers in the state
- The Rates Bureau and the Forms Bureau are responsible for reviewing rate and form filings, respectively, to ensure compliance with the applicable insurance code
- The Insurance Services Bureau is responsible for licensing and providing continuing education to insurance agents, agencies, and adjustors
- The Legal Bureau, which serves both the Insurance and Securities Divisions, provides legal support to the divisions. The Investigations Bureau, which is under the Legal Bureau, investigates code and rule violations, including possible criminal violations, and recommends referral of cases to county attorneys for prosecution

Program Highlights

Insurance Division Major Budget Highlights
<ul style="list-style-type: none"> • The Insurance Division’s 2021 biennium budget request is approximately \$1.0 million or 10.3% higher than the 2019 biennium budget • Proposed changes include: <ul style="list-style-type: none"> ◦ Increases in state special revenue for statewide present law adjustments for personal services, fixed costs, and inflation/deflation ◦ Increases in state special revenue for insurance contract examiners and market conduct examination contracts ◦ A one-time-only decrease in state special revenue for captive insurance

Program Actuals and Budget Comparison

The following table compares FY 2018 actual expenditures to the 2019 biennium appropriated budget and the 2021 biennium budget request by type of expenditure and source of funding.

Program Actuals and Budget Comparison					
Budget Item	Actuals Fiscal 2018	Approp. Fiscal 2018	Approp. Fiscal 2019	Request Fiscal 2020	Request Fiscal 2021
FTE	0.00	51.50	51.50	51.50	51.50
Personal Services	3,510,979	3,934,168	4,102,590	4,275,266	4,275,820
Operating Expenses	813,566	1,029,323	1,005,872	1,243,430	1,311,191
Equipment & Intangible Assets	0	5,109	5,109	5,109	5,109
Total Expenditures	\$4,324,545	\$4,968,600	\$5,113,571	\$5,523,805	\$5,592,120
State/Other Special Rev. Funds	4,324,545	4,968,600	5,113,571	5,523,805	5,592,120
Total Funds	\$4,324,545	\$4,968,600	\$5,113,571	\$5,523,805	\$5,592,120
Total Ongoing	\$4,324,545	\$4,968,600	\$5,113,571	\$5,523,805	\$5,592,120
Total OTO	\$0	\$0	\$0	\$0	\$0

Program Discussion -

FY 2018 Appropriations Compared to FY 2018 Actual Expenditures

The Insurance Division expended 87.0% of its \$5.0 million HB 2 modified budget for FY 2018. Expenditures for personal services and operating expenses were low for fiscal year end. The Insurance Division held positions open to help meet the 6% vacancy savings requirement and used carryforward authority to offset some of the personal services costs. Operating expenses were again low due to lower staffing levels and the timing of contract examinations.

FY 2018 Appropriations Compared to FY 2019 Appropriations

FY 2019 total appropriations for the Insurance Division are approximately \$145,000 or 2.9% higher than the FY 2018 total appropriation.

There were several increases in the difference between the FY 2018 and FY 2019 appropriations due to:

- State share contribution reductions for FY 2018, totaling \$95,000
- SB 294 pay plan increase in FY 2019, totaling \$31,000
- An increase in captive insurance authority in FY 2019, in the amount of \$50,000

- An increase in the statewide present law adjustments for FY 2019, in the amount of \$21,000
- Other differences due to statewide present law and workers' compensation adjustments

There were also decreases in the difference between the FY 2018 and FY 2019 appropriations due to:

- A decrease in the statewide present law adjustments for FY 2019, totaling \$20,000
- An appropriation for specialized workers' compensation insurance in FY 2018, in the amount of \$14,000

Executive Request

The Insurance Division budget proposed by the executive is \$1.0 million or 10.3% greater than the 2019 biennium budget.

Personal services were approximately \$4.1 million or 80.2% of total FY 2019 appropriations. The executive proposes an increase from the base budget of approximately \$173,000 in both FY 2020 and FY 2021. This change is primarily due to an increase from statewide present law adjustment for personal services and a decrease from the present law adjustment for captive insurance. These changes will be discussed in detail in the Program Personal Services and Present Law Adjustments sections below.

Operating expenses were approximately \$1.0 million or 19.7% of total FY 2019 appropriations. The executive proposes an increase of approximately \$238,000 in FY 2020 and \$305,000 in FY 2021. This increase is primarily due to the statewide present law adjustment for fixed costs and other present law adjustments, including adjustments for insurance contract examinations, market conduct examination contracts, and captive insurance. These changes will be discussed in detail in the Present Law Adjustments section below.

Program Personal Services

Personal services were approximately \$4.1 million or 80.2% of total FY 2019 appropriations for the Insurance Division. The executive proposes a statewide present law increase of approximately \$219,000 for FY 2020 and \$214,000 for FY 2021. In addition to the formula-based changes, the 2021 biennium personal services statewide present law request includes management decisions and the proposed reinstatement of personal services.

The personal services management decisions include:

- Broadband pay raises and wage changes due to employee turnover
- FTE movement between the Insurance Division and other programs within the State Auditor's Office:
 - The transfer of 0.21 FTE from the Central Management Division in order to increase existing FTE in the Insurance and Securities Divisions

The proposed reinstatement of personal services includes:

- The reinstatement of the 2017 Regular Session budget cuts
- Restorations of cuts from the November 2017 Special Session
- Increases due to changes in vacancy savings requirements
 - The change from the 2016 snapshot of 4.0% to the 2018 snapshot of 2.0%
 - The reduction of the extra 2.0% legislatively imposed vacancy savings in the 2017 Regular Session

Funding

The following table shows proposed program funding by source of authority.

State Auditor's Office, 03-Insurance Funding by Source of Authority							
Funds	HB2 Ongoing	HB2 OTO	Non-Budgeted Proprietary	Statutory Appropriation	Total All Sources	% Total All Funds	
01100 General Fund	0	0	0	0	0	0.00 %	
02235 Insurance Fee Account	10,822,923	0	0	0	10,822,923	97.36 %	
02528 Captive Account	293,002	0	0	0	293,002	2.64 %	
02769 Prem Assist for Small Employer	0	0	0	0	0	0.00 %	
State Special Total	\$11,115,925	\$0	\$0	\$0	\$11,115,925	100.00 %	
Federal Special Total	\$0	\$0	\$0	\$0	\$0	0.00 %	
Proprietary Total	\$0	\$0	\$0	\$0	\$0	0.00 %	
Total All Funds	\$11,115,925	\$0	\$0	\$0	\$11,115,925		

HB 2 Funding

The Insurance Division is funded entirely with state special revenue. The majority of funding is from the insurance fee account, which is supported by insurance licensure fees, examination fees, and penalties. The Insurance Division also receives funding from the captive account which allows the State Auditor to administer the captive insurance program. Fees and assessments are deposited in this account, while fines and penalties are deposited in the general fund. At the end of the fiscal year, the balance of the captive account is transferred to the general fund.

Program Budget Summary by Category

The following table summarizes the total budget by base, present law adjustments, and new proposals. For a description of these categories, please see the glossary section of the Budget Analysis.

Budget Item	-----General Fund-----				-----Total Funds-----			
	Budget Fiscal 2020	Budget Fiscal 2021	Biennium Fiscal 20-21	Percent of Budget	Budget Fiscal 2020	Budget Fiscal 2021	Biennium Fiscal 20-21	Percent of Budget
2019 Base Budget	0	0	0	0.00 %	5,113,571	5,113,571	10,227,142	92.00 %
SWPL Adjustments	0	0	0	0.00 %	234,900	198,215	433,115	3.90 %
PL Adjustments	0	0	0	0.00 %	175,334	280,334	455,668	4.10 %
New Proposals	0	0	0	0.00 %	0	0	0	0.00 %
Total Budget	\$0	\$0	\$0		\$5,523,805	\$5,592,120	\$11,115,925	

Present Law Adjustments

The "Present Law Adjustments" table shows the changes from the FY 2019 base appropriation to the budget proposed by the executive. "Statewide Present Law" adjustments are standard categories of adjustments made to all agencies. Decisions on these items were applied globally to all agencies.

	-----Fiscal 2020-----					-----Fiscal 2021-----				
	FTE	General Fund	State Special	Federal Special	Total Funds	FTE	General Fund	State Special	Federal Special	Total Funds
DP 1 - Personal Services	0.00	0	218,676	0	218,676	0.00	0	214,230	0	214,230
DP 2 - Fixed Costs	0.00	0	16,027	0	16,027	0.00	0	(16,260)	0	(16,260)
DP 3 - Inflation Deflation	0.00	0	197	0	197	0.00	0	245	0	245
DP 5 - Insurance Contract Examiners	0.00	0	100,000	0	100,000	0.00	0	200,000	0	200,000
DP 6 - Market Conduct Examination Contracts	0.00	0	150,000	0	150,000	0.00	0	150,000	0	150,000
DP 9 - Captive Insurance Adjustments	0.00	0	(74,666)	0	(74,666)	0.00	0	(69,666)	0	(69,666)
Grand Total All Present Law Adjustments	0.00	\$0	\$410,234	\$0	\$410,234	0.00	\$0	\$478,549	\$0	\$478,549

**Total Funds" amount includes funding from sources other than General Fund, State Special, or Federal Special (i.e. Proprietary).

DP 1 - Personal Services -

The executive requests adjustments to the present law personal services budget. This request has been broken into the following categories, and further detail is shown in the agency summary:

- Formula-based changes
- Personal services management decisions
- Reinstatement of personal services previously reduced
- Modifications made to the personal services budget in the 2019 biennium

DP 2 - Fixed Costs -

The executive requests adjustments to provide the funding required in the proposed budget to pay increases in fixed costs assessed by other agencies within state government for the services they provide. Examples include: warrant writer, motor pool, etc. The rates charged for these services are approved in the section of the budget that provides the services.

DP 3 - Inflation Deflation -

The executive requests adjustments to reflect budgetary changes generated from the application of inflation and deflation factors to specific expenditure accounts. Affected accounts include food, postage, gasoline, and others.

DP 5 - Insurance Contract Examiners -

The State Auditor's Office will examine each authorized insurer not less frequently than every 5 years. Section 33-1-408(4), MCA, allows that the Commissioner may retain attorneys, appraisers, independent actuaries, independent certified public accountants, or other professionals and specialist as examiners. The amount of funding required per fiscal year to retain contracted services is a function of the examination schedule established by the Commissioner. The year-to-year funding requirement can fluctuate, based on the number of companies to be examined and the size and complexity of those companies. The executive requests an appropriation of state special revenue, which would be reimbursed to the agency.

DP 6 - Market Conduct Examination Contracts -

The executive requests an appropriation of state special revenue authority for market conduct exams of regulated insurance companies. Section 33-1-408(4), MCA, allows that the Commissioner may retain attorneys, appraisers, independent actuaries, independent certified public accountants, or other professionals and specialist as examiners. The amount of funding required per fiscal year to retain contracted services is a function of the examination schedule

established by the Commissioner. The year-to-year funding requirement can fluctuate, based on the number of companies to be examined and the size and complexity of those companies. The cost of these examinations would be borne by the companies and insurers being examined and would be reimbursed to the agency.

DP 9 - Captive Insurance Adjustments -

The executive requests a decrease in state special revenue for the Captive Insurance Program, in order to match the FY 2020 and FY 2021 revenue projections.

LFD COMMENT The State Auditor's Office has submitted an elected official request to increase captive insurance authority, contingent on the passage of related legislation (LC 0242).

A present law adjustment is proposed by the executive to decrease captive insurance authority in order to match the FY 2020 and FY 2021 revenue projections for the captive account. This change would decrease the 2019 biennium appropriation by approximately \$75,000 in FY 2020 and \$70,000 in FY 2021.

The State Auditor's elected official request proposes to instead increase 2019 biennium appropriation for captive insurance by approximately \$181,000 in both FY 2020 and FY 2021. This appropriation would be funded with state special revenue.

Legislative options:

- Adopt the executive proposal to decrease captive insurance authority
- Adopt the elected official request to increase captive insurance authority, contingent on the passage of related legislation
- Adopt the agency budget without changing the appropriation for captive insurance

Program Biennium Comparison

The following table compares the 2019 biennium appropriated budget and the 2021 biennium budget request by type of expenditure and source of funding.

Program Biennium Comparison				
Budget Item	Appropriated Budget 18-19	Requested Budget 20-21	Biennium Change	Biennium % Change
Personal Services	2,059,903	2,097,209	37,306	1.81 %
Operating Expenses	237,619	290,490	52,871	22.25 %
Equipment & Intangible Assets	2,404	2,404	0	0.00 %
Total Expenditures	\$2,299,926	\$2,390,103	\$90,177	3.92 %
State/Other Special Rev. Funds	2,299,926	2,390,103	90,177	3.92 %
Total Funds	\$2,299,926	\$2,390,103	\$90,177	3.92 %
Total Ongoing	\$2,299,926	\$2,390,103	\$90,177	3.92 %
Total OTO	\$0	\$0	\$0	0.00 %

Program Description

The Securities Division is responsible for the administration and enforcement of the Securities Act of Montana and the registration of securities issuers, salespeople, broker-dealers, investment advisers, investment adviser representatives and multi-level marketing companies. The division is also responsible for the investigation of unregistered and fraudulent securities transactions. The division has sole jurisdiction for investment advisor firms with assets under \$100 million. The division investigates securities code and rule violations, including possible criminal violations, takes appropriate administrative action, and refers criminal cases to either federal authorities or county attorneys for prosecution.

Program Highlights

Securities Division Major Budget Highlights
<ul style="list-style-type: none"> • The Securities Division's 2021 biennium budget request is approximately \$90,000 or 3.9% higher than the 2019 biennium budget • Proposed changes include: <ul style="list-style-type: none"> ◦ Increases in state special revenue for statewide present law adjustments for personal services, fixed costs, and inflation/deflation ◦ Increases in state special revenue for securities contract examinations

Program Actuals and Budget Comparison

The following table compares FY 2018 actual expenditures to the 2019 biennium appropriated budget and the 2021 biennium budget request by type of expenditure and source of funding.

Program Actuals and Budget Comparison					
Budget Item	Actuals Fiscal 2018	Approp. Fiscal 2018	Approp. Fiscal 2019	Request Fiscal 2020	Request Fiscal 2021
FTE	0.00	11.61	11.61	11.61	11.61
Personal Services	831,950	1,011,542	1,048,361	1,048,742	1,048,467
Operating Expenses	163,979	122,259	115,360	148,648	141,842
Equipment & Intangible Assets	0	1,202	1,202	1,202	1,202
Total Expenditures	\$995,929	\$1,135,003	\$1,164,923	\$1,198,592	\$1,191,511
State/Other Special Rev. Funds	995,929	1,135,003	1,164,923	1,198,592	1,191,511
Total Funds	\$995,929	\$1,135,003	\$1,164,923	\$1,198,592	\$1,191,511
Total Ongoing	\$995,929	\$1,135,003	\$1,164,923	\$1,198,592	\$1,191,511
Total OTO	\$0	\$0	\$0	\$0	\$0

Program Discussion -

FY 2018 Appropriations Compared to FY 2018 Actual Expenditures

The Securities Division expended 87.7% of its \$1.1 million HB 2 modified budget in FY 2018. Expenditures for personal services were low for fiscal year end due to an open position, which was filled at the beginning of FY 2019. Carryforward authority was used to offset some of the personal services costs.

FY 2018 Appropriations Compared to FY 2019 Appropriations

FY 2019 total appropriations for the Securities Division are approximately \$30,000 or 2.6% higher than the FY 2018 total appropriation.

There were several increases in the difference between the FY 2018 and FY 2019 appropriations due to:

- State share contribution reductions for FY 2018, in the amount of \$21,000
- SB 294 pay plan increase in FY 2019 of \$13,000
- Other differences due to statewide present law and workers' compensation adjustments

There was also a decrease in the difference between the FY 2018 and FY 2019 appropriations due to:

- A decrease in the statewide present law adjustment for fixed costs for FY 2019 totaling \$7,000

Executive Request

The Securities Division budget proposed by the executive is \$90,000 or 3.9% greater than the 2019 biennium budget.

Personal services were approximately \$1.0 million or 90.0% of total FY 2019 appropriations. The executive proposes an increase of approximately \$381 in FY 2020 and \$106 in FY 2021. This increase is primarily due to the statewide present law adjustment for personal services, which will be discussed in detail in the Program Personal Services section below.

Operating expenses were approximately \$115,000 or 9.9% of total FY 2019 appropriations. The executive proposes an increase of approximately \$33,000 in FY 2020 and \$26,000 in FY 2021. This increase is primarily due to the statewide present law adjustment for fixed costs and a present law adjustment for securities contract examinations. These changes will be discussed in detail in the Present Law Adjustments section below.

Program Personal Services

Personal services were approximately \$1.0 million or 90.0% of total FY 2019 appropriations for the Securities Division. The executive proposes a statewide present law increase of \$381 in FY 2020 and an increase of \$106 in FY 2021. In addition

to the formula-based changes, the 2021 biennium personal services statewide present law request includes management decisions and the proposed reinstatement of personal services.

The personal services management decisions include:

- Broadband pay raises and wage changes due to employee turnover
- FTE movement between the Securities Division and other programs within the State Auditor’s Office:
 - The transfer of 0.21 FTE from the Central Management Division in order to increase existing FTE in the Insurance and Securities Divisions

The proposed reinstatement of personal services includes:

- The reinstatement of the 2017 Regular Session budget cuts
- Increases due to changes in vacancy savings requirements
 - The change from the 2016 snapshot of 4.0% to the 2018 snapshot of 2.0%
 - The reduction of the extra 2.0% legislatively imposed vacancy savings in the 2017 Regular Session

Funding

The following table shows proposed program funding by source of authority.

State Auditor's Office, 04-Securities Funding by Source of Authority							
Funds	HB2 Ongoing	HB2 OTO	Non-Budgeted Proprietary	Statutory Appropriation	Total All Sources	% Total All Funds	
General Fund	0	0	0	0	0	0.00 %	
02091 Securities Restitution Fund	0	0	0	300,000	300,000	11.15 %	
02283 Securities Fee Account	2,390,103	0	0	0	2,390,103	88.85 %	
State Special Total	\$2,390,103	\$0	\$0	\$300,000	\$2,690,103	100.00 %	
Federal Special Total	\$0	\$0	\$0	\$0	\$0	0.00 %	
Proprietary Total	\$0	\$0	\$0	\$0	\$0	0.00 %	
Total All Funds	\$2,390,103	\$0	\$0	\$300,000	\$2,690,103		

HB 2 Funding

The Securities Division is funded entirely with state special revenue. The majority of funding is from the securities fee account, which is supported by portfolio notice filing fees and examination charges. The State Auditor pays for expenses associated with the regulation of portfolio activities.

LFD COMMENT	<p>The revenues collected in the securities fee account are driven by what is happening in the financial markets and the economy. According to the office, in the past five years there has been strong growth in the financial markets, which has doubled the number of investment products being made available to investors. Many of these investment products are required to pay a fee with the Securities Division. Since these products are dependent on the financial markets, if the economy softens and the number of products retract, revenues would decrease.</p> <p>There are two transfers of excess revenues from the securities fee account. The first transfer is 4.5% of portfolio fees to the security restitution fund. These funds are used to reimburse victims of fraud. The remaining excess revenues are transferred to the general fund throughout the year as a non-budgeted transfer. The figure below provides additional details on these transfers.</p>
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Figure 4
State Auditor's Office
Transfers of Excess Security Fee Account Revenues

Fiscal Year	Security Restitution Fund Transfer	General Fund Transfer
2014	310,979	5,187,950
2015	362,174	6,163,976
2016	380,194	6,697,766
2017	391,592	6,923,583
2018	-	6,813,694

Program Budget Summary by Category

The following table summarizes the total budget by base, present law adjustments, and new proposals. For a description of these categories, please see the glossary section of the Budget Analysis.

Budget Item	-----General Fund-----				-----Total Funds-----			
	Budget Fiscal 2020	Budget Fiscal 2021	Biennium Fiscal 20-21	Percent of Budget	Budget Fiscal 2020	Budget Fiscal 2021	Biennium Fiscal 20-21	Percent of Budget
2019 Base Budget	0	0	0	0.00 %	1,164,923	1,164,923	2,329,846	97.48 %
SWPL Adjustments	0	0	0	0.00 %	3,669	(3,412)	257	0.01 %
PL Adjustments	0	0	0	0.00 %	30,000	30,000	60,000	2.51 %
New Proposals	0	0	0	0.00 %	0	0	0	0.00 %
Total Budget	\$0	\$0	\$0		\$1,198,592	\$1,191,511	\$2,390,103	

Present Law Adjustments

The "Present Law Adjustments" table shows the changes from the FY 2019 base appropriation to the budget proposed by the executive. "Statewide Present Law" adjustments are standard categories of adjustments made to all agencies. Decisions on these items were applied globally to all agencies.

	-----Fiscal 2020-----					-----Fiscal 2021-----				
	FTE	General Fund	State Special	Federal Special	Total Funds	FTE	General Fund	State Special	Federal Special	Total Funds
DP 1 - Personal Services	0.00	0	381	0	381	0.00	0	106	0	106
DP 2 - Fixed Costs	0.00	0	3,188	0	3,188	0.00	0	(3,642)	0	(3,642)
DP 3 - Inflation Deflation	0.00	0	100	0	100	0.00	0	124	0	124
DP 7 - Securities Contract Examinations	0.00	0	30,000	0	30,000	0.00	0	30,000	0	30,000
Grand Total All Present Law Adjustments	0.00	\$0	\$33,669	\$0	\$33,669	0.00	\$0	\$26,588	\$0	\$26,588

***Total Funds" amount includes funding from sources other than General Fund, State Special, or Federal Special (i.e. Proprietary).

DP 1 - Personal Services -

The executive requests adjustments to the present law personal services budget. This request has been broken into the following categories, and further detail is shown in the agency summary:

- Formula-based changes
- Personal services management decisions
- Reinstatement of personal services previously reduced
- Modifications made to the personal services budget in the 2019 biennium

DP 2 - Fixed Costs -

The executive requests adjustments to provide the funding required in the proposed budget to pay increases in fixed costs assessed by other agencies within state government for the services they provide. Examples include: warrant writer, motor pool, etc. The rates charged for these services are approved in the section of the budget that provides the services.

DP 3 - Inflation Deflation -

The executive requests adjustments to reflect budgetary changes generated from the application of inflation and deflation factors to specific expenditure accounts. Affected accounts include food, postage, gasoline, and others.

DP 7 - Securities Contract Examinations -

The executive requests an appropriation of state special revenue authority for securities contract examinations. The State Auditor's Office conducts routine and for-cause examinations of broker-dealer branch offices, investment advisory firms, and issuers to ensure compliance with the Montana Securities Act and to resolve deficiencies and determine the need for further investigation. The securities examination section of the office employs only two individuals with the requisite knowledge and skills to conduct examinations. To fulfill its obligation to protect Montana investors, the State Auditor's Office also uses an independent contractor to perform routine examinations. The cost of these examinations would be borne by the firms and issuers being examined and would be reimbursed to the agency.