

**Program Budget Comparison**

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

| Program 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                           | 11.00            | 11.00               | 12.00              | 12.00              | 11.00                 | 12.00                 | 1.00             | 9.09%             |
| Personal Services             | 619,235          | 686,408             | 854,977            | 854,852            | 1,305,643             | 1,709,829             | 404,186          | 30.96%            |
| Operating Expenses            | 206,603          | 265,996             | 281,732            | 279,149            | 472,599               | 560,881               | 88,282           | 18.68%            |
| Equipment & Intangible Assets | 1,202            | 1,894               | 1,202              | 1,202              | 3,096                 | 2,404                 | (692)            | (22.35%)          |
| Benefits & Claims             | 0                | 0                   | 0                  | 0                  | 0                     | 0                     | 0                | n/a               |
| Transfers                     | 0                | 0                   | 0                  | 0                  | 0                     | 0                     | 0                | n/a               |
| <b>Total Costs</b>            | <b>\$827,040</b> | <b>\$954,298</b>    | <b>\$1,137,911</b> | <b>\$1,135,203</b> | <b>\$1,781,338</b>    | <b>\$2,273,114</b>    | <b>\$491,776</b> | <b>27.61%</b>     |
| State Special                 | 827,040          | 954,298             | 1,137,911          | 1,135,203          | 1,781,338             | 2,273,114             | 491,776          | 27.61%            |
| <b>Total Funds</b>            | <b>\$827,040</b> | <b>\$954,298</b>    | <b>\$1,137,911</b> | <b>\$1,135,203</b> | <b>\$1,781,338</b>    | <b>\$2,273,114</b>    | <b>\$491,776</b> | <b>27.61%</b>     |

**Program Description**

The Securities Division is responsible for the administration and enforcement of the Securities Act of Montana and, in particular, for 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 of 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**

| <b>Securities Division<br/>Major Budget Highlights</b>   |
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| <ul style="list-style-type: none"> <li>◆ The 2015 biennium appropriation is about \$500,000 greater than the 2013 biennium due primarily to:                             <ul style="list-style-type: none"> <li>• Continuation of funding for an FTE that was supported by a one-time appropriation removed from the 2013 biennium budget</li> <li>• Increases in contracted services to examine securities firms in accordance with 30-10-304, MCA</li> </ul> </li> </ul> |

**Program Narrative**

The 2015 biennium Securities Division appropriation increases about \$500,000 over the 2013 biennium, including funding to continue an FTE funded from a one-time appropriation. Budget increases are due to:

- Fully funding positions
- Continued funding for 1.00 FTE originally funded from a one-time appropriation that was removed from base budget expenditures
- Pay increases granted during the 2013 biennium
- Contracted services for examinations of security firms

The legislature passed HB 81, which provides for a temporary diversion of 4.5% from securities fees collected by the CSI. The bill directed that a portion of securities fees be deposited in a securities restitution assistance fund rather than the general fund. Money from the state special revenue fund is statutorily appropriated to pay compensation to victims of securities fraud.

**Funding**

The following table shows program funding by source of authority for the 2015 biennium as adopted by the legislature.

| Total State Auditor's Office Funding by Source of Authority<br>2015 Biennium Budget - Securities |              |                          |                         |                   |                   |               |                    |
|--|--------------|--------------------------|-------------------------|-------------------|-------------------|---------------|--------------------|
| Funds  | HB 2         | Non-Budgeted Proprietary | Statutory Appropriation | Total All Sources | % Total All Funds | MCA Reference | Statutory Category |
| State Special Total  | \$2,273,114  | \$0                      | \$27,500                | \$2,300,614       | 100.0%            |               |                    |
| 02091 Security Restitution Fund  | \$0          | \$0                      | \$27,500                | \$27,500          | 1.2%              | 30-10-100     | Pass Thru          |
| 02283 Securities Fee Account   | \$2,273,114  | \$0                      | \$0                     | \$2,273,114       | 98.8%             |               |                    |
| Total All Funds  | \$2,273,114  | \$0                      | \$27,500                | \$2,300,614       | 100.0%            |               |                    |
| <b>Percent - Total All Sources</b>   | <b>98.8%</b> | <b>0.0%</b>              | <b>1.2%</b>             |                   |                   |               |                    |

The Securities Division is funded entirely from state special revenue derived from charges to the securities industry for:

- Filing portfolio notices
- Examining issuers, broker-dealers, or investment advisers as part of registration

Other fees related to the securities industry and collected by the SAO, such as registration of securities, are deposited to the general fund. Excess revenue in the state special revenue account that funds program administration is transferred to the general fund at fiscal yearend.

**Budget Summary by Category**

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

| Budget Item              | -----General Fund----- |                    |                              |                   | -----Total Funds----- |                    |                              |                   |
|--------------------------|------------------------|--------------------|------------------------------|-------------------|-----------------------|--------------------|------------------------------|-------------------|
|                          | Budget Fiscal 2014     | Budget Fiscal 2015 | Budget Biennium Fiscal 14-15 | Percent of Budget | Budget Fiscal 2014    | Budget Fiscal 2015 | Budget Biennium Fiscal 14-15 | Percent of Budget |
| Base Budget              | 0                      | 0                  | 0                            | 0.00%             | 827,040               | 827,040            | 1,654,080                    | 72.77%            |
| Statewide PL Adjustments | 0                      | 0                  | 0                            | 0.00%             | 141,028               | 135,413            | 276,441                      | 12.16%            |
| Other PL Adjustments     | 0                      | 0                  | 0                            | 0.00%             | 157,111               | 160,018            | 317,129                      | 13.95%            |
| New Proposals            | 0                      | 0                  | 0                            | 0.00%             | 12,732                | 12,732             | 25,464                       | 1.12%             |
| <b>Total Budget</b>      | <b>\$0</b>             | <b>\$0</b>         | <b>\$0</b>                   |                   | <b>\$1,137,911</b>    | <b>\$1,135,203</b> | <b>\$2,273,114</b>           |                   |

The majority of the 2015 biennium budget supports continuation of current level services.

**Present Law Adjustments**

The “Present Law Adjustments” table shows the changes to the base budget adopted by the legislature.

| Present Law Adjustments                            | -----Fiscal 2014----- |              |                  |                 |                  | -----Fiscal 2015----- |              |                  |                 |                  |
|--|-----------------------|--------------|------------------|-----------------|------------------|-----------------------|--------------|------------------|-----------------|------------------|
|  | FTE                   | General Fund | State Special    | Federal Special | Total Funds      | FTE                   | General Fund | State Special    | Federal Special | Total Funds      |
| Personal Services                                  |                       |              |                  |                 | 162,152          |                       |              |                  |                 | 162,175          |
| Vacancy Savings                                    |                       |              |                  |                 | (31,253)         |                       |              |                  |                 | (31,256)         |
| Inflation/Deflation                                |                       |              |                  |                 | 38               |                       |              |                  |                 | 220              |
| Fixed Costs  |                       |              |                  |                 | 10,091           |                       |              |                  |                 | 4,274            |
| <b>Total Statewide Present Law Adjustments</b>     |                       | <b>\$0</b>   | <b>\$141,028</b> | <b>\$0</b>      | <b>\$141,028</b> |                       | <b>\$0</b>   | <b>\$135,413</b> | <b>\$0</b>      | <b>\$135,413</b> |
| DP 50 - Initial Motion to FY 2012 Base             | 0.00                  | 0            | (141,028)        | 0               | (141,028)        | 0.00                  | 0            | (135,413)        | 0               | (135,413)        |
| DP 51 - Adjustment for Statewide Personal Services | 0.00                  | 0            | 130,899          | 0               | 130,899          | 0.00                  | 0            | 130,919          | 0               | 130,919          |
| DP 52 - Adjustment for Statewide Operations        | 0.00                  | 0            | 10,129           | 0               | 10,129           | 0.00                  | 0            | 4,494            | 0               | 4,494            |
| DP 4002 - Biennial Contract Exams (BIENNIAL/RST)   | 0.00                  | 0            | 65,000           | 0               | 65,000           | 0.00                  | 0            | 65,000           | 0               | 65,000           |
| DP 4003 - Securities Division Legal FTE            | 1.00                  | 0            | 92,111           | 0               | 92,111           | 1.00                  | 0            | 91,966           | 0               | 91,966           |
| DP 4004 - Rent                                     | 0.00                  | 0            | 0                | 0               | 0                | 0.00                  | 0            | 3,052            | 0               | 3,052            |
| <b>Total Other Present Law Adjustments</b>         | <b>1.00</b>           | <b>\$0</b>   | <b>\$157,111</b> | <b>\$0</b>      | <b>\$157,111</b> | <b>1.00</b>           | <b>\$0</b>   | <b>\$160,018</b> | <b>\$0</b>      | <b>\$160,018</b> |
| <b>Grand Total All Present Law Adjustments</b>     | <b>1.00</b>           | <b>\$0</b>   | <b>\$298,139</b> | <b>\$0</b>      | <b>\$298,139</b> | <b>1.00</b>           | <b>\$0</b>   | <b>\$295,431</b> | <b>\$0</b>      | <b>\$295,431</b> |

DP 50 - Initial Motion to FY 2012 Base - The legislature adopted a motion to establish the starting point for budget deliberations as the FY 2012 base. This adjustment removes statewide present law adjustments for personal services, vacancy savings, fixed costs, and inflation/deflation.

DP 51 - Adjustment for Statewide Personal Services - This adjustment funds statewide personal services and vacancy savings.

DP 52 - Adjustment for Statewide Operations - This adjustment establishes the fixed cost and inflation/deflation rates as approved by the General Government Joint Appropriations Subcommittee.

DP 4002 - Biennial Contract Exams (BIENNIAL/RST) - This adjustment adds \$65,000 each fiscal year to contract for examination of broker-dealer firms, broker-dealer firm branch offices, and investment advisor firms. The costs of these exams are reimbursed by the company being examined.

This funding will support 15 examinations of broker-dealer and investment advisory firms annually. On average, an examination involves about 30 hours of field work and 90 hours of analysis.

DP 4003 - Securities Division Legal FTE - This appropriation funds continuation of a legal FTE supported from a one-time appropriation in the last legislative session. The funding for the FTE was made ongoing.

DP 4004 - Rent - This adjustment adds state special revenue for increased office rent. The current lease does not include inflationary adjustments for rent. When the lease expires the agency anticipates a 5% increase on January 2015 for the last half of FY 2015.

**New Proposals**

| New Proposals                                 |             |                       |                 |                 |                 |                       |              |                 |                 |                 |
|---|-------------|-----------------------|-----------------|-----------------|-----------------|-----------------------|--------------|-----------------|-----------------|-----------------|
| Program                                       | FTE         | -----Fiscal 2014----- |                 |                 |                 | -----Fiscal 2015----- |              |                 |                 |                 |
|   |             | General Fund          | State Special   | Federal Special | Total Funds     | FTE                   | General Fund | State Special   | Federal Special | Total Funds     |
| DP 4006 - Elected Official Market Adjustments |             |                       |                 |                 |                 |                       |              |                 |                 |                 |
| 04  | 0.00        | 0                     | 12,732          | 0               | 12,732          | 0.00                  | 0            | 12,732          | 0               | 12,732          |
| <b>Total</b>                                  | <b>0.00</b> | <b>\$0</b>            | <b>\$12,732</b> | <b>\$0</b>      | <b>\$12,732</b> | <b>0.00</b>           | <b>\$0</b>   | <b>\$12,732</b> | <b>\$0</b>      | <b>\$12,732</b> |

DP 4006 - Elected Official Market Adjustments - The legislature approved funding for pay adjustments implemented in FY 2013 by the State Auditor to bring most staff up to 85% of the market midpoint. The adjustments are supported by state special revenue from security fees.