

OFFICE OF THE SECURITIES COMMISSIONER

Expenditure	Actual FY 2015	Agency Est. FY 2016	Gov. Rec. FY 2016	Agency Est. FY 2017	Gov. Rec. FY 2017
Operating Expenditures:					
State General Fund	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0
Other Funds	3,005,160	3,425,752	3,425,752	3,425,992	3,425,992
TOTAL	\$ 3,005,160	\$ 3,425,752	\$ 3,425,752	\$ 3,425,992	\$ 3,425,992
Capital Improvements:					
State General Fund	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0
Other Funds	0	0	0	0	0
TOTAL	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0
GRAND TOTAL	\$ 3,005,160	\$ 3,425,752	\$ 3,425,752	\$ 3,425,992	\$ 3,425,992

Percentage Change:

Operating Expenditures					
State General Fund	-- %	-- %	-- %	-- %	-- %
All Funds	9.2	14.0	14.0	0.0	0.0
FTE Positions	0.0	0.0	0.0	0.0	0.0
Non-FTE Perm.Uncl.Pos.	0.0	0.0	0.0	0.0	0.0
TOTAL	0.0	0.0	0.0	0.0	0.0

AGENCY OVERVIEW

The Office of the Kansas Securities Commissioner regulates and monitors the offering of securities and financial services within Kansas by registering securities, broker-dealers and their agents, investment advisers, loan brokers and certain land subdivisions. Agency staff also investigate potential violations of the laws and ensure that registered persons and entities comply with industry, legal, and accounting standards. The staff has the authority to investigate any investment related activity which has occurred in Kansas, even if companies or individuals from outside of the state are involved.

The Securities Commissioner administers the Kansas Uniform Securities Act, the Uniform Land Sales Practices Act, and the Loan Brokers Act. The Commissioner enforces these laws through administrative, civil, and criminal proceedings. As defined by statute, a "security" includes virtually any type of passive investment, not just stocks and bonds. Companies and individuals offering securities are subject to certain ethical and industry standards and must abide by federal and state laws and regulations.

The agency provides three primary services: Regulation Services, Enforcement Services, and Education Services.

- **Regulation Services.** Regulation Services include the registration of securities offerings, broker-dealers, agents, investment advisers, loan brokers and subdivided land offerings, and continuous monitoring of registrants for compliance with the requirements of related statutes and administrative regulations.
- **Enforcement Services.** Enforcement Services involve the investigation of alleged violations of the Kansas Uniform Securities Act, the Uniform Land Sales Practice Act and the Kansas Loan Brokers' Act; field examinations of registrants where there is reason to suspect violations; and remedial provisions of the statutes for cases where evidence of violations exist.
- **Education Services.** Education Services provide education and information to Kansans who are investing or raising capital. Most education services are provided through the agency's website, and through publications, speeches and presentations by staff and the Commissioner at small conferences for various investor groups, professional and business organizations throughout the state, and various special events. The goal of these services is to reduce the extent of investment problems, losses, and violations due to a lack of awareness and increase knowledge of securities laws and regulations. Funding for investor education comes from fines and other civil penalties plus funds designated for investor education as a condition in settlements of enforcement or compliance cases as specified under KSA §17-12a601(d)(2). The Investor Education Fund is "no limit" and is to be used at the discretion of the Securities Commissioner for the purposes of the fund that are authorized under KSA §17-12a601(d)(1). The agency also provides educational services to attorneys and owners of small businesses in Kansas in order to foster capital formation.

The Office of the Kansas Securities Commissioner is an independent state agency funded entirely by industry fees, which fund the Securities Act Fee Fund, and fines and settlements, which fund the Investor Education Fund.

MAJOR ISSUES FROM PRIOR YEARS

The **2002 Legislature** enacted 2002 HB 2563 which created the Investor Education Fund to be administered by the Securities Commissioner for the purpose of providing for the education of consumers in matters concerning securities regulation and investments. Moneys collected as fines and civil penalties by the Securities Commissioner are credited to the fund. In addition, 2002 HB 2563 required that five years after the Act takes effect, the Securities Commissioner must conduct a review of the Education Investor Fund and results achieved from the investment education program. The report was submitted to the Governor and the Legislature in FY 2007.

The **2004 Legislature** approved a provision in the Omnibus appropriations bill (2004 HB 2675) which authorized the transfer of \$3,875,000 from the Investor Education Fund to the State General Fund. The agency received fines totaling \$3,875,000 from global settlements with Wall Street brokerage firms during FY 2004.

The **2007 Legislature** added \$120,539, all from special revenue funds, and 2.0 FTE compliance examiner positions in FY 2008 to further expand the extent and frequency of routine field audits of broker-dealer and investment adviser offices in Kansas. The Legislature also

added \$120,372, all from special revenue funds, and 2.0 FTE positions to continue the positions in FY 2009. The Legislature also authorized the transfer of \$1.0 million from the Investor Education Fund to the State General Fund in FY 2008.

Passed in **July 2010**, the Federal “Dodd-Frank Wall Street Reform and Consumer Protection Act” was enacted. It transfers responsibility and jurisdiction to the Office of the Securities Commissioner for the regulation of certain investment advisers to hedge funds and investment advisers with up to \$100 million of assets under management in Kansas.

In **FY 2011**, the agency received an additional \$600,000 from an auction rate securities settlement agreement that resulted from an agency investigation, which was used for the agency’s Investor Education Program.

The **2013 Legislature** deleted \$568,795, all from special revenue funds, due to a decreased public service announcement development and distribution program in FY 2014. The Legislature also deleted \$132,462 and \$118,901 from FY 2014 and FY 2015, respectively, all from special revenue funds, for reduced funding for salaries and wages.

BUDGET SUMMARY AND KEY POINTS

FY 2016 – Current Year. The **agency** requests a FY 2016 revised operating estimate of \$3,425,752, all from special revenue funds. The estimate is an increase of \$130,097, or 3.9 percent, above the amount approved by the 2015 Legislature. The increase is attributable to increased contractual services expenditures, primarily in the areas of witness fees, software maintenance fees, and rent partially offset by a reduction in salary and wage expenditures.

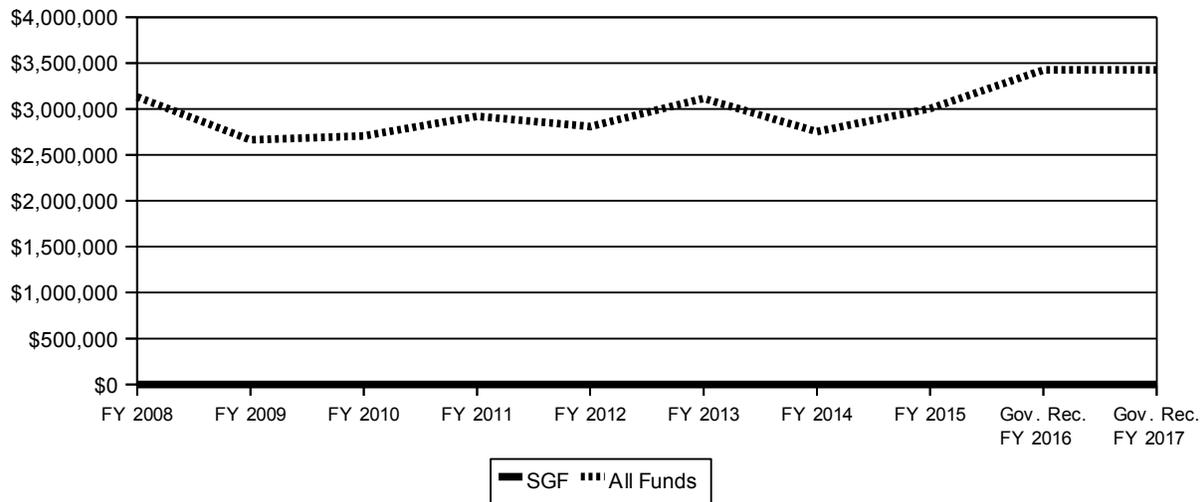
The **Governor** concurs with the agency’s revised estimate in FY 2016.

FY 2017 – Budget Year. The **agency** requests a revised estimate for FY 2017 operating expenditures of \$3,425,992, all from special revenue funds. The request is an increase of \$67,257, or 2.0 percent, above the amount approved by the 2015 Legislature. The increase is attributable to increased contractual services expenditures; specifically, witness fees, software maintenance fees, and rent, as well as increased expenditures on other assistance as a result of the grant funding financed through the Investor Education and Protection Fund. These increases are partially offset by a reduction in salary and wage expenditures.

The **Governor** concurs with the agency’s revised estimate for FY 2017.

BUDGET TRENDS

OPERATING EXPENDITURES FY 2008 – FY 2017



OPERATING EXPENDITURES FY 2008 – FY 2017

Fiscal Year	SGF	% Change	All Funds	% Change	FTE
2008	\$ 0	-- %	\$ 3,131,225	16.9 %	32.1
2009	0	--	2,664,466	(14.9)	32.1
2010	0	--	2,706,312	1.6	32.1
2011	0	--	2,919,962	7.9	32.0
2012	0	--	2,809,149	(3.8)	30.0
2013	0	--	3,115,058	10.9	30.0
2014	0	--	2,753,227	(11.6)	30.0
2015	0	--	3,005,160	9.2	0.0
2016 Gov. Rec.	0	--	3,425,752	14.0	0.0
2017 Gov. Rec.	0	--	3,425,992	0.0	0.0
Ten-Year Change Dollars/Percent	\$ 0	-- %	\$ 294,767	9.4 %	(32.1)

Summary of Operating Budget FY 2015 - FY 2017

	Actual 2015	Agency Estimate				Governor's Recommendation			
		Estimate FY 2016	Estimate FY 2017	Dollar Change from FY 16	Percent Change from FY 16	Rec. FY 2016	Rec. FY 2017	Dollar Change from FY 16	Percent Change from FY 16
By Program:									
Administration	\$ 3,005,160	\$ 3,425,752	\$ 3,425,992	\$ 240	0.0 %	\$ 3,425,752	\$ 3,425,992	\$ 240	0.0 %
By Major Object of Expenditure:									
Salaries and Wages	\$ 2,348,012	\$ 2,588,703	\$ 2,680,041	\$ 91,338	3.5 %	\$ 2,588,703	\$ 2,680,041	\$ 91,338	3.5 %
Contractual Services	486,882	702,893	601,797	(101,096)	(14.4)	702,893	601,797	(101,096)	(14.4)
Commodities	13,566	15,447	15,746	299	1.9	15,447	15,746	299	1.9
Capital Outlay	22,600	6,709	20,408	13,699	204.2	6,709	20,408	13,699	204.2
Debt Service	0	0	0	0	--	0	0	0	--
Subtotal - Operations	\$ 2,871,060	\$ 3,313,752	\$ 3,317,992	\$ 4,240	0.1 %	\$ 3,313,752	\$ 3,317,992	\$ 4,240	0.1 %
Aid to Local Units	0	0	0	0	--	0	0	0	--
Other Assistance	134,100	112,000	108,000	(4,000)	(3.6)	112,000	108,000	(4,000)	(3.6)
TOTAL	\$ 3,005,160	\$ 3,425,752	\$ 3,425,992	\$ 240	0.0 %	\$ 3,425,752	\$ 3,425,992	\$ 240	0.0 %
Financing:									
State General Fund	\$ 0	\$ 0	\$ 0	\$ 0	-- %	\$ 0	\$ 0	\$ 0	-- %
Securities Act Fee Fund	2,735,456	3,096,811	3,158,462	61,651	2.0	3,096,811	3,158,462	61,651	2.0
Investor Education Fund	269,704	328,941	267,530	(61,411)	(18.7)	328,941	267,530	(61,411)	(18.7)
TOTAL	\$ 3,005,160	\$ 3,425,752	\$ 3,425,992	\$ 240	0.0 %	\$ 3,425,752	\$ 3,425,992	\$ 240	0.0 %

BUDGET OVERVIEW

A. FY 2016 – Current Year

Adjustments to Approved Budget

The 2015 Legislature approved an all funds budget of \$3,295,655 for the Office of the Securities Commissioner in FY 2016. No adjustments have subsequently been made to that amount.

CHANGE FROM APPROVED BUDGET					
	Legislative Approved FY 2016	Agency Estimate FY 2016	Agency Change from Approved	Governor Rec. FY 2016	Governor Change from Approved
State General Fund	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0
All Other Funds	3,295,655	3,425,752	130,097	3,425,752	130,097
TOTAL	\$ 3,295,655	\$ 3,425,752	\$ 130,097	\$ 3,425,752	\$ 130,097
FTE Positions	30.0	0.0	(30.0)	0.0	(30.0)

The **agency** requests FY 2016 operating expenditures of \$3,425,752, all from special revenue funds. The estimate is an increase of \$130,097, or 3.9 percent, above the amount approved by the 2015 Legislature. The increase is attributable to increased contractual services expenditures, specifically, witness fees, software maintenance fees, and rent, partially offset by a reduction in salary and wage expenditures. The request is detailed below by category of expenditure.

- **Salaries and Wages.** The agency requests \$2,588,703, all from special revenue funds, for salaries and wages in FY 2016. The request is a decrease of \$22,037, or less than 1.0 percent, below the amount approved by the 2015 Legislature. The decrease is attributable to shrinkage and having vacant positions in the department at various points in the fiscal year.
- **Contractual Services.** The agency requests \$702,893 all from special revenue funds, for contractual services in FY 2016. The request is an increase of \$133,207, or 23.4 percent, above the amount approved by the 2015 Legislature. The increase is attributable to witness fees, software maintenance fees, and rent.
- **Commodities.** The agency requests \$15,447, all from special revenue funds, for commodities in FY 2016. The request is a decrease of \$3,325, or 17.7 percent, below the amount approved by the 2015 Legislature. The decrease is attributable to reduce expenditures on stationary and office supplies.

- **Capital Outlay.** The agency requests \$6,709, all from special revenue funds, for capital outlay in FY 2016. The request is a decrease of \$4,748, or 41.4 percent, below the amount approved by the 2015 Legislature.
- **Other Assistance.** The agency requests \$112,000, all from special revenue funds, for other assistance in FY 2016. The request is an increase of \$27,000, or 31.8 percent, above the amount approved by the 2015 Legislature. The increase is attributable to grants made to various entities used to promote financial literacy made from the Investor Education and Protection Fund.

The **Governor** concurs with the agency's revised estimate in FY 2016.

B. FY 2017 – Budget Year

Adjustments to Approved Budget

The 2015 Legislature approved an all funds budget of \$3,425,992 for the Office of the Securities Commissioner in FY 2017. No adjustments have subsequently been made to that amount.

CHANGE FROM APPROVED BUDGET					
	Legislative Approved FY 2017	Agency Estimate FY 2017	Agency Change from Approved	Governor Rec. FY 2017	Governor Change from Approved
State General Fund	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0
All Other Funds	3,358,735	3,425,992	67,257	3,425,992	67,257
TOTAL	\$ 3,358,735	\$ 3,425,992	\$ 67,257	\$ 3,425,992	\$ 67,257
FTE Positions	30.0	0.0	(30.0)	0.0	(30.0)

The **agency** requests a revised estimate for FY 2017 operating expenditures of \$3,425,992, all from special revenue funds. The request is an increase of \$67,257, or 2.0 percent, above the amount approved by the 2015 Legislature. The increase is attributable to increased contractual services expenditures, specifically, witness fees, software maintenance fees and rent, as well as increased expenditures on other assistance as a result of the grant funding financed through the Investor Education and Protection Fund. These increases are partially offset by a reduction in salary and wage expenditures. The request is detailed below by category of expenditure.

- **Salaries and Wages.** The agency requests \$2,680,041, all from special revenue funds, for salaries and wages in FY 2017. The request is a decrease of \$24,573, or less than 1.0 percent, below the amount approved by the 2015 Legislature. The increase is attributable to reduced shrinkage savings and reflects the agency's intention to return to full staffing levels for FY 2017.
- **Contractual Services.** The agency requests \$601,797, all from special revenue funds, for contractual services for FY 2016. The request is an increase of

\$76,438, or 14.5 percent, above the amount approved by the 2015 Legislature. The increase is attributable to witness fees, software maintenance fees, and rent.

- **Commodities.** The agency requests \$15,746, all from special revenue funds, for commodities for FY 2017. The request is a decrease of \$3,430, or 17.9 percent, below the amount approved by the 2015 Legislature. The decrease is attributable to reduced expenditures on stationary and office supplies.
- **Capital Outlay.** The agency requests \$20,405, all from special revenue funds, for capital outlay for FY 2017. The request is a decrease of \$4,178, or 17.0 percent, below the amount approved by the 2015 Legislature. The decrease is attributable to reduced expenditures on law reference materials.
- **Other Assistance.** The agency requests \$108,000, all from special revenue funds, for other assistance for FY 2017. The request is an increase of \$23,000, or 27.1 percent, above the amount approved by the 2015 Legislature. The increase is attributable to grants made to various entities used to promote financial literacy made from the Investor Education and Protection Fund.

The **Governor** concurs with the agency's revised estimate for FY 2017.

Funding Sources

Funding Source	Agency Est. Percent of Total FY 2017	Gov. Rec. Percent of Total FY 2017
State General Fund	0.0 %	0.0 %
Securities Act Fee Fund	92.2	92.2
Investor Education Fund	7.8	7.8
TOTAL	100.0 %	100.0 %

Note: Details may not add to totals due to rounding.

Securities Act Fee Fund Analysis

The Securities Act Fee Fund is financed by fees received from agents of broker-dealers, investment advisers investment companies (mutual fund issuers) and other issuers of securities that are offering investment capital in Kansas. The authority for the Commissioner to set rates are specified in KSA §17-12a205, 17-12a302, 17-12a305 and 17-12a410. Most current rates specified in regulations are below the statutory maximum rates.

KSA §17-12a-601 provides that 90.0 percent of fees received by the Commissioner are credited to the Securities Act Fee Fund and 10.0 percent of receipts are credited to the State General Fund, up to a maximum of \$100,000. Furthermore, on the last day of the fiscal year, the Director of Accounts will transfer all unencumbered funds in excess of \$50,000 into the State General Fund for reimbursement for services provided to the agency by the Department of Administration.

Resource Estimate	Actual FY 2015	Agency Estimate FY 2016	Gov. Rec. FY 2016	Agency Estimate FY 2017	Gov. Rec. FY 2017
Beginning Balance	\$ 58,507	\$ 70,912	\$ 70,912	\$ 50,000	\$ 50,000
Revenue	14,912,435	16,024,430	16,024,430	16,544,654	16,544,654
Transfers in	0	0	0	0	0
Total Funds Available	\$ 14,970,942	\$ 16,095,342	\$ 16,095,342	\$ 16,594,654	\$ 16,594,654
Less: Expenditures	2,735,456	3,096,811	3,096,811	3,158,462	3,158,462
Transfers Out	12,164,574	12,948,531	12,948,531	13,386,192	13,386,192
Off Budget Expenditures	0	0	0	0	0
Ending Balance	<u>\$ 70,912</u>	<u>\$ 50,000</u>	<u>\$ 50,000</u>	<u>\$ 50,000</u>	<u>\$ 50,000</u>
Ending Balance as Percent of Expenditures	2.6%	1.6%	1.6%	1.6%	1.6%
Month Highest Ending Balance	May \$ 11,392,370	May \$ 12,172,432	May \$ 12,172,432	May \$ 12,579,735	May \$ 12,579,735
Month Lowest Ending Balance	June \$ 70,912	June \$ 50,000	June \$ 50,000	June \$ 50,000	June \$ 50,000

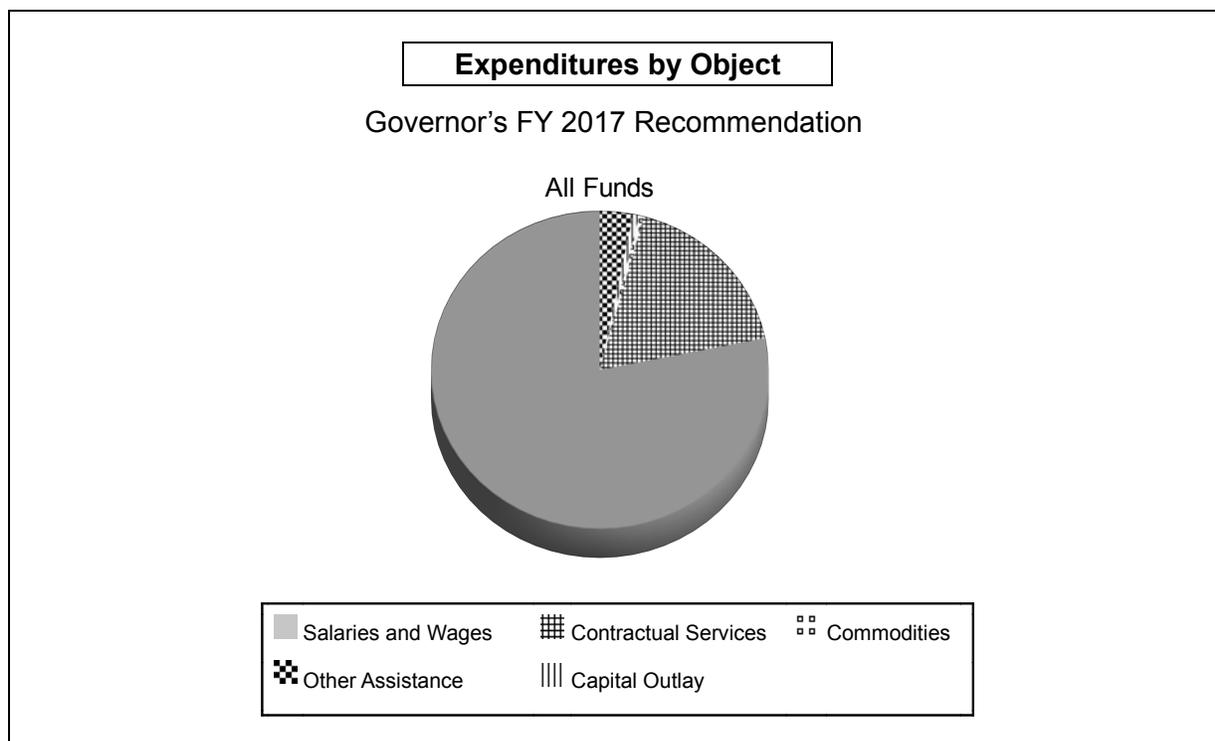
Investor Education Fund Analysis

The Investor Education Fee Fund is financed by civil penalties received from settlements of enforcement cases. KSA §17-12a601 provides that 80.0 percent of civil penalties received by the Commissioner are credited to the Investor Education Fee Fund, and 20.0 percent of receipts are credited to the State General Fund up to a \$200,000 maximum. There is no requirement to transfer funds from the Investor Education Fund similar to that of the Securities Act Fee Fund.

The agency requests that budget estimates for the Investor Education Fund be analyzed separately and not combined with the Securities Act Fee Fund. The agency states that this is necessary because of the differences in funding and purpose, and especially because the Investor Education Fund is a "No Limit" fund which is not subject to appropriation or spending limits. The agency states that expenditures from the Investor Education Fund tend to fluctuate based on the available funding from fines and settlements, and if combined with the Securities Act Fee Fund, analysis can be misleading and spending trends distorted.

Resource Estimate	Actual FY 2015	Agency Estimate FY 2016	Gov. Rec. FY 2016	Agency Estimate FY 2017	Gov. Rec. FY 2017
Beginning Balance	\$ 497,964	\$ 441,321	\$ 441,321	\$ 192,380	\$ 192,380
Revenue	213,061	80,000	80,000	80,000	80,000
Transfers in	0	0	0	0	0
Total Funds Available	\$ 711,025	\$ 521,321	\$ 521,321	\$ 272,380	\$ 272,380
Less: Expenditures	269,704	328,941	328,941	267,530	267,530
Transfers Out	0	0	0	0	0
Off Budget Expenditures	0	0	0	0	0
Ending Balance	<u>\$ 441,321</u>	<u>\$ 192,380</u>	<u>\$ 192,380</u>	<u>\$ 4,850</u>	<u>\$ 4,850</u>
Ending Balance as Percent of Expenditures	163.6%	58.5%	58.5%	1.8%	1.8%

OBJECT DETAIL



Object	Gov. Rec. All Funds FY 2017	Percent of Total	Gov. Rec. SGF FY 2017	Percent of Total
Salaries and Wages	\$ 2,680,041	78.2 %	\$ 999	20.0 %
Contractual Services	601,797	17.6	999	20.0
Commodities	15,746	0.5	999	20.0
Capital Outlay	20,408	0.6	999	20.0
Other Assistance	108,000	3.2	999	20.0
TOTAL	\$ 3,425,992	100.0 %	\$ 4,995	100.0 %

FTE POSITIONS BY PROGRAM FY 2015 – FY 2017

Program	Actual FY 2015	Agency Est. FY 2016	Gov. Rec. FY 2016	Agency Est. FY 2017	Gov. Rec. FY 2017
Administration	30.0	30.0	30.0	30.0	30.0

PERFORMANCE MEASURES

Measure	Gov. Rec. for FY 2015	Actual FY 2015	Gov. Rec. FY 2016	Gov. Rec. FY 2017
Amount of securities offerings registered (in billions)	\$90.00	\$101.90	\$100.00	\$100.00
Number of broker-dealers and investment adviser firms registered	2,875	3,016	3,049	3,049
Number of compliance and enforcement cases closed	293	156	186	187