



BOARD ACTION MEMORANDUM

TO: NCUA Board **DATE:** November 18, 2010
FROM: Chief Financial Officer **SUBJ:** FY 2011 Budget

ACTION REQUESTED: Board approval of the fiscal year 2011 operating and capital budgets.

DATE ACTION REQUESTED: November 18, 2010

OTHER OFFICES CONSULTED: All Regional and Central Office Directors

VIEWS OF OTHER OFFICES CONSULTED: All concur

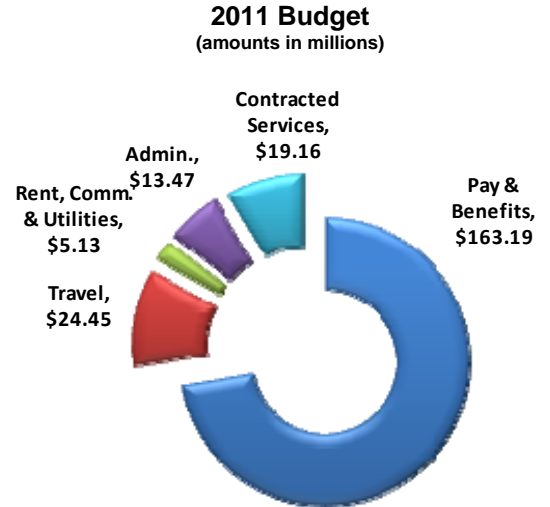
BACKGROUND: The budget was prepared from requests submitted by all offices within NCUA. All submissions underwent thorough reviews by responsible regional and central office directors, the Office of the Chief Financial Officer, and executive management. The budget presented below has been discussed and agreed upon by the responsible regional and central office directors.

BUDGET IMPACT: Presented below

RESPONSIBLE STAFF MEMBERS: Executive Director David M. Marquis and Chief Financial Officer Mary Ann Woodson

SUMMARY: The 2011 budget of **\$225,403,988** represents an increase of \$24,480,476 or **12 percent** over the 2010 budget of \$200,923,512. The total authorized staff requested for 2011 is **1,209**, which includes an increase of 78 positions from the prior year. See attachment 1 for a listing of the budget and positions by office.

For 2011, the budget increases to accommodate normal inflationary adjustments as well as to ensure successful execution of the agency's safety and soundness mission. Zero based budgeting techniques are used, which is the process of preparing a budget that starts with no authorized funds, and each activity to be funded must be justified each budget cycle. The most significant increase relates to the Annual Examination Program, which was started in 2010. This program adds 60 field positions to the regions. See item 11 below for additional information.



Budget

The budgetary components of the 2011 budget are:

<u>Category</u>	2010 Budget	2011 Budget	\$ Change	Percent of Total Budget
Employee Pay and Benefits	\$ 146,089,302	\$ 163,189,623	\$ 17,100,321	72%
Travel	23,177,347	24,451,215	1,273,868	11%
Rent, Communications & Utilities	4,696,476	5,128,023	431,547	2%
Administrative	11,706,332	13,472,386	1,766,054	6%
Contracted Services	<u>15,254,055</u>	<u>19,162,741</u>	<u>3,908,686</u>	9%
Total	\$ 200,923,512	\$ 225,403,988	\$ 24,480,476	100%

MAJOR BUDGETARY CHANGES: The changes in the budget are categorized as either baseline changes or program changes. Baseline changes are those adjustments needed to maintain current services. Program changes represent new initiatives proposed in the budget.

Baseline Changes

Of the \$24,480,000 budget increase, \$14,319,000 or 59 percent of the increase is requested to maintain current services. This net increase is broken down into the following components:

- 1) Merit and locality adjustments provide an **increase of \$7,083,000** in both pay and benefits. As specified in the collective bargaining agreement dated January 11, 2008, the average merit pay increase is five (5) percent, and the locality adjustment, which includes the increases and decreases across all localities, can range from a negative (-) to a positive (+) three (3) percent. Changes in locality rates are dictated by the President's Pay Agent. The budget assumes a net growth of 5.7 percent for the combined effect of the merit pay and locality adjustments. These adjustments are effective March 13, 2011.
- 2) Annualization of partial full-time equivalents (FTE) added in 2010 results in an **increase of \$3,506,000**. The 2011 budget includes all positions that were added in 2010 at full performance, meaning positions that were partially funded for 2010 are fully funded for 2011. This practice is common in budgeting in order to more accurately reflect costs due to time lags in filling new positions.
- 3) Anticipated career ladder promotions of staff result in an **increase of \$585,000**. Certain entry level positions allow for promotions to higher levels based upon performance and increased responsibilities.
- 4) Retirement and health benefits account for an **increase of \$3,070,000**. Employee benefits account for 23 percent of total staff compensation.

- 5) Staff turn-over, which includes retirees that are replaced by lower paid employees, provided a **decrease of \$2,895,000** in pay and benefits. In 2010, staff turn-over reduced the average cost per employee by \$3,200.
- 6) Travel expenses, in support of the safety and soundness program, **increased by \$1,215,000** or 6 percent for a total budget of \$24,451,000. While inflationary pressures remained flat, increased examiner staffing has increased travel related expenses.
- 7) The Office of Examination and Insurance (E&I) requests **\$750,000** to continue an operational review of the agency-wide examination and supervision program. The purpose of the operational review is to assess the strength of current processes and to refine the processes, as necessary.
- 8) The Office of Inspector General (OIG) requests:
 - a. an **increase of \$650,000** to engage outside professionals to conduct Material Loss Reviews, for a total budget of \$1,250,000. Under the Federal Credit Union Act (12 U.S.C. 1790d(j)), OIG is required to conduct Material Loss Reviews on failed credit unions if the loss to the NCUSIF exceeds \$25 million, among other requirements. The budget request is based upon bids received by OIG and deploying both OIG staff and outside resources to address workload; and
 - b. an **increase of \$287,000** for a total budget of \$1,000,000 to conduct the agency's independent financial statement audits. The increase is primarily due to increased audit efforts to address technical reporting issues such as the Corporate Resolution Plan.
- 9) The Office of Public and Congressional Affairs requests an increase of **\$300,000** for a total budget of \$500,000 for continuing consumer education campaigns.
- 10) The remaining **decrease of \$232,000** is the result of other smaller increases and decreases, including increases in inter-agency assessments (e.g., FFIEC, HMDA) and public utilities and decreases in interest expense and postage.

Proposed Program Changes

Of the \$24,480,000 budget increase, \$10,161,000 or 41 percent of the increase is the result of proposed program changes. This net increase is broken down into the following components:

Program Initiatives and Staffing:

- 11) The budget proposes **\$3,461,000** in pay, benefits, travel, training, and other related expenses for the continuing implementation of the Annual Examination Program. The Annual Examination Program incorporates more frequent onsite contact of all federal credit unions, with emphasis on problem credit unions, and enhanced offsite monitoring of credit unions. The increased flexibility comes from allowing the regions to decide on the timing of onsite contact, which can be any time during the year. Accordingly, the scheduling of examinations can be moved forward for credit unions that appear to be negatively trending or have a high risk profile. Increased examiner resources are required for examination of every Federal credit union every year. The program adds 60 field positions to the regions: 53 examiners, six (6) supervisory examiners, and one (1) lending specialist.

In 2010, this program realigned examiner resources in order to more effectively match the experience of staff with the examination risk within credit unions. The examination and supervision of California credit unions was temporarily transferred from Region V (Tempe) to Region II (Capital), which has more experienced staff to augment the current California staff, to address the credit unions in this economically stressed state.

- 12) The Office of the Chief Financial Officer requests **\$1,682,000** for staffing and external accounting professionals. The office requests six (6) accounting positions to meet long-term requirements which include strengthening financial reporting and internal control. The increasing accountability requirements in financial reporting, coupled with the complexity of transactions associated credit union resolutions, has necessitated additional staff that are proficient with these requirements. While staffing resources are being recruited and deployed, external accounting professionals will be used to meet workload requirements.
- 13) The Office of Minority and Women Inclusion will be established, as required under The Dodd–Frank Wall Street Reform and Consumer Protection Act (Public Law 111-203). Funding to stand up the office totals **\$1,051,000** and includes staffing of six (6). The new office will be responsible for diversity and civil rights and will promote hiring of minorities and women and contracting of minority-owned and women-owned businesses.
- 14) The Office of the Chief Economist requests resources of **\$452,000** for two (2) economists, specialized analysis software, and subscriptions. This request supports executing the office's responsibilities of in-depth macroeconomic analysis, state and regional outlook reports, and econometric and simulation models for forecasting risks to credit unions.
- 15) Within the regions and central offices, there are increases and transfers of positions, resulting in a remaining net increase of four (4) positions totaling **\$285,000**. The requests include two (2) public relations positions to the Office of Public and Congressional Affairs, one (1) supervisory position in the Asset Management and Assistance Center, and one (1) administrative position to the Office of Consumer Protection. Most positions transferred within the agency are result of standing up the *Office of Consumer Protection*. Twenty (20) central and regional staff have been recruited and transferred into this new office. The remaining eight (8) positions, for the office's authorized staffing level of 37, are anticipated to be recruited and filled from within the agency.

Program Support and Administrative:

- 16) The Office of the Chief Information Officer requests **\$1,617,000** for technology initiatives. Such initiatives include: a) \$1,200,000 to update current systems as well as to develop and implement systems that support E&I's national policies; and b) \$370,000 to start the migration of software and support for the 2012 replacement of laptop computers.
- 17) The moving of Region II (Capital) offices has resulted in anticipated outlays of **\$670,000**. These outlays include initial setup costs for furniture, fixtures, and business equipment of \$236,000 as well as annual rent of \$434,000.

- 18) The Office of the Chief Financial Officer, Division of Procurement and Facilities Management requests **\$555,000** for central office initiatives for replacing old furniture, painting, security, and other minor building repairs and maintenance.
- 19) The Office of Executive Director, Divisions to Strategic and Continuity Planning requests **\$135,000** for performance measurement and continuity initiatives. This includes \$85,000 for agency-wide training and \$45,000 for emergency management and notification systems.
- 20) The remaining **increase of \$253,000** is minor additions including specialized examiner training development (\$78,000), quality control reviews (\$75,000), payment system analyses (\$50,000), sign language services (\$25,000), and EEO internship programs (\$20,000).

Capital Acquisitions

An itemized listing of all capital acquisitions, totaling \$2,535,000, is provided by attachment 2.

- 1) The Office of the Chief Information Officer requires **\$1,335,000** for acquisitions needed to maintain a current, stable, and secure network environment as well as to acquire laptop computers for additional staff and to update the travel reimbursement system.
- 2) The Office of the Chief Financial Officer, Division of Procurement and Facilities Management requests **\$1,200,000**, for continuing renovation on the agency's 18-year old headquarters. Renovations include the restrooms, plumbing, copy center rooms, and other capitalizable building repairs and maintenance.

RECOMMENDED ACTIONS: It is recommended that the NCUA Board approve the following actions:

1. The fiscal year 2011 budget of \$225,403,988 and 1,208.60 FTEs, as presented in attachment 1.
2. The 2011 capital acquisitions budget totaling \$2,535,000, as presented in attachment 2.

Chief Financial Officer

Attachments

2011 PROPOSED BUDGET

<i>By Office</i>	Budget			Full-Time Equivalents		
	2010	2011	Change	2010	2011	Change
Office of the Board	\$ 2,554,683	\$ 2,660,940	\$ 106,257	12.00	12.00	-
Office of the Executive Director	2,620,737	3,029,314	408,577	10.00	11.00	1.00
Office of Minority and Women Inclusion	-	1,034,200	1,034,200	-	6.00	6.00
Office of the Chief Economist	486,685	1,024,753	538,068	3.00	5.00	2.00
Office of Consumer Protection	1,500,000	2,894,640	1,394,640	8.00	29.00 ⁽¹⁾	21.00
Office of the Chief Financial Officer	17,768,294	20,137,321	2,369,027	31.00	37.00	6.00
Office of the Chief Information Officer	13,072,429	14,104,407	1,031,978	33.00	33.00	-
Office of Corporate Credit Unions	7,804,338	8,933,167	1,128,829	38.00	37.00	(1.00)
Office of Small Credit Union Initiatives	5,215,503	5,711,587	496,084	27.00	26.00	(1.00)
Office of Examination & Insurance	5,838,983	6,705,095	866,112	29.40	29.50	0.10
Office of General Counsel	5,318,773	5,713,580	394,807	27.20	27.60	0.40
Office of Inspector General	3,225,816	4,294,171	1,068,355	9.00	9.00	-
Office of Human Resources	10,555,593	11,013,888	458,295	40.00	40.00	-
Office of Capital Markets	1,407,389	1,589,235	181,846	10.00	10.00 ⁽²⁾	-
Office of Public and Congressional Affairs	961,408	1,519,289	557,881	5.00	6.00	1.00
Region I - Albany	21,775,085	24,550,614	2,775,529	153.75	165.00	11.25
Region II - Capital	34,565,009	35,662,341	1,097,332	231.10	230.00	(1.10)
Region III - Atlanta	23,116,184	25,647,495	2,531,311	160.90	167.00	6.10
Region IV - Austin	23,716,725	26,371,701	2,654,976	167.50	178.50	11.00
Region V - Tempe	16,013,598	18,011,097	1,997,499	103.00	117.00	14.00
Asset Management & Assistance Center	3,406,280	4,795,154	1,388,874	32.00	33.00	1.00
Total	\$ 200,923,512	\$ 225,403,988	\$ 24,480,476	1,130.85	1,208.60	77.75

(1) The Office of Consumer Protection is authorized 37.00 FTE. The remaining eight positions are anticipated to be recruited and filled from within the agency. There will be no increase to the agency-wide staffing level or budget.

(2) The Office of Capital Markets includes 3.5 FTE dedicated to the Central Liquidity Facility.

2011 CAPITAL ACQUISITIONS

Office	Description	Useful Life Months	Months Used This Yr	Deprec Exp This Yr	Interest Exp This Yr	Total Expense This Year	Cash Outlay This Year
OCIO	Data and voice network upgrades: Hardware upgrades, switches, router replacements, and central office/regional office infrastructure upgrades	36	6	41,667	0	41,667	\$ 250,000.00
OCIO	Network printers: Printer upgrades and scheduled printer replacements	36	6	9,167	0	9,167	\$ 55,000
OCIO	Data processing upgrades: upgrades of servers, storage systems, and implementing appropriate server virtualization	36	6	41,667	0	41,667	250,000
OCIO	Network security: upgrades to firewalls, intrusion detection system and VPN	36	6	16,667	0	16,667	100,000
OCIO	Presentation equipment	36	6	5,000	0	5,000	30,000
OCIO	Storage Area Network upgrades	36	6	25,000	0	25,000	150,000
OCIO	Purchase of Computers for Additional Staff	36	6	25,000	0	25,000	150,000
OCIO	Travel System Implementation	36	6	8,333	0	8,333	50,000
TOTAL							\$ 1,035,000
OFCO/KING	Restroom, copy centers and other capitalizable repairs and maintenance	120	6	60,000	0	60,000	\$ 1,200,000
							\$ 1,200,000
TOTAL - OPERATING FUND PURCHASES				172,500	0	172,500	\$ 2,235,000