



BOARD ACTION MEMORANDUM

TO: NCUA Board **DATE:** July 13, 2015
FROM: Chief Financial Officer **SUBJECT:** 2015 Mid-Session Budget Review

ACTION REQUESTED: Board approval of the reprogrammed 2015 operating budget as documented in the Board Action Memorandum and attachment.

DATE ACTION REQUESTED: July 23, 2015

OTHER OFFICES CONSULTED: All Office Directors

VIEWS OF OTHER OFFICES CONSULTED: Budget analyses were provided by all Office Directors. Thirteen offices submitted reductions in the operating budget. Material changes are summarized in this Board Action Memorandum.

SUBMITTED TO THE INSPECTOR GENERAL FOR REVIEW: Yes

BUDGET IMPACT: The recommended actions will result in a net decrease of \$1.3 million to the FY 2015 Board-approved operating budget.

RESPONSIBLE STAFF MEMBERS: Chief Financial Officer Rendell L. Jones

OVERVIEW: NCUA conducted an annual agency-wide mid-session budget review. The budget review process uses the agency's strategic goals and objectives set forth in the *NCUA Strategic Plan 2014 through 2017* as a framework to ensure agency priorities and initiatives drive resources needs and allocations. The annual budget provides the resources to execute the strategic plan and undertake tasks supporting NCUA's major programs: examination and supervision, insurance, small credit union initiatives, consumer protection, and asset management. In addition, NCUA continues to promote stewardship of agency funds, enhancing efficiency in agency operations and reducing expenses where possible. As part of the mid-session process, all offices are directed to reexamine funding needs to ensure only the most critical items necessary to further the NCUA strategic goals are reflected in any reprogrammed funding levels.

Using the 2015-2016 Annual Performance Plan as the framework, resource levels were thoroughly evaluated during the mid-session budget review to ensure resources are adequate for implementing the agency's goals and objectives, including the following agency priorities: manage operational vulnerabilities by implementing a robust supervision framework for financial reform regulations, including interest rate risk and stress testing; prepare for and promote awareness of critical risk issues and related threats such as cybersecurity risks; develop and promote financial literacy education and consumer protection programs; develop and communicate guidance to credit unions to explain regulatory changes and best practices; and, strengthen security programs and communications. Based on this mid-session review, all of the indicators associated with these priorities are on track.

The review evaluated the agency’s budget at mid-year, projected spending through the end of the calendar year, and requests Board approval of any adjustments to the original 2015 budget. As a result of 13 offices submitting reductions in the operating budget, projections for the remainder of 2015 support a total budget reduction of \$1.3 million. These excess funds will be used to offset next year’s budget requirements and reduce operating fees which are assessed to credit unions. The 2016 budget will be presented at the open NCUA Board meeting in November.

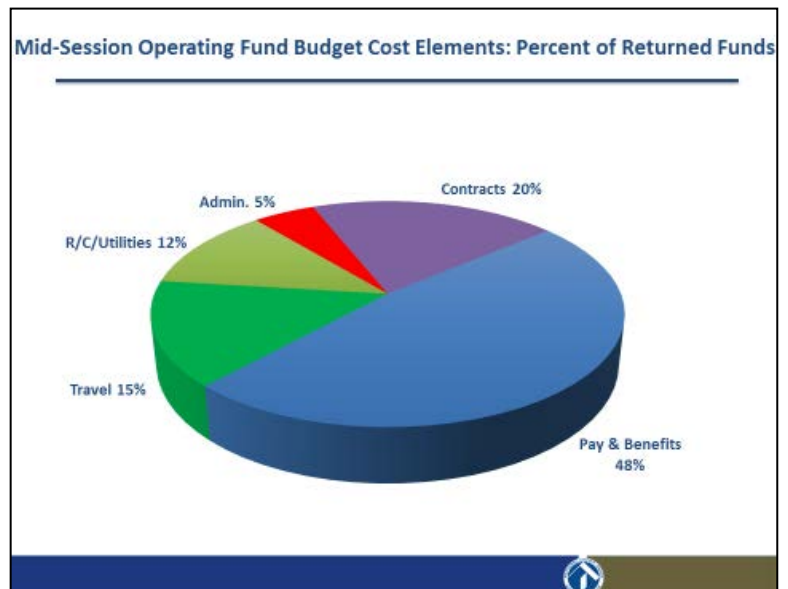
BUDGET REPROGRAMMING: Total budgeted costs for the year ending December 31, 2015 are reduced by \$1.3 million. The operating fund budget is reduced by \$2.9 million for a revised total budget of **\$276,532,779** and the capital budget is increased by \$1.6 million for a revised budget of **\$10,482,500**. There is no change to authorized staffing which remains at 1,268.7 full-time equivalents (FTE).

SUMMARY: The following table summarizes the adjustments to the original 2015 operating budget and capital budgets. **These changes require no new funds and represent a net reduction of less than one-half percent of the original budget.**

	Approved Budget	Mid-Session Reprogramming	Budget Needs
Employee Pay & Benefits	\$ 201,895,097	\$ (1,422,000)	\$ 200,473,097
Travel	29,288,793	(428,000)	\$ 28,860,793
Rent/Communications/Utilities	5,772,087	(348,000)	\$ 5,424,087
Administrative	16,334,758	(159,000)	\$ 16,175,758
Contracted Services	26,187,044	(588,000)	\$ 25,599,044
Total	<u>\$ 279,477,779</u>	<u>\$ (2,945,000)</u>	<u>\$ 276,532,779</u>
Capital Budget	8,872,500	1,610,000	10,482,500
	<u>\$ 288,350,279</u>	<u>\$ (1,335,000)</u>	<u>\$ 287,015,279</u>

1) **Employee Pay and Benefits: Net decrease of \$1,422,000.**

NCUA estimates savings of \$1.9 million from pay and benefits based on vacant positions incurred through June. While some offices are estimated to exceed the pay and benefits component of the original budget because of personnel detail assignments, temporary promotions, and other unplanned pay adjustments, the actual cost of most offices are projected to be less than planned, and will reduce pay and benefits.



In April of 2015, NCUA completed negotiations of a new five-year collective bargaining agreement (CBA). The costs associated with the new CBA will be effective for part of 2015 and funded with some of the estimated vacancy savings. There are three material changes that will require budget resources this year:

- a) The health benefits subsidy will increase by \$10 per pay period effective in October and is estimated to cost \$76,000.
- b) Effective in July, NCUA's pay bands were altered by having the minimum salary level for each grade level increased, resulting in an estimated cost of \$56,000 through December 2015.
- c) The travel nights' compensation program is modified to accommodate work/life challenges for the NCUA remote workforce who travel frequently. The initial year is expected to cost approximately \$300,000, while 2016 costs are expected to be half of that amount due to an offset from an eliminated travel reimbursement program.

2) **Travel: Net decrease of \$428,000.**

Revised estimates of exam program training schedules indicate lower travel costs. The ongoing vacancies in the regional offices are affecting the reduced demand for training and travel. The estimated travel reduction of \$475,000 is offset by an increase of \$47,000 associated with a new CBA cost reimbursement for frequent travelers who participate in the Transportation Security Administration's pre-check program.

3) **Rent, Communications, and Utilities: Net decrease of \$348,000.**

Regional offices reduced their rental expenses by \$223,000 as a result of lease re-negotiations, and lowered facility support costs by \$111,000 based on reduced meeting requirements. The extended winter weather and the rehabilitated training facility space increased central office utility costs by \$25,000. However, the overall central office rent, communications and utilities costs are expected to be lower because of tax reductions in the amount of \$39,000.

4) **Administrative: Net decrease of \$159,000.**

NCUA continues to utilize more webinars rather than in-person training events, adding to administrative savings. Personnel vacancies also reduced costs for materials and supplies, for a combined total reduction of \$62,000.

The final assessment for the Federal Financial Institutions Examination Council is \$97,000 less than planned, lowering the total reimbursement from NCUA to FFIEC to \$1.2 million.

5) **Contracted Services: Net decrease of \$588,000.**

NCUA is reducing the overall 2015 contracted services budget by nearly \$600,000. Central offices identified \$1.5 million in contract cost reductions to offset funding needed for priority enhancements to information and security requirements. The majority of these savings available for reprogramming are from delayed operations and maintenance costs.

As information security challenges continue to evolve, NCUA is committed to following the highest standards for our security policies and systems. Our stewardship responsibilities are a priority to maintain and protect the privacy and security of all NCUA personnel and credit union data.

NCUA continually assesses cybersecurity controls for safeguarding our most sensitive data and systems. These ongoing assessments take into account up-to-date cybersecurity federal guidelines, industry leading practices, and emerging threats. As a result of our most recent assessment, NCUA will expand internal monitoring and scanning capabilities. The first-year costs for this multi-year ongoing effort are expected to be \$746,800.

Other 2015 mid-session additions include a one-time cost of \$30,000 to dispose of a backlog of federal records in accordance with National Archives Records Administration directives and guidelines. Temporary labor to support records management and administrative services will cost \$57,000. The final phase of an impact study to evaluate the effectiveness of the Office of Small Credit Union Initiatives' programs and services is estimated to cost \$50,000.

6) Capital Budget: Net increase of \$1,610,000.

To keep up with current cybersecurity standards, NCUA requires enhanced data center facility capabilities and more secure services for hosting the agency's mission-critical applications and sensitive information. An investment of \$1.3 million will leverage commercially available data center facility services, which will align NCUA with commercial and government standards for data center facility security and redundancy for sustaining appropriate levels of systems and services availability. This improvement will readily accommodate emerging and future NCUA technology, information technology security and data growth requirements. In addition, safety upgrades are required for the central office and estimated to cost \$150,000.

Finally, equipment upgrades that support NCUA's remote and mobile workforce are expected to cost \$160,000. These investments will include technology tools that enhance productivity and also enable NCUA's decentralized workforce to work more efficiently in places where it is unsuitable or inconvenient to use laptop computers.

RECOMMENDATION: It is recommended that the NCUA Board approve the following items:

1. Reprogram the 2015 operating budget with a net decrease of \$2,945,000, resulting in a budget of \$276,532,779 as presented in Attachment 1.
2. Reprogram the 2015 capital acquisitions budget with an increase of \$1,610,000 for a revised total of \$10,482,500.

Chief Financial Officer

Attachment