



BOARD ACTION MEMORANDUM

TO: NCUA Board **DATE:** November 18, 2015
FROM: Office of the Chief Financial Officer **SUBJ:** FY 2016/2017 Budget

ACTION REQUESTED: Board approval of the 2016/2017 Operating Budget, Capital Budget, and Temporary Corporate Credit Union Stabilization Fund Budget.

DATE ACTION REQUESTED: November 19, 2015

OTHER OFFICES CONSULTED: All Regional and Central Office Directors and Executive Director

VIEWS OF OTHER OFFICES CONSULTED: Concur

BUDGET IMPACT: 2016 Operating Budget: \$290.9 million (4.1 percent increase), with 1,247 full-time equivalents (1.7 percent reduction).

2017 Operating Budget: \$302.9 million (4.1 percent increase), with 1,247 full-time equivalents (no change).

2016 Corporate Stabilization Fund Budget: \$4.0 million (2.4 percent reduction), with five full-time equivalents (no change).

2017 Corporate Stabilization Fund Budget: \$4.1 million (1.8 percent increase), with five full-time equivalents (no change).

2016 Capital Budget: \$10.1 million

2017 Capital Budget: \$13.7 million

SUBMITTED TO INSPECTOR GENERAL FOR REVIEW: Yes

RESPONSIBLE STAFF MEMBERS: Chief Financial Officer Rendell L. Jones

AUTHORITY: Per the Federal Credit Union Act, the management of the Administration is vested in the National Credit Union Administration Board. It is the Board's responsibility to determine the expenses necessary to carry out its responsibilities under the Act. The Board is authorized to expend such funds and perform such other functions or acts as it may deem necessary or appropriate in accordance with the rules and regulations or policies established by the Board. § 1766(i)(2)

Upon determination of the budgeted expenses, the Board determines a fee schedule with respect to federal credit unions, giving consideration to the expenses of the Administration in carrying out its responsibilities in connection with federal credit unions and the ability of federal credit unions to pay a fee. § 1755(a)-(b). That fee schedule is documented in the separate Operating Fee Board Action Memorandum. Fees collected are required to be deposited with the Treasurer of the United States for the account of the Administration, and expended by the Board to defray the expenses incurred in carrying out the agency's operations, including the examination and supervision of federal credit unions. § 1755(d). Pursuant to the Overhead Transfer Rate, which is documented in a separate BAM, the Board transfers additional National Credit Union Share Insurance Fund resources to its Operating Fund on a monthly basis to account for budgeted expenses related both to federal credit unions and federally insured, state-chartered credit unions, in accordance with its authority to use the Share Insurance Fund to carry out its responsibilities. § 1783(a).

At the end of the calendar year, NCUA's financial transactions are subject to audit in accordance with Generally Accepted Accounting Principles. §§ 1783(b) & 1789(b).

Public Law 111-22, the Helping Families Save their Homes Act of 2009, created the Temporary Corporate Credit Union Stabilization Fund to accrue the losses of the corporate credit union system and, over time, assess the credit union system for the recovery of such losses. Pursuant to the Federal Credit Union Act, the NCUA Board administers the Stabilization Fund. 12 U.S.C. § 1790e(a)-(b). The Board must submit certifications and annual reports to Congress, and the Stabilization Fund's operations are subject to audit in accordance with GAAP. §§ 1789(b) & 1790e(b)(2), (g). The NCUA Board adopts an annual budget in connection with anticipated payments for administration of the Stabilization Fund under 12 U.S.C. § 1790e(a) and (b)(1).

BACKGROUND: This memorandum recommends that the NCUA Board approve the proposed 2016 Operating Budget of \$290,915,928 and 1,247 full-time equivalents (FTE) and 2017 Operating Budget to \$302,961,338 and 1,247 FTEs.

NCUA's budget 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 resulting resource needs and allocations. The annual budget provides the resources to execute against the strategic plan and undertake tasks in NCUA's major programs: examination and supervision, insurance, small credit union initiatives, consumer protection, and asset management. The Strategic Plan also identifies NCUA's goals and objectives including the following Agency Priority Goals: 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.

Each Regional and Central Office Director developed a budget request identifying resources required to support NCUA's mission and strategic goals and objectives. These budgets were

developed using zero-based budgeting techniques to ensure each office's requirements were individually justified and consistent with the agency's overall strategic plan. One of the primary inputs in the development process is a comprehensive workload analysis that captures the amount of time necessary to conduct examinations and supervision of federally insured credit unions in order to carry out NCUA's dual mission as insurer and regulator. This process starts with a field-level review of every credit union to determine the number of workload hours needed for the current year. The workload estimates are refined by field management until the final budget proposal is completed and forwarded to the Central Office for review and analysis. The final workload analysis establishes the foundation for NCUA's five Regional Office budget requests and for the Office of National Examinations and Supervision, representing approximately 73 percent of NCUA personnel. In addition to the workload analysis, which is used to develop personnel and travel costs, all offices developed cost estimates for fixed and recurring items such as rent or leased property, operations and maintenance, repair on owned facilities, supplies, telecommunications, and other administrative and contracted services costs.

All office budget submissions within NCUA underwent thorough reviews by the responsible Regional and Central Office Directors, the Chief Financial Officer, and the Executive Director. In addition, NCUA's Information Technology Prioritization Council met to consider, analyze and prioritize software initiatives and align those information technology investments with NCUA's mission. These focused reviews result in a mutually agreed-upon budget to support NCUA's top priorities.

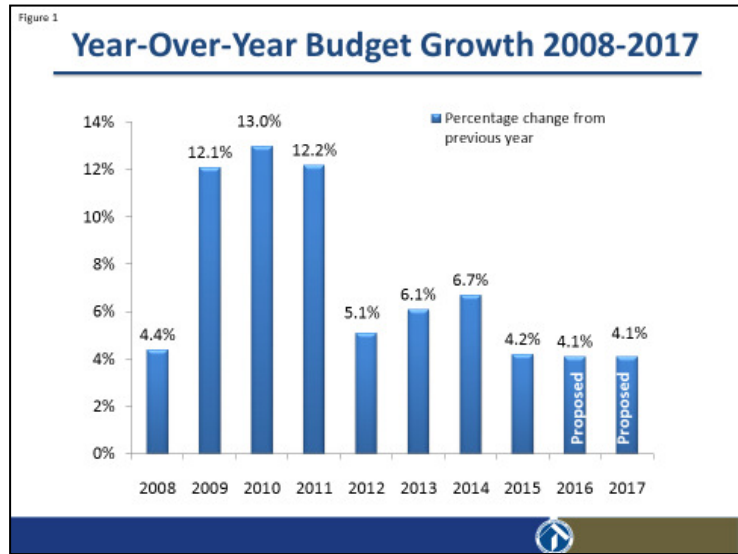
For reporting purposes and comparability with the practices of other Financial Institutions Reform, Recovery and Enforcement Act agencies, comparisons to last year's approved budget are included in this document. A summary description of the major spending items in each budget category is included to provide improved transparency and understanding of how the budget resources will be used. Attachment 1 details the breakout of the proposed 2016 budget by office.

Further, NCUA will provide supporting documentation for this request on the NCUA website to assist the public in understanding its budget development process.

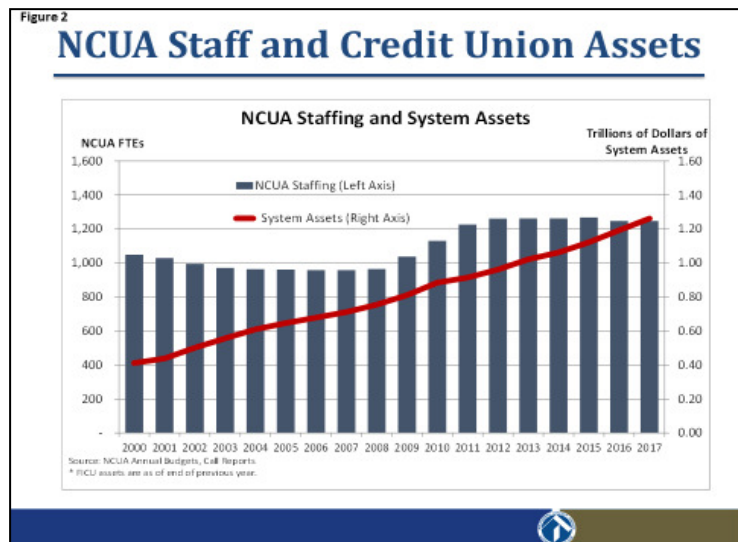
As NCUA continues to normalize its operations from the post-recession crisis, the agency is reinstating its prior practice of presenting a two-year budget. The budget estimates for 2017 represent NCUA's current estimate of operating costs for 2017 at this time.

This memorandum also recommends that the NCUA Board approve the proposed 2016 Stabilization Fund budget of \$4,022,868, a decrease of 2.4 percent from the 2015 Stabilization Fund budget with no change in staffing. A portion of the 2016 Stabilization Fund budget would fund five full-time equivalents, which is unchanged from prior years, and included in the total staffing level proposed in NCUA's 2016 Operating Fund budget. These costs would enable NCUA to manage and support approximately \$20 billion of complex securities over 12 separate trusts. The legacy assets included in these trusts consist of over 2,000 investment securities, secured by approximately 1.6 million residential mortgages, as well as commercial mortgages and other securitized assets.

SUMMARY: The proposed 2016 budget of **\$290,915,928** represents an increase of **4.1 percent** or **\$11,438,149 over** the 2015 budget of \$279.5 million. As Figure 1 shows, this represents the smallest percentage budget increase in nine years. The budget increase reflects necessary funding to ensure successful execution of the agency’s mission and strategic plan.



The 2016 budget proposes a decrease to authorized staffing levels, by eliminating 26.4 full-time equivalents. The new authorized level of **1,247.0**, a 1.7 percent decrease, is below the 2011 level. As seen in Figure 2, while NCUA staffing growth lagged behind credit union asset growth in the past, strides have been made since 2009 to rectify¹.



The components of the 2016 and 2017 budget as compared to the 2015 budget are:

¹ Source data: NCUA Annual Budget, Call Reports. FICU assets for 2015 are estimated.

Category	2015 Budget	2016 Budget	2017 Budget	\$ Change 2015-2016	Percent Change	Percent of Total Budget
Employee Pay	145,784,472	151,053,793	157,700,160	\$ 5,269,321	3.6%	52%
Employee Benefits	\$ 56,110,625	\$ 59,874,605	\$ 62,568,962	\$ 3,763,980	6.7%	21%
Employee Pay and Benefits	\$ 201,895,097	\$ 210,928,398	\$ 220,269,122	\$ 9,033,301	4.5%	73%
Travel	29,288,793	29,293,388	29,586,321	\$ 4,595	0.0%	10%
Rent, Communications & Utilities	5,772,087	6,765,525	6,934,663	993,438	17.2%	2%
Administrative	16,334,758	15,701,976	15,827,592	(632,782)	-3.9%	5%
Contracted Services	26,187,044	28,226,641	30,343,640	2,039,597	7.8%	10%
Total	\$ 279,477,779	\$ 290,915,928	\$ 302,961,338	\$ 11,438,149	4.1%	100%
Capital Budget	8,872,500	10,068,920	13,671,826	1,196,420		
TOTAL Operating and Capital	288,350,279	300,984,848	316,633,164	12,634,569		

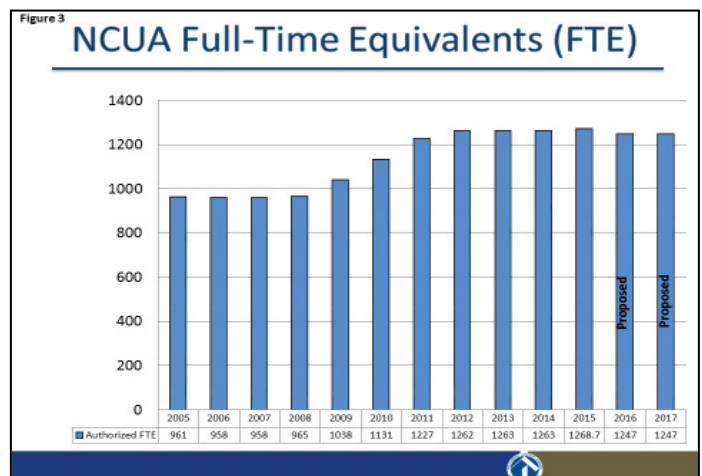
Stabilization Fund

The Stabilization Fund budget of \$4,022,868 includes the costs of the NCUA Guaranteed Notes Securities Management and Oversight Committee as well as costs incurred by other NCUA offices in support of the Corporate System Resolution Program. As presented in Attachment 3, the 2016 budget represents a decrease of 2.4 percent, or \$98,651, from the 2015 budget of \$4,121,519. The estimated 2017 costs for personnel, travel, training, and contracted services are essentially flat at \$4,095,413 with some inflationary salary and benefit changes expected. These costs will be funded from the Stabilization Fund and have no impact on the NCUA Operating Fund budget. The Stabilization Fund budget includes no change in staffing.

SIGNIFICANT 2016 BUDGETARY CHANGES:

Staffing Changes:

NCUA's budget proposes to reduce 26 credit union examiner positions and reallocate four of the FTEs to add mission support staff to further sustain the stated priorities of a robust supervision framework and strengthening security programs. If approved, the reduction will occur through attrition—that is, naturally over time, in an orderly and deliberate fashion.



The reduction is primarily a direct result of NCUA modifying its state examination program to align with National Supervision Policy Manual requirements. This means NCUA examiners will be going into fewer state-chartered credit unions. NCUA's workload in federal credit unions and federally insured state credit unions that will be completed in 2016 is based on the regional submission and hours for these examinations. Regions are maintaining sufficient hours in the workload budget to account for and respond timely to emerging issues.

NCUA will use fewer generalist examiners in 2016. The decline in the number of generalist examiners is a result of the full implementation of the Small Credit Union Examination Program and a revised FISCO examination schedule which leverages the onsite examination work of the state supervisory authorities. The decline in the number of generalist examiners also aligns with the reallocation of resources from generalist examiners to specialists in order to provide support in higher risk areas, such as lending, capital markets, and information technology. Employing specialists as well as training examiners to become specialists adds expertise commensurate with the increasing sophistication of credit union operations so that NCUA is better equipped to address these risks going forward. This rightsizing enables NCUA to maintain an examination workforce of sufficient size to adequately supervise the entire economic cycle of risk to the Insurance Fund, and ultimately to taxpayers, and enforce the laws and regulations that protect consumers and the integrity of the financial system.

In total, the proposed budget reflects a net decrease of 21.7 authorized FTEs. In addition to reducing FTEs in the field by 26, NCUA's budget proposes to add four critical positions as outlined below.

1. Supervision – To support NCUA's priority of implementing a robust supervision framework, it is recommended that two new staff positions be added:
 - a. The Office of Human Resources requests a new position to substitute for a contractual position to coordinate training logistics information, travel arrangements, voucher submissions, and other training activities with hundreds of state examiners who attend NCUA training and NCUA-sponsored Federal Financial Institutions Examination Council training. Implementation of this position will permit NCUA to eliminate a contractual position which has served this purpose. In addition, the position would also assist with various aspects of training delivery in Central Office as well as off-site locations, including class enrollment logistics, and evaluations in the Learning Management System. The new position would also perform other duties to support NCUA's training program which has grown substantially in the last 10 years.
 - b. The Chief Information Officer requests a new position to serve as Information Technology Project Manager to bolster NCUA's most complex technology project, the Automated Integrated Regulatory Examination System (AIRES), that supports credit union supervision and examination functions. This position is needed to properly manage the multi-year examination modernization program that will revamp a 20-year old examination platform.

2. Security Programs – To support and enhance NCUA’s critical security programs, it is recommended that two new positions be added:
 - a. A Personnel Security Specialist for the Office of Continuity and Security Management to support NCUA’s personnel security efforts. The additional Personnel Security Specialist would ensure that NCUA continues to conduct appropriate suitability and security clearance determinations as required by Executive Orders and other rules and regulations for all NCUA employees and contractors.
 - b. A Privacy Specialist for the Office of General Counsel to support the agency’s privacy program. The Senior Agency Official for Privacy, located in OGC, has primary oversight responsibility for the privacy program, particularly privacy management policies and processes. The privacy program applies to all NCUA business practices and information systems, and must adhere to legal requirements imposed under the Privacy Act of 1974, and the Electronic Government Act of 2002, as well as standards established by the National Institute of Standards and Technology for the protection of personally identifiable information. The following elements will be implemented with the privacy program: leadership, privacy risk management and compliance documentation, incident response, notice and redress of individuals, privacy training and awareness, and accountability.

Employee Pay and Benefits:

The employee pay and benefits expense category’s net increase of \$9.0 million would bring the total 2016 cost of pay and benefits to \$210.9 million, a 4.5 percent change, as compared to 2015.

Pay and benefits represent approximately 73 percent of the total budget request. A major driver of the increase is merit and locality pay increases, in accordance with NCUA’s Collective Bargaining Agreement. NCUA’s compensation continues to “maintain comparability with other federal bank regulatory agencies” as stipulated in the Federal Credit Union Act². Consistent with other federal pay systems, NCUA’s compensation includes base pay and locality pay components. NCUA staff will be eligible to receive an average merit-based increase of 4 percent to their base pay and a locality pay adjustment ranging from 0-to-3 percent depending on location. In addition, the cost for the net increase of four new positions proposed is estimated to be \$450,000, and assumes these personnel will be on board for one-half of the year to account for the hiring and on-boarding process. The increases by office will vary based on current staff pay levels, position changes and promotions.

OPM recently announced the government’s portion of the Federal Employees Health Benefits program will increase an average of 6.4 percent in 2016. The estimated costs of NCUA’s health benefits in 2016 are expected to total \$11.9 million.

² The Federal Credit Union Act states that, “In setting and adjusting the total amount of compensation and benefits for employees of the Board, the Board shall seek to maintain comparability with other federal bank regulatory agencies.” 12 U.S.C. Section 1766(j)(2).

The employee pay and benefits category also includes increased costs associated with promotions, position changes, and other mandatory employer contributions such as Social Security, retirement, transportation subsidies and workers' compensation.

NCUA also projects savings in the employee pay and benefits line item. The planned reduction of 26 examiner personnel is estimated to save \$4.1 million. Benefit costs were adjusted downward by \$500,000 associated with lower-than-anticipated employee participation in NCUA benefit programs. Also, the agency adjusted its assumptions related to staff turnover to better reflect pay and benefits for more experienced personnel that continue to separate from NCUA with retirements, and are assumed to be replaced by a combination of entry-level and midcareer employees.

The Stabilization Fund budget employee pay and benefits expense category is estimated to be \$1,134,352, which represents a net increase of \$96,273, and is 28 percent of the total Stabilization Fund budget. This represents a 9 percent increase compared to the 2015 budget. The five FTEs are unchanged. Four of the staff funded by the Stabilization Fund budget are part of NCUA's Central Office, while one is a member of the Asset Management and Assistance Center. The financial analysts on the NGN team have specialized technical expertise to manage the \$20 billion in legacy assets that securitize the NGNs.

Travel:

Travel comprises 10 percent of the overall 2016 budget proposal and reflects virtually no increase over 2015. The total travel budget of \$29.3 million includes expenses to cover per diem and lodging, air fare, reimbursements for privately owned vehicle usage, auto rentals, and other travel costs. These are necessary expenses for examiners' on-site work in credit unions. A total of 64 percent of NCUA's workforce is comprised of virtual field staff who spend over 30 percent of their time traveling to conduct the annual examination and supervision program, and to a lesser degree to attend training. Although the standard lodging per diem rates for fiscal year 2016 will increase for the second year, the overall travel costs will be reduced in line with the reduction of 26 credit union examiners. These savings will also offset any travel cost increases associated with the 2016 National Exam Program Training set for April. The proposed budget also reflects travel savings of \$245,000 associated with reduced training-related travel.

Travel to support the Stabilization Fund is estimated to be \$66,025, and is 2 percent of the budget and decreases 10 percent from last year's budget estimate. These costs cover all of the travel expenses for the five FTEs that manage and support the NGN program. Two of the five staff are remote employees and expect to travel routinely to the Central Office and AMAC. The travel also includes trips to review and perform oversight over the contract management of the NGN portfolio.

Rent, Communications, and Utilities:

Rent, communications, and utilities proposed at \$6.8 million is the smallest component of NCUA's budget and covers mainly the agency's telecommunications and network expenses. Lease and rental expenses as well as utilities and postage are also part of this spending category. Total expenses are expected to increase 17 percent, or a net amount of \$993,738 over the 2015 budget. Approximately \$1.1 million of the increase is attributed to the 2015 Board-approved mid-session investment in the new data center that will leverage commercially available data center facility services, and will align NCUA with commercial and government standards for data center facility security and redundancy for sustaining appropriated levels of systems and services availability. This improvement will readily accommodate emerging and future NCUA technology, information technology security and data growth requirements. Telecommunication costs will support expansions to existing broadband and network connections to provide continued improvements to data capacity and reliability.

The proposed budget includes \$211,000 of estimated savings as a result of lease renegotiations and a reduction in postal expenditures.

Administrative Expenses:

Administrative expenses in the amount of \$15.7 million primarily include depreciation and amortization expenses of capital acquisition and software licenses that support operational requirements, FFIEC fees, relocation expenses, and employee materials and supplies. These costs are expected to decrease by a net cost of \$622,782, or 4 percent, for a total budget of \$15.7 million.

Software licensing fees will increase by \$210,000 for both new licenses and for inflationary increases on existing licenses. These licenses provide critical administrative and analytical tools for examiners to strengthen off-site monitoring, perform asset valuation and risk metrics, enhance statistical surveillance of credit union risks and program efficiencies, and further improve program consistency.

The proposed budget also includes an increase of \$735,000 to operations and maintenance software support. This is predominantly for the new modernized consumer protection call center system that supports a timely and efficient consumer complaint process. Other operation and maintenance costs will support newly implemented systems that support security and personnel management.

New initiatives with minority depository institutions, including facilitation services and other general outreach events, enhanced reporting tools, and other support costs are expected to increase costs to the Office of Minority and Women Inclusion by \$47,825.

NCUA reduced the cost of annual furniture expenses, printing, and subscriptions from 2015 by \$288,000. A reduction of \$62,000 is also expected for office supplies and regional meeting support costs and continued use of new technologies, such as webinars and video conferencing that reduce the number of on-site examiner group meetings.

Contracted Services:

Contracted services is budgeted at \$28.2 million for 2016. The request represents an increase of \$2.0 million, or 8 percent, over the 2015 budget and supports NCUA's top priorities of implementing a robust supervision framework, promoting awareness of critical risks and related threats, developing financial literacy and consumer protection programs, providing guidance to credit unions, and strengthening security programs. The contracted services line items of the budget reflect costs incurred when products and services are acquired in the commercial marketplace through a competitive process for all contracts over \$7,500. These services include critical mission support such as information technology hardware and software development support, accounting and auditing services, and specialized subject matter expertise that enable NCUA to meet its mission. Contracting specific expertise is often a cost-effective approach to support NCUA's mission.

The majority of contract services funding is related to NCUA's priority goal to implement a robust supervision framework, which includes identifying and resolving traditional risk concerns such as interest rate risk, credit risk and concentration risk, as well as new and evolving operational risks including cybersecurity risks.

A portion of the funding requested for this category is for recurring infrastructure costs such as contracted services that maintain a number of NCUA systems including critical legacy systems such as AIRES and CU Online. Other examples include:

- Funding to meet training requirements of the examiner workforce. NCUA's most important resource is a highly qualified, skilled workforce. It is important that staff have the proper knowledge, skills, and abilities to perform assigned duties and meet emerging needs. Examiners are required to complete seven new examiner training classes and four on-the-job training periods, followed by training in core areas such as capital markets, consumer compliance, and specialized lending. The proposed budget includes a total of \$5.9 million in support of NCUA's overall training needs. This includes delivering approximately 35 training classes, four training events, and 50 skills, training, and examiner practice training sessions in 2016, equaling over 350 training days with over 2,000 training seats for NCUA examiners and state supervisory authorities. Contract resources will be used to modify and strengthen NCUA examiner training in member business lending, fraud prevention and detection, cybersecurity and other financial services. In addition to supporting the agency's programmatic priorities, employee development supports the strategic goal to cultivate an environment that fosters a diverse, well-trained and motivated staff. These training resources also include professional development planned for the National Exam Program Training scheduled for April 2016.
- Information security program costs. As approved during the 2015 mid-session, an investment of \$2 million is needed to strengthen NCUA's security program to comply with the Federal Information System Management Act and provide comparable industry best

practices and updates with the latest security safeguards and controls to address the ongoing systemic risks posed by cyberattacks.

- Funds for agency financial management services, human resources technology support, and payroll services. NCUA contracts for these services with the U.S. Department of Transportation's Enterprise Service Center and the U.S. General Services Administration. In 2016, the proposed budget also includes \$600,000 to support NCUA's acquisition of a procurement system which integrates with the accounting system. This investment would substantially improve all aspects of NCUA's contracting function, including acquisition planning, contract administration, and externally mandated reporting requirements.
- Funds to conduct the annual audit for NCUA's five funds.

Various examination and insurance projects that support cybersecurity examination implementation, member business lending and fraud training, are some of the ongoing initiatives to improve staff expertise, knowledge management, and risk management to address the growing complexity in the credit union system. These projects and other economic risk modeling efforts are part of recurring contracted services expected to cost around \$900,000.

To comply with federally mandated security regulations, including building guard services and other security support, additional NCUA security cost increases are estimated to be \$236,000 in 2016. Mandatory costs associated with the personally identifiable verification program and background investigation checks are estimated to increase \$118,000. This includes cost increases charged by the U.S. Office of Personnel Management for five-year personnel security reinvestigations.

Currently 82 percent of all credit unions are eligible for small credit union services under the recently revised threshold that defines small credit unions up to \$100 million in assets, in addition to increases in the number of credit unions receiving designations as Low-Income Credit Unions and Minority Depository Institutions. To provide effective services to a growing credit union client base, NCUA's Office of Small Credit Union Initiatives continues to expand its outreach efforts. The budget request includes \$124,000 to develop an electronic learning management portal to support varying levels of educational material for small credit unions, provide guidebooks on loan programs and member business lending, and provide follow-up to the OSCUI impact study to support small credit unions and outreach efforts.

NCUA has reviewed its current material contracts, and where applicable, recurring contracts have been competed again to obtain the best value, resulting in reduced costs of \$235,000.

Contract costs for the Stabilization Fund are estimated to be \$2.8 million, which is 6.3 percent less than 2015. Outside professional services such as external valuation experts, tax consultants, financial specialists, and accountants are needed to assist NCUA with the following types of services:

- 1) Valuation Services in the amount of \$1,050,000 base cost for the 2016 calendar year per the five-year contract, plus another \$200,000 to fund additional valuation analyses. As supported by the NGN Oversight Committee, additional resources are needed to run special analyses.
- 2) Consulting Services in the amount of \$795,491 would support two central offices within NCUA: Examination and Insurance and the Chief Financial Officer. Support services will include the quarterly due diligence process on contract valuations as well as analyses on emerging issues. Support for the annual financial audit process and emerging issues will also be provided by contractors. Some of the tasks include supporting complex accounting and financial requirements for settlements, sale of legacy assets, parity payments, changing valuation model assumptions, and disposition planning such as re-securitization. Other accounting services include performing internal control assessments and providing accounting services in support of the annual financial statement audit.
- 3) Software and Data Subscription Services in the amount of \$763,000 would support standard tools that provide waterfall models, calculations, and metrics for the structured investment products underlying the NGN portfolio. The service provides coverage of all relevant asset classes, waterfall models that are seasoned and tested throughout the financial services industry, and a broad array of calculations and metrics. Financial analytics data play a critical role in the surveillance, modeling, and pricing of the legacy assets that comprise the NGN Trusts, as well as supporting the due diligence NCUA performs on the cash flow projections provided by its contract support.

Capital Acquisitions:

An itemized listing for \$10.1 million of capital acquisitions is provided in Attachment 2.

A total of \$6.4 million is requested for information technology software development projects approved by NCUA's Information Technology Prioritization Council. The following six projects represent a highly scaled priority list reduced significantly from the original requests submitted by all of NCUA's offices. The top three priorities represent core mission support of the NCUA examination program to modernize decades-old legacy systems that are critical tools in the credit union examination process.

- \$2.7 million – This investment is critical to redesigning AIREs to manage the supervision and examination functions.
- \$494,239 – This investment is critical to replace and modernize the current legacy system that supports call report processing.
- \$1.8 million – This investment in business intelligence tools would strengthen analysis and reporting as well as standardize NCUA data.
- \$1.0 million – Replacement of the current field of membership systems that support the chartering process is very important to federal credit unions. These are official systems of records to support chartering, tracking and reporting on federal credit unions' field of membership applications and approvals.

- \$300,000 – This investment in an enterprise records management system is required to comply with new federal security requirements outlined by the National Archives Records Administration.
- \$113,000 – This investment in the human resource component of NCUA’s administrative legacy system would enable the final upgrades needed to support and interface personnel data with other modern systems.

A total of \$2,550,000 is requested for information technology hardware including the second year lease payment of NCUA staff laptops. A new security requirement to comply with Federal Information Security Management Act requirements will improve system access times as well as reduce costs over time. Continuing investments in malware detection software would strengthen NCUA’s cyber security tools. Some one-time costs to refresh end-of-life hardware are needed for production servers and other technology equipment. NCUA’s cost sharing portion to support the new Home Mortgage Disclosure Act is expected to be \$750,000 per year for the next three years, and is included in the \$2,550,000.

A total of \$1.1 million is requested for Central Office building improvement projects. Renovation of the vacated space in the Central Office from former training rooms is designed to ensure the Central Office space will be used more efficiently and avoid the expense of purchasing or leasing additional space outside of the central office.

Replacement of the Central Office building elevators would be implemented as a two-year project to modernize the equipment and ensure reliable and safe long-term operations. The existing system has become very difficult to maintain as technologically obsolete parts are no longer being manufactured. Current reliability falls well below industry standards and the equipment is no longer capable of meeting performance and reliability guidelines. Other minor building improvements will support water drainage work needed to maintain and protect the foundational integrity of the building.

OUT-YEAR BUDGET

The 2017 budget of \$302.9 million represents an increase of 4.1 percent compared to the 2016 budget request. The assumptions vary for each of the budget categories. The pay and benefits growth is consistent with the CBA and also includes attrition estimates. Non-recurring costs such as the National Exam Program Training planned for 2016 will minimize the growth in travel in 2017, while other capital and information technology items are expected to have increased operations and maintenance costs in 2017.

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

1. The 2016 Operating Budget of \$290,915,928 and 1,247 FTEs, and the 2017 Operating Budget of \$302,961,338 and 1,247 FTEs as presented in Attachment 1.
2. The 2016 capital acquisitions of \$10,068,920 and the 2017 capital acquisitions of \$13,671,826 as presented in Attachment 2.

3. The 2016 budget of \$4,022,868 and 2017 budget of \$4,095,413, as presented in Attachment 3, for oversight of the Temporary Corporate Credit Union Stabilization Fund as required by the Corporate System Resolution Program.

ATTACHMENTS:

- 2016/2017 Operating Fund budget by office
- 2016/2017 Capital acquisition schedule
- 2016/2017 Stabilization Fund budget

2016/2017 NCUA PROPOSED BUDGET

Office	2015 Initial Budget	2016 Recommended Budget	2017 Recommended Budget	2016 Budget change from 2015 Budget		2017 Budget change from 2016 Budget		Full-Time Equivalents		
								2015	2016/17	Change
Office of the Board	2,850,042	2,935,680	3,061,912	85,638	3.0%	126,232	4.3%	12.00	12.00	-
Office of the Executive Director	1,793,729	1,810,929	1,895,430	17,200	1.0%	84,501	4.7%	6.00	6.00	-
Office of Continuity and Security Management	2,750,006	3,729,940	3,943,218	979,935	35.6%	213,278	5.7%	9.00	10.00	1.00
Office of Minority and Women Inclusion	2,904,336	2,935,637	3,079,363	31,301	1.1%	143,726	4.9%	11.00	11.00	-
Office of the Chief Economist	1,608,104	1,785,741	1,855,359	177,637	11.0%	69,618	3.9%	7.00	7.00	-
Office of Consumer Protection	9,371,573	9,535,944	9,908,146	164,371	1.8%	372,202	3.9%	44.00	44.00	-
Office of the Chief Financial Officer	20,954,174	19,995,617	20,762,856	(958,557)	-4.6%	767,239	3.8%	39.00	39.00	-
Office of the Chief Information Officer	23,615,383	29,004,822	30,452,616	5,389,439	22.8%	1,447,794	5.0%	37.00	38.00	1.00
Office of National Examinations and Supervision	10,095,601	10,479,185	10,896,724	383,584	3.8%	417,539	4.0%	38.00	38.00	-
Office of Small Credit Union Initiatives	5,925,076	6,374,355	6,645,626	449,279	7.6%	271,270	4.3%	28.00	28.00	-
Office of Examination & Insurance	11,374,469	11,574,931	12,077,623	200,462	1.8%	502,692	4.3%	48.50 (1)	49.00	0.50
Office of General Counsel	6,731,200	7,145,754	7,463,329	414,554	6.2%	317,575	4.4%	28.60	29.80	1.20
Office of Inspector General	3,696,971	3,638,611	3,836,878	(58,360)	-1.6%	198,267	5.4%	10.00	10.00	-
Office of Human Resources	14,615,830	15,547,400	16,165,641	931,570	6.4%	618,241	4.0%	41.00	42.00	1.00
Office of Public and Congressional Affairs	1,823,235	2,007,270	2,110,237	184,035	10.1%	102,968	5.1%	7.00	7.00	-
Region I - Albany	29,018,875	29,490,209	30,660,102	471,334	1.6%	1,169,893	4.0%	171.00	166.00	(5.00)
Region II - Capital	30,438,021	30,778,661	32,018,276	340,640	1.1%	1,239,615	4.0%	175.00	172.00	(3.00)
Region III - Atlanta	30,365,620	30,941,703	32,150,283	576,083	1.9%	1,208,581	3.9%	172.00	166.00	(6.00)
Region IV - Austin	31,249,269	32,071,828	33,304,689	822,559	2.6%	1,232,861	3.8%	176.60	168.20	(8.40)
Region V - Tempe	31,882,959	32,210,204	33,454,697	327,245	1.0%	1,244,493	3.9%	170.00	166.00	(4.00)
Asset Management & Assistance Center	6,413,306	6,921,507	7,218,333	508,201	7.9%	296,825	4.3%	38.00 (2)	38.00	-
Total	\$ 279,477,779	\$ 290,915,928	\$ 302,961,338	\$ 11,438,149	4.1%	\$ 12,045,410	4.1%	1,268.7	1,247.0	(21.7)

(1) E&I includes 7.5 FTE related to other NCUA funds; 3.5 FTE are paid for by the Central Liquidity Facility and 4.0 FTE are paid for by the Stabilization Fund.

(2) AMAC includes 1.0 FTE paid for by the Stabilization Fund.

CAPITAL INVESTMENTS AND ACQUISITIONS

Description	2016 Budget	2017 Budget
Information technology software development investments approved by Information Technology Policy Council	\$ 6,428,920	\$ 9,400,000
Automated Integrated Regulatory Examination System (AIRES) redesign will improve the primary program exam tool used to manage credit union supervision and examination functions. This system is a critical and primary information source for documenting the industry health, safety and soundness.	\$ 2,704,681	\$ 8,000,000
CU-online System replacement system to modernized current legacy systems that support call report processing.	\$ 494,239	\$ 1,400,000
Business Intelligence Tools and Data analytics expansion to strengthen analysis and reporting and standarizing NCUA data.	\$ 1,817,000	
GENESIS system and field of membership replacement that support credit union chartering process. These are official systems of record to support chartering, tracking and reporting on credit unions.	\$ 1,000,000	
Enterprise Records management Solution to comply with National Archives Records Administration requirements for all Federal agencies to implement an electronic email management system by 2016.	\$ 300,000	
Administrative Legacy Systems Replacement (SAP) to complete final system transition to support human resource services for NCUA.	\$ 113,000	
Other Information technology investments	\$ 2,550,000	\$ 2,525,000
Network Storage Device - Upgrade Expansion		\$ 185,000
Network Storage Controller Refresh		\$ 150,000
Desk Phone (VoIP) Upgrade		\$ 350,000
Video Telecom Conferencing Gateway Refresh		\$ 175,000
NCUA Laptop lease (year 2 of 3-year agreement)	\$ 915,000	\$ 915,000
Home Mortgage Disclosure Act system development cost sharing	\$ 750,000	\$ 750,000
Implement FISMA - Required Two Factor Authentication to improve system security and minimize cost and time for system access.	\$ 500,000	
Strengthen malware detection software	\$ 250,000	
Refresh End-of-life Hardware (production servers, router and profiler)	\$ 135,000	\$ -
Capital building improvements and repairs	\$ 1,090,000	\$ 1,746,826
Central office elevator replacement	\$ 340,000	\$ 1,246,826
Central office building renovations	\$ 650,000	\$ 500,000
Central office building improvements	\$ 100,000	
TOTAL CAPITAL ACQUISITIONS	\$10,068,920	\$ 13,671,826

2016/2017 STABILIZATION FUND OVERSIGHT BUDGET

By Cost Category	2015 Budget	2016 Budget	2017 Budget	Change 2015-16	%	Change 2016-17	%	Full-Time Equivalents		
								2015	2016/17	Change 2015 - 2016/17
Employee Pay and Benefits	\$ 1,038,079	\$ 1,134,352	\$ 1,207,922	\$ 96,273	9%	\$ 73,570	6%	5.00	5.00	0.0
Travel	73,440	66,025	65,000	(7,415)	-10%	\$ (1,025)	-2%			
Administrative (Training)	11,000	14,000	14,000	3,000	27%	\$ -	0%			
Contracted Services										
Consulting	992,000	795,491	795,491	(196,509)	-20%	\$ -	0%			
Valuation Services	1,250,000	1,250,000	1,250,000	-	0%	\$ -	0%			
Software/Data Subscriptions	757,000	763,000	763,000	6,000	1%	\$ -	0%			
Total	\$ 4,121,519	\$ 4,022,868	\$ 4,095,413	\$(98,651)	-2.4%	\$ 72,545	1.8%	5.00	5.00	0.0