



BOARD ACTION MEMORANDUM

TO: NCUA Board **DATE:** July 24, 2008
FROM: Chief Financial Officer **SUBJECT:** FY 2008 Mid-Session Budget Review

ACTION REQUESTED: Board approval of the reprogrammed 2008 operating budget as documented in the Board Action Memorandum and attachments.

DATE ACTION REQUESTED: July 24, 2008

OTHER OFFICES CONSULTED: All Office Directors

VIEWS OF OTHER OFFICES CONSULTED: Budget analyses provided by all office directors are summarized in this Board Action Memorandum.

SUBMITTED TO THE INSPECTOR GENERAL FOR REVIEW: Yes

BUDGET IMPACT: The recommended actions will result in no increase to the FY 2008 Board approved budget.

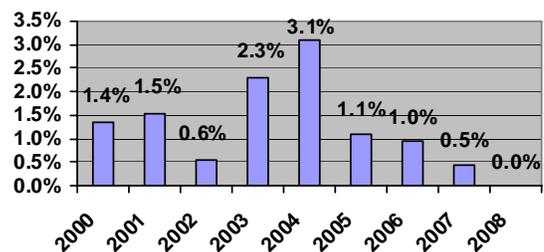
RESPONSIBLE STAFF MEMBERS: Chief Financial Officer Mary Ann Woodson

BACKGROUND: A mid-session budget review involving the participation of all NCUA offices was conducted. The purpose of this review is to assess the agency's budget at mid-year, to project spending through the end of the fiscal year, and to request Board approval of any proposed items that were not included in the original 2008 budget. Historically, the mid-session review would result in an overall budget reduction primarily due to unused funds as a result of vacancies. For the 2008 budget, the budget for pay and benefits was reduced for anticipated vacancies of 3 percent. With actual vacancies currently at 2.95 percent, the budget for pay and benefits has been completely encumbered. Additionally, the agency is experiencing rising travel costs due to inflationary pressures as well as increased safety and soundness program activities. Finally, the collective bargaining agreement was ratified in January 2008, which immediately resulted in a one-time cost to train all staff on the agreement. With 2008 being the first year of the agreement, additional travel costs are expected as staff comply with the agreement. With time, costs under the agreement will become predictable.

SUMMARY: Total budgeted operating costs for the 12-month period ending December 31, 2008, are projected to remain the same as the original budget, **\$158,631,447**. Among the regional and central offices, there are increases, decreases, new requests, and revised estimates. There is no change recommended to the total staffing level of **964.92** full-time equivalents (FTE); although, effective March 15, 2008, seven (7) credit union examiner positions were reallocated to the regions. Additionally, savings and reductions in the capital budget will be used to fund **\$95,000** in capital acquisitions.

Although actual spending for the first six months of the year was \$73,824,756, with an under-budget variance of 6.7 percent, spending is typically at least 7 percent higher during the second half of the year. Based on projecting expenditures for the remainder of 2008, including the biennial regional conferences and higher than budgeted travel costs, the agency must address requested mid-session increases in a constrained budgetary environment. As a result of a rigorous budget review, increases are proposed for core programs, including travel costs, by identifying savings, efficiencies, and reductions in other budget items. The overall budget did not decrease, as historically has been the case, but rather remained the same.

Historical Mid-Session Decreases



Among the measures taken to promote savings without cutting operational programs are: encouraging office directors to limit their travel to mission essential; stressing the use of video and teleconferencing; eliminating over-hires; and slowing the hiring process. Offices have reviewed their operations and mined their budgets to find savings and efficiencies. This teamwork resulted in finding the funding needed for mid-session budget requests.

Even with this budget tightening, the agency must be prepared for unanticipated costs. For example, the standard mileage rate rose 16 percent effective July 6, 2008, and the GSA city pair airfares will rise 13 percent, on average, effective October 1, 2008. The approximate increase in cost for these two items is \$500,000 for the final six months of the year. Because of the timing of these cost increases, they have not been fully incorporated into the mid-session review. The mid-session review has identified an initial \$180,000 to offset these increases. The agency will continue to monitor the effects of these changes and make adjustments as necessary.

Because of significant uncertainties related to travel costs as well as industry pressures increasing the agency's workload, the Office of the Executive Director has taken the unusual step to earmark \$2.1 million of programs that can be delayed or cancelled. In the event that higher travel costs or increased workload cause increased operating costs beyond mid-session estimates, these earmarks have been identified to ensure the full execution of the agency's safety and soundness program. These earmarks outline the trade-off decisions that the agency is prepared to make should it become necessary.

The Office of the Chief Financial Officer will undertake an additional thorough review of the budget in September 2008 to assess the continued need of the earmarked funds.

The mid-session budget adjustments will have the following impact on the original 2008 operating budget: 1) employee pay and benefits will decrease by \$442,472; and 2) non-payroll expenses will increase by \$442,472.

	Approved Budget	Budget Needs	Change	%Change
Employee Pay	\$ 92,980,137	\$ 92,529,665	\$ (450,472)	-0.5%
Employee Benefits	25,447,983	25,455,983	8,000	0.0%
Travel	15,416,204	16,280,216	864,012	5.6%
Rent/Communications/Utilities	4,167,576	4,095,500	(72,076)	-1.7%
Administrative	11,838,936	11,127,922	(711,014)	-6.0%
Contracted Services	8,780,611	9,142,161	361,550	4.1%
Total	<u>\$ 158,631,447</u>	<u>\$ 158,631,447</u>	<u>\$ -</u>	<u>0.0%</u>

A breakdown of budget requests by office is provided in Attachment 1. Capital acquisitions will decrease by \$29,100, as provided in Attachment 2.

There is no change to the total staffing level. However, effective March 15, 2007, seven (7) FTE positions were reallocated to the regions, as provided in Attachment 3.

The following budget adjustments represent revised estimates or essential and justified requests not included or foreseen in the original approved budget. Adjustments require no additional funding and are completely offset.

Employee Pay and Benefits

1. The agency requests a **decrease of \$442,000** in pay and benefits. Of this decrease, \$400,000 is a technical accounting adjustment. Under Generally Accepted Accounting Principles (GAAP), the costs associated with developing the agency's internal use software are capitalized on the balance sheet and amortized as an expense in the income statement over the life of the software. This cost was originally part of the operating budget. Additionally, there were a number of small increases and decreases such as new hire relocation, travel bonus, and awards ceremony in *Employee Pay and Benefits*.

Travel

2. Agency-wide requests show an **increase of \$864,000** is needed for travel. The regional offices request \$1,255,000 based on year-to-date actual spending trends plus planned examinations. This increase is partially offset by savings and reductions in central office travel of \$403,000. The necessity to increase travel is due to:
 - Increased examiner travel for the safety and soundness program;
 - Higher than predicted inflation; and

- Increased travel costs related to training and implementing the collective bargaining agreement.

Rent, Communications, and Utilities

3. The regional and central offices recognize a **decrease of \$72,000** in rental costs due to cost saving initiatives such as eliminating non-essential meetings and conferences as well as reducing budgets where costs are less than originally anticipated.

Administrative

4. The agency recognizes a **decrease of \$400,000** for relocation expenses based on year-to-date activities. Relocations are trending lower than originally budgeted and projections are indicating continued reductions in costs for the near term.
5. The Office of the Chief Financial Officer recognizes a **decrease of \$130,000** or 13 percent in interest expense for the King Street building note payable due to the continuing low interest rate environment.
6. The Office of the Chief Financial Officer recognizes a **decrease of \$125,000** in expenses related to the Home Mortgage Disclosure Act. As a member of the Federal Financial Institutions Examination Council, the agency incurs a pro-rata share of costs associated with the administration of the act.
7. The remaining **decrease of \$56,000** is attributed to a number of smaller increases and decreases in various offices, including refreshments, supplies, depreciation, and recruitment in *Administrative*.

Contracted Services

8. The Office of the Chief Information Officer requests an **increase of \$420,000** in consulting expenses for agency-wide records management projects related to eDiscovery. The term eDiscovery refers to an archiving platform for e-mail and other electronically stored documents in order to facilitate compliance with amendments to the Federal Rules of Civil Procedure. On December 1, 2006, the rules concerning the production of e-mails and other electronically stored information in discovery in civil litigation changed and placed a higher burden on parties in civil litigation, including federal agencies. The Office of the Chief Information Officer and the Office of General Counsel believe that better archiving of electronic documents is a prudent management practice.
9. The Office of Human Resources reexamined and prioritized its programs in order to minimize its request for a net **increase of \$110,000** in consulting expenses to total \$1,317,000. The increase consists of the following.
 - An increase of \$274,000 for consulting related to the electronic Official Personnel File (e-OPF) project to total \$345,000. The project includes converting the existing paper form of the agency's official personnel files to an electronic form

and establishing a system to maintain and update the electronic forms going forward. This is part of an e-Government initiative designed to promote interoperability between agencies as well as increased security and privacy.

- An increase of \$200,000 for the Division of Training and Development to implement a new learning management system. The new system will create a comprehensive, efficient, and integrated system for scheduling, monitoring, and evaluating training.
- An increase of \$70,000 for the Division of Training and Development for outside trainers.
- A net decrease of \$434,000 for other consulting projects consisting of increases and decreased due to changes in estimates, savings realized and reductions in classes with insufficient participation.

10. The remaining **decrease of \$168,000** in *Contracted Services* is attributed to many decreases in various offices, including non-essential surveys (\$73,000), outside training (\$72,000), and consultants (\$35,000), and fifteen (15) other cost saving measures and revised estimates that were \$10,000 or less each.

Capital Acquisitions

11. Capital acquisitions budget is **reduced by \$29,000**. The depreciation adjustment associated for the following changes is contained within the *Administrative* category. The changes consist of the following.

- Region II (Capital) requests \$45,000 to replace two leased copiers. The region anticipates that the acquisition will be by purchase.
- The Office of Human Resources requests \$50,000 for the acquisition of equipment for the regional offices related to the Personal Identity Verification initiative mandated by Homeland Security Presidential Directive 12. This directive provides policy guidelines to enhance security, increase efficiency, reduce identity fraud, and protect personal privacy.
- Other offices have provided a decrease of \$124,000 due to savings on acquisitions.

Contingency Funding

12. The Office of the Executive Director, with the participation of all offices, has earmarked \$2.1 million in programs that can be delayed or cancelled should additional funding be needed for the agency's safety and soundness program, especially travel costs. Approximately one-third, or \$784,000, of this amount is increases in funding for contracted services contained within this Board Action Memorandum. The remaining \$1.3 million in earmarks is primarily administrative and contracted services for central offices. Although the agency does not anticipate the need to reprogram these earmarked funds at this time, it wishes to establish a mechanism to reprogram such funds should additional funding be needed to meet operational requirements. These earmarked funds require Executive Director approval prior to spending.

RECOMMENDATION

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

1. The reprogramming of the fiscal year 2008 operating budget with no increase from the original budget of \$158,631,447, as presented in Attachment 1.
2. The reprogramming of the fiscal year 2008 capital acquisitions budget to result in a net decrease of \$29,100, as presented in Attachment 2.
3. The continuation of total full-time equivalent (FTE) staffing at the fiscal year 2008 authorized level of 964.92, as presented in Attachment 3.
4. The Office of the Chief Financial Officer will complete a budget review by September 30, 2008, to determine whether current budget resources are sufficient for executing the agency's safety and soundness program and to provide recommendations to the Executive Director on reprogramming budget resources.
5. For the remainder of 2008, vest within the Executive Director the authority to reprogram funds agency-wide, except for the offices of the Board and Executive Director, provided that: (a) the agency budget in total is not changed, (b) funds are not reprogrammed for completely new programs or initiatives not already approved in the budget, and (c) the Board is immediately notified of the reprogramming.

Chief Financial Officer

Attachments

OPERATING BUDGET

	Original Budget	Mid-Session			Revised Budget	% Change
		Increases	Decreases	Net Change		
1 Region I (Albany)	17,770,501	145,500	(227,123)	(81,623)	17,688,878	-0.46%
2 Region II (Capital)	18,792,478	279,000	(553,940)	(274,940)	18,517,538	-1.46%
3 Region III (Atlanta)	19,009,309	331,329	(406,329)	(75,000)	18,934,309	-0.39%
4 Region IV (Austin)	19,674,034	200,216	(557,720)	(357,504)	19,316,530	-1.82%
5 Region V (Tempe)	20,161,163	359,021	(435,508)	(76,487)	20,084,676	-0.38%
6 Asset Management and Assistance Center	2,631,439	27,000	(57,574)	(30,574)	2,600,865	-1.16%
7 Office of the Board	2,013,295	15,100	(52,514)	(37,414)	1,975,881	-1.86%
8 Office of the Executive Director	1,339,863	0	(94,334)	(94,334)	1,245,529	-7.04%
9 Office of Capital Markets and Planning	2,169,235	10,000	(76,871)	(66,871)	2,102,364	-3.08%
10 Office of Corporate Credit Unions	6,846,654	10,000	(246,976)	(236,976)	6,609,678	-3.46%
11 Office of the Chief Financial Officer	8,039,522	102,500	(304,002)	(201,502)	7,838,020	-2.51%
12 Office of the Chief Information Officer	11,411,075	481,250	(680,068)	(198,818)	11,212,257	-1.74%
13 Office of Examination and Insurance	4,485,919	10,000	(416,278)	(406,278)	4,079,641	-9.06%
14 Office of the Inspector General	1,996,463	0	0	0	1,996,463	0.00%
15 Office of Small Credit Union Initiatives	4,209,024	0	(128,733)	(128,733)	4,080,291	-3.06%
16 Office of General Counsel	5,145,499	0	(339,234)	(339,234)	4,806,265	-6.59%
17 Office of Public and Congressional Affairs	756,188	0	(58,879)	(58,879)	697,309	-7.79%
18 Office of Human Resources	7,844,849	674,000	(1,222,486)	(548,486)	7,296,363	-6.99%
19 Undistributed	4,334,937	4,023,053	(809,400)	3,213,653	7,548,590	74.13%
Total	158,631,447	6,667,969	(6,667,969)	(0)	158,631,447	0.00%
		4.20%	-4.20%	0.00%		

The original budget reflects the March 15, 2008 allocation of cost associated with seven (7) full-time equivalent positions to the regions (see attachment 3).

The net increase in the Undistributed office represents the reallocation of the 3 percent budget reduction to all offices for anticipated vacancies. The reallocation is based upon each office's actual vacancies.

Attachment 2
Mid-Session 2008

CAPITAL ACQUISITIONS

Office	Description	Useful Life Months	Months Used This Yr	Deprec Exp This Yr	Cash Outlay All Years
REG 2	Replacing two copiers	60	4	3,000	45,000
OHR	PIV equipment	36	3	4,167	50,000
Agency	Reductions in capital budget due to savings recognized on acquisitions	0	0	0	-14,100
OCIO	Savings on hard drive acquisitions for the data migration accompanying the first quarter 2009 computer roll-out.	0	0	0	-110,000

TOTAL **7,167** **(29,100)**

Attachment 3
Mid-Session 2008

AUTHORIZED FULL-TIME EQUIVALENT (FTE)

<i>by Office</i>	2008	Change	Revised
Office of the Board	12.00	0.00	12.00
Office of the Executive Director	6.00	0.00	6.00
Office of Capital Markets and Planning	11.50	0.00	11.50
Office of Corporate Credit Unions	35.00	0.00	35.00
Office of the Chief Financial Officer	34.32	(7.00)	27.32
Office of the Chief Information Officer	32.00	0.00	32.00
Office of Examination and Insurance	24.40	0.00	24.40
Office of Inspector General	7.75	0.00	7.75
Office of Small Credit Union Initiatives	24.00	0.00	24.00
Office of General Counsel	26.00	0.00	26.00
Office of Public and Congressional Affairs	6.00	0.00	6.00
Office of Human Resources	31.00	0.00	31.00
Region I - Albany	132.50	1.00	133.50
Region II - Capital	143.35	1.00	144.35
Region III - Atlanta	137.40	1.00	138.40
Region IV - Austin	146.50	0.00	146.50
Region V - Tempe	136.70	4.00	140.70
Asset Management & Assistance Center	17.00	0.00	17.00
Subtotal Operating Fund	963.42	0.00	963.42
Central Liquidity Facility	1.50	-	1.50
Total NCUA	964.92	-	964.92