



BOARD ACTION MEMORANDUM

TO: NCUA Board **DATE:** July 25, 2013
FROM: Chief Financial Officer **SUBJECT:** FY 2013 Mid-Session Budget Review

ACTION REQUESTED: Board approval of the reprogrammed 2013 operating budget as documented in the Board Action Memorandum and attachment.

DATE ACTION REQUESTED: July 25, 2013

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 a net decrease of \$2.6 million to the FY 2013 Board-approved operating budget.

RESPONSIBLE STAFF MEMBERS: Chief Financial Officer Mary Ann Woodson

BACKGROUND: NCUA conducted a mid-session budget review. All offices were directed to promote stewardship of agency funds, increase efficiencies, and reduce line item budgets wherever possible. The review assessed the agency's budget at mid-year, projected spending through the end of the fiscal year, and requested Board approval of any adjustments to the original 2013 budget.

Projections for the remainder of 2013 support an operating budget reduction of \$2.6 million. These excess funds will be used to offset next year's budget requirements which are assessed to credit unions. The Board anticipates considering the 2014 budget in November.

BUDGET REPROGRAMMING: Total budgeted operating costs for the year ending December 31, 2013, are reduced by \$2.6 million for a revised total budget of **\$248,811,780**. Total staffing will increase by one full-time equivalent (FTE) and change to 1,262.5 FTE.

OVERVIEW: The following table summarizes the adjustments to the original 2013 operating budget. These changes require no new funds and represent adjustments to support program needs.

Operating Budget	Board		Revised
	Approved Budget	Mid-Session Reprogramming	Budget Needs
Employee Pay & Benefits	\$ 183,601,304	\$ (6,263,449)	\$ 177,337,855
Travel	27,861,782	(198,500)	\$ 27,663,282
Rent/Communications/Utilities	5,296,397	85,950	\$ 5,382,347
Administrative	13,610,236	27,943	\$ 13,638,179
Contracted Services	21,017,372	3,772,745	\$ 24,790,117
Total	<u>\$ 251,387,091</u>	<u>\$ (2,575,311)</u>	<u>\$ 248,811,780</u>

1) Employee Pay and Benefits: Net decrease of \$6,263,449.

The mid-session budget includes \$1.5 million of new mandatory personnel costs associated with the NCUA Savings Plan, a statutory 92 percent increase in monthly transit subsidy reimbursements, and first-half terminal leave payouts. In accordance with the NCUA Collective Bargaining Agreement, the NCUA Savings Plan employee matching contribution increased by 0.5 percent because 2013 pay was frozen. By statute, the monthly transit subsidy reimbursement increased retroactively to January 1, 2012 from \$125 to \$240.

As approved in yesterday’s closed Board meeting, NCUA will also fund the \$3.6 million cost of a one-time performance-based lump sum payment and to correct locality pay discrepancies. These lump sum payments, which average 3 percent of eligible employees’ salaries, were made to “maintain comparability with other federal bank regulatory agencies” as stipulated in the Federal Credit Union Act.¹ Currently NCUA’s average salary is lower than other federal financial services regulators. Also, data from the US Office of Personnel Management’s Fed Scope database (<http://www.fedscope.opm.gov/>) indicates average salary growth at other federal financial services regulatory agencies has ranged from 3.6 to over 8 percent since 2011, while NCUA’s average salary has not increased during the same time period. The change in locality pay corrected the disparity between NCUA’s non-bargaining unit staff (non-senior staff positions) and its collective bargaining unit staff. Base salaries and locality pay for all NCUA senior staff positions remain frozen at 2010 levels.

The personnel changes for the mid-session budget are minimal. The single FTE increase will be allocated to the Office of Human Resources to support a personnel security technician to comply with new federal requirements on screening and clearance of new employees and contractors. The mid-session budget also realigns one FTE from the field program to the Office of Consumer Protection (OCP) to fund the recently approved OCP Deputy Director. This position will provide leadership support for consumer protection compliance policy, fair

¹ 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).

lending, NCUA's Consumer Assistance Center, NCUA's consumer-oriented websites and other financial literacy efforts.

2) Travel: Net decrease of \$198,500.

Travel savings have been realized from actual position vacancies. Whenever feasible, examiners are using private vehicles rather than commercial airlines, also adding to travel savings.

3) Rent, Communications, and Utilities: Net increase of \$85,950.

Mandatory examiner meetings and training for NCUA and state examiners have expanded in size and duration, driving the cost increases for room rentals and meeting support for the remainder of the fiscal year.

4) Administrative: Net increase of \$27,943.

NCUA continues to increase its participation in Federal Financial Institutions Examination Council (FFIEC) standardized training for federal and state examiners. However, most of the increase will be offset by interest expense savings from lower interest rates on outstanding debt.

5) Contracted Services: Net increase of \$3,772,745.

There are three NCUA offices with new 2013 contract requirements: 1) Office of the Chief Information Officer (OCIO); 2) Office of Human Resources (OHR); and 3) Office of Consumer Protection (OCP).

In February of 2013, the Information Technology Prioritization Council (ITPC) was established to review and prioritize new and emerging information technology (IT) initiatives and better align those IT investments with NCUA's mission. The council fosters collaboration and accountability in the selection and prioritization of NCUA's application development efforts. To fund these critical requirements, central and regional offices identified other contract savings to reallocate for ITPC contract priorities. A net increase of \$2.8 million will be reallocated to OCIO for unfunded initiatives to upgrade information technology systems, such as improving AIRES, and establishing a robust information security program to comply with legislation and executive orders. Some of the key deliverables expected in 2013 include:

- Deploy the Emergency Notification Management System;
- Complete the overdue maintenance of NCUA legacy applications;
- Strengthen NCUA's internal cybersecurity program, and;
- Deploy new travel management system which will increase efficiency and reduce paperwork.

NCUA must rebid its Learning Management System (LMS) contract, which expires at the end of 2013, to continue this essential web-based resource tool that provides e-learning courses for all staff and manages agency-wide training data. The LMS is the official repository for all

NCUA-sponsored classroom training as well as agency-mandated on-line training including requirements associated with continuity of operations. This OHR contracted service requirement is estimated to cost \$275,000 in 2013.

OCP requests \$331,000 for contractor assistance to develop compliance guides that address 11 new financial services regulations issued by the Consumer Financial Protection Bureau and other federal regulators, review and assess NCUA Consumer Assistance Center processes to identify improvements, and provide call center refresher training.

Mandatory training and some temporary services for other NCUA offices comprise the remaining net increase of \$366,745 in contracted services.

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

1. Reprogram the fiscal year 2013 operating budget with a net decrease of \$2.6 million, resulting in a budget of \$248,811,780, as presented in Attachment 1.
2. Increase total full-time equivalent staff by one, resulting in an authorized level of 1,262.5, as presented in Attachment 1.

Chief Financial Officer

Attachment