



BOARD ACTION MEMORANDUM

TO: NCUA Board

DATE: November 21, 2013

FROM: Chief Financial Officer

SUBJ: FY 2014 Budget

ACTION REQUESTED: Board approval of the fiscal year 2014 operating and capital budgets.

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OTHER OFFICES CONSULTED: All Regional and Central Office Directors

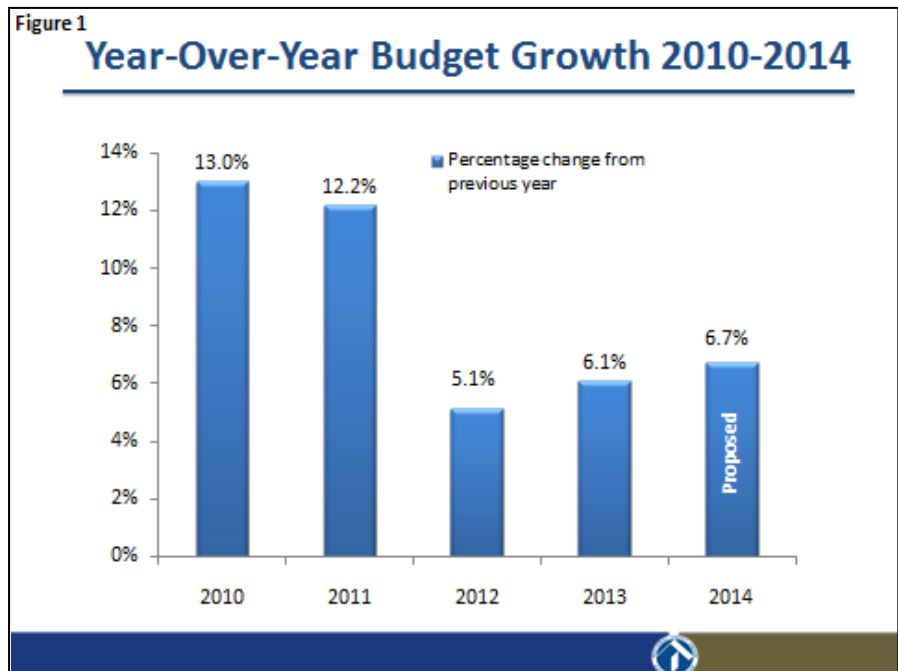
VIEWS OF OTHER OFFICES CONSULTED: All concur

BACKGROUND: The budget was formulated using zero-based budgeting techniques to ensure each activity is individually justified to receive funding. All offices within NCUA 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.

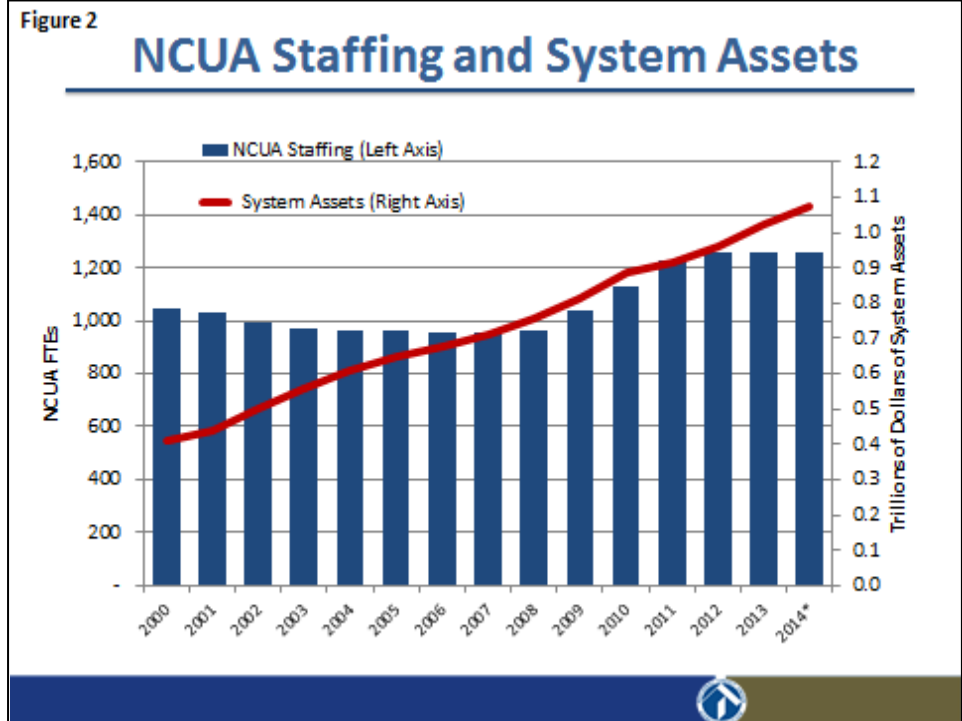
BUDGET IMPACT: Presented below

RESPONSIBLE STAFF MEMBERS: Executive Director Mark Treichel and Chief Financial Officer Mary Ann Woodson

SUMMARY: The 2014 budget of \$268,290,296 represents an increase of 6.7 percent or \$16,903,205 over the 2013 budget of \$251,387,091. The budget increase incorporates annual inflationary adjustments and expenditures needed to ensure successful execution of the agency's safety and soundness mission.



The budget includes no increase to authorized staffing levels. The 2014 Full Time Equivalent level remains at **1,262.50**. As seen in Figure 2, NCUA staffing remains flat while credit union assets continue to grow¹.



The components of the 2014 budget are:

Category	2013 Budget	2014 Budget	\$ Change	Percent Change	Percent of Total Budget
Employee Pay and Benefits	\$ 183,601,304	\$ 194,632,214	\$ 11,030,910	6.0%	73%
Travel	27,861,782	28,514,578	652,796	2.3%	11%
Rent, Communications & Utilities	5,296,397	5,615,191	318,794	6.0%	2%
Administrative	13,610,236	15,393,236	1,783,000	13.1%	6%
Contracted Services	21,017,372	24,135,077	3,117,705	14.8%	10%
Total	\$ 251,387,091	\$ 268,290,296	\$ 16,903,205	6.7%	100%

SIGNIFICANT BUDGETARY CHANGES:

The **Employee Pay and Benefits** net increase of \$11.0 million reflects a 4.1 percent change, as compared to 2013, to accommodate merit and locality pay increases, primarily driven by NCUA’s current collective bargaining agreement (CBA). With the federal pay freeze lifted in 2014, NCUA employees who have received no base salary increase for the past two or three

¹ Source data: NCUA Annual Budget, Call Reports. FICU assets for 2014 are estimated.

years² will receive an average merit increase of 4 percent based on performance. Employees who live in regions where the cost of labor has changed will receive locality adjustments based on surveys that compare federal pay to private sector pay as determined by the annual President's Pay Agent Report.³ The Employee Pay and Benefits category also includes an increase of 1.9 percent associated with promotions, position changes due to NCUA staffing realignments, and because of the projected low vacancy rate in 2014 based on successful hiring and retention in 2013.

NCUA's authorized staffing level remains unchanged at 1,262.5 FTEs. Rather than proposing new positions, the budget reflects three significant realignments strengthening NCUA's ability to carry out its mission, without an increase in staff.

1. The 2014 budget reflects the realignment of NCUA's regional supervision of federally insured credit unions in nine states to balance workload and staffing, as well as respond to changes in the industry. This action creates more geographically compact regions designed to improve efficiency. This reconfiguration resulted in a net decrease of five positions, which are being reallocated in 2014 to meet growing needs related to risk management, capital markets, consumer affairs, and security.
2. The 2014 budget establishes the Office of Continuity and Security Management (OCSM). NCUA is creating this office to aggregate all security-related functions now being performed in disparate offices. The functions being consolidated include continuity of operations planning, physical security, and personnel security. In addition, a security function is added to the organization to address national security issues affecting the financial industry. All federal agencies are required to comply with various statutes and Presidential Executive Orders related to the safeguarding of national assets. NCUA, through this new office, will be able to more efficiently respond to these federal mandates and conduct its security-related functions. Staffing for this office was reallocated from within existing resources.
3. The 2014 budget realigns the Equal Opportunity Programs office, currently in the Office of Executive Director (OED), to the Office of Minority and Women Inclusion. This action is consistent with other federal regulatory agencies' staffing models and strengthens NCUA's compliance with Section 342 of the Dodd-Frank Wall Street Reform and Consumer Protection Act (Public Law 111-203).

Among other position realignments in the 2014 budget, the Performance Information Officer was moved from the OED to OCFO to better align the strategic planning processes, and the positions

² NCUA bargaining unit employees and most non-bargaining unit employees received no base salary increases in 2012 and 2013; senior management received no base salary increases in 2011, 2012, and 2013.

³ The President's Pay Agent Report is a collaboration of three presidentially appointed officials of the federal government: the US Secretary of Labor; the Director of the US Office of Management and Budget; and the Director of the US Office of Personnel Management. NCUA limits any annual change in locality pay rates to a 3 percent increase or 1 percent decrease, in order to prevent larger swings in employees' salaries.

freed up as a result of the regional realignment were dedicated to risk management, capital markets (derivatives), security and federal consumer protection policy and enforcement.

Travel expenses increase by just over 2.3 percent, or a net of \$652,796 for a total budget of \$28.5 million. While travel savings were achieved with the regional realignment, these savings were more than offset by the government-wide 2014 General Services Administration (GSA) lodging rate average increase of 8 percent, the increase in credit union examiner hours corresponding to the increase in credit union assets, the projected decrease in NCUA vacancies, and travel costs associated with the agency's bi-annual national training conference to be held in April 2014.

Rent, Communication, and Utilities expenses increase by 6 percent, or \$318,794 for a total budget of \$5.6 million. Most of the increase is attributed to network upgrades that expand bandwidth capacity to support the operational requirements for NCUA's central office, five regional offices, and Asset Management and Assistance Center. NCUA is currently operating near the peak of its available bandwidth, far exceeding recommended industry standards. This results in degraded service and puts the agency at risk for network disruptions, negatively impacting examiners' ability to do their jobs. NCUA has offset some of the costs of these required network upgrades by investing in energy-efficient building improvements that have resulted in utility savings and optimized usage of telecommunications tools which minimize mailing and save thousands of dollars in postage costs.

Administrative Expenses are expected to increase by a net of \$1.8 million or 13.1 percent, for a total budget of \$15.4 million. Depreciation expenses associated with new and existing capital acquisitions for building maintenance and information technology infrastructure upgrades account for a large component of the increase. Software licensing requirements for existing and new software are also driving the increase, and will provide critical analytical tools for examiners to strengthen off-site monitoring, perform bond valuation and risk metrics, enhance statistical surveillance of credit union risks and program efficiencies and further improve program consistency. Required fees for the Federal Financial Institutions Examination Council account for the remainder of the administrative expenses increase. Administrative savings are expected from continued lower interest expenses, and decreased hard copy subscriptions and printing.

Contracted Services expenses will increase by a net of \$3.1 million or 14.8 percent for a total budget of \$24.1 million. The most significant increase is NCUA's continued effort to strengthen cybersecurity, a high-priority effort to ensure the agency is in compliance with the Federal Information Systems Management Act (FISMA). The new OCSM also accounts for growth in this line item, to improve agency security and comply with federal standards and regulations. Finally, funds are requested for continued contractor assistance as an alternative to new hires, to develop compliance guides that address 11 new financial services regulations issued by the Consumer Financial Protection Bureau and other federal regulators.

A summary of budget changes by office is presented in attachment 1.

CAPITAL ACQUISITIONS:

An itemized listing for \$6.1 million of capital acquisitions is provided in attachment 2.

A total of \$1.3 million is requested for information technology acquisitions needed for critical upgrades to maintain a current, stable and secure network environment. This includes standard industry replacement of key infrastructure hardware, software and storage information technology components that support existing business requirements.

A total of \$2.7 million is requested to develop enhancements to the Credit Union Online software to support expanded data and reporting requirements.

A total of \$2.1 million is requested to make necessary capital building improvements and repairs, including the build-out of federally mandated information security upgrades and a new roof needed for the 20-year old central office building. The current roof is at the end of its useful life, and has had an increased number of leaks in recent years. An external review documenting roof deficiencies supports the need for roof replacement in 2014.

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

1. The fiscal year 2014 budget of \$268,290,296 and 1,262.5 FTEs, as presented in attachment 1.
2. The 2014 capital acquisitions budget, as presented in attachment 2.

Chief Financial Officer

Attachments