National Credit Union Administration
Office of the Chief Financial Officer

BOARD ACTION MEMORANDUM

TO: NCUA Board

DATE: July 16, 2019

FROM: Office of the Chief Financial Officer

SUBJ: Mid-Session Reprogramming

ACTION REQUESTED: NCUA Board approval to reprogram budgeted funds.

DATE ACTION REQUESTED: July 18, 2019

Approved by the NCUA Board on 7/18/19
Secretary of the Board

OTHER OFFICES CONSULTED: All Offices and Regions

VIEWS OF OTHER OFFICES CONSULTED: Concur

BUDGET IMPACT, IF ANY: $5,341,000

SUBMITTED TO INSPECTOR GENERAL FOR REVIEW: Yes

RESPONSIBLE STAFF MEMBERS: Rendell L. Jones, Chief Financial Officer.

SUMMARY: The Board-approved Operating budget for 2019 is $304.4 million, the Capital budget for 2019 is $22.0 million. Based on projected employee levels for the remainder of the year, staff estimates that obligations for employee pay and benefits will be approximately $4.2 million less than the approved Operating budget. Of that amount, approximately $0.6 million, or 14 percent, was reprogrammed to pay for various updated requirements identified prior to the July Board meeting, leaving approximately $3.6 million available from pay and benefits. Reprogramming the estimated pay savings would provide funding for additional updated requirements in both the Operating and Capital budgets.

The majority of the estimated pay savings is due to more than 80 staff vacancies at the start of the year, which resulted in lower payroll expenses for the first six months of 2019. Since that time, the NCUA has increased its hiring and on-boarding rate, and is making significant progress toward the Board-authorized staffing level for 2019.

Within the Operating budget, $2.4 million, or 57 percent of the estimated pay savings, is proposed to be reprogrammed to address the following requirements:

- Employee Relocations: An additional $1,625,000 is required for expected employee relocation costs in 2019. The budget for employee relocations, including previously-approved reprogrammings, is $1,275,000. However, in 2019 the number of employees approved for relocation is expected to increase compared to 2018 and 2017. This increase in the number of relocations was not anticipated when the 2019 budget was developed. In addition, tax law changes have increased the per employee cost of each relocation, since all relocation-related expenses are now treated as employee income for

tax purposes and the NCUA reimburses employees for their relocation-related tax liability.

- Legal Services: An additional $600,000 is required for support from outside counsel in 2019. The budget for legal services is currently $220,000. Specialized legal expertise is required to continue development of complex and highly technical regulatory proposals.
- Asset Management and Assistance Center (AMAC) Servicing System: An additional $92,000 is required to pay for continued support of the legacy AMAC servicing system. While the AMAC servicing system is scheduled for replacement in late 2019 or early 2020, the current legacy system will be operated until the new system is fully configured and implemented.
- Austin, TX Facility: An additional $40,000 is required for additional maintenance in the NCUA's Austin, TX office building, which exceeds the level anticipated in the 2019 budget development.
- Contract Support and Employee Training: An additional $68,000 is required for various contract support and training requirements for the Office of Public and Congressional Affairs.

The remaining $1.2 million, or 29 percent, of the pay savings is proposed to be reprogrammed to the Capital budget. If approved, these funds will be combined with $1.5 million of previously-approved Capital budget funding from 2018 and 2019 that is also proposed for reprogramming and discussed below. The combined amounts will be used for the following initiatives:

- CU Online: An additional $1,300,000 is required to ensure the continued availability and functionality of the CU Online system, which is used to collect Call Reports from Credit Unions. The system uses an antiquated technology product for its functionality, support for which will be discontinued in 2020. This additional funding will be used to install technology improvements for this mission-critical application.
- GENISIS/FOMIA: An additional $1,044,000 is required to update the GENISIS/FOMIA system, which is used to submit and revise Field of Membership information. GENISIS/FOMIA is more than 17 years old, and is built on software no longer supported. This additional funding will be used to update GENISIS/FOMIA to current software standards and better integrate it with other NCUA systems.
- Examination and Supervision Solution (ESS)/MERIT development: An additional $410,000 is required to maintain the 2019 and 2020 delivery schedule for the Examination and Supervision Solution (ESS)/MERIT tool. MERIT, which will replace the AIRES system currently used by examiners in their work supervising Credit Unions, is scheduled for nationwide deployment in 2020.

In the 2019 and 2018 Capital budgets, the Board approved $1.5 million for the following projects, which is now proposed for reprogramming in support of the three initiatives described above:

- Enterprise Learning Management System Replacement: The 2019 Capital budget included $550,000 to replace the NCUA's Learning Management System, which is used for staff training. Although the NCUA's Learning Management System does not meet all of the agency's business requirements, it remains stable and functional.

- Financial Management System Analysis of Alternatives: The 2019 Capital budget included $350,000 to analyze what systems are available for the NCUA to use to manage its financial accounting functions. Although the current system requires significant support from staff accountants, the alternatives analysis can be deferred while the NCUA implements no-cost improvements to its existing financial management processes.
- Asset and Liabilities Management (ALM) Application: The 2019 Capital budget included $3,167,000 for the ALM application development project. ALM contracts were awarded in 2019 for approximately $345,000 less than the Board-approved budget.
- Agency Web Design and Platform Modernization: The 2018 Capital budget included $1,200,000 for redesign of the NCUA website, which was launched in December 2018. Final costs for the new NCUA website were approximately $300,000 less than the Board-approved budget.

The Share Insurance Fund (SIF) Administrative Expenses budget for 2019 is $8.4 million. Within this budget, staff estimates an additional $162,000 is required for Employee Pay and Benefits costs for the remainder of 2019. Also within this budget, spending on program support contracts for the NCUA Guaranteed Notes program is estimated to be lower than the 2019 Board-approved budget levels. It is now proposed that these contract support funds be repurposed for the SIF employee pay and benefits requirement.

The NCUA's engagement with Congress, industry stakeholders, and the general public continues to grow. To reflect the entirety of responsibilities handled by the NCUA's communications professionals, it is proposed that the Board rename the Office of Public and Congressional Affairs (PACA) to the Office of External Affairs and Communications. Rule amendments and delegation changes will happen in the near future, since these are technical revisions related to renaming the office. In addition, to fulfill the enhanced role of this Office, it is also recommended that the Board authorize an additional four staff positions. These positions include (1) a Deputy Director, who will be engaged with the agency's congressional, intergovernmental, and stakeholder relations and who will ensure the policy alignment of the agency's external affairs and communications functions, (2) a Communications Specialist, who will support the NCUA's social media and communications outreach, (3) a Technical Writer and Editor, who will ensure the quality and readability of NCUA publications, and (4) a Program Analyst for External Affairs, who will be responsible for Congressional and intergovernmental correspondence. Future year pay and benefits costs for these employees is estimated to be approximately $900,000 and will be included in the 2020 Budget request.

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

- $2,425,000 reprogrammed within the Operating Budget from Employee Pay and Benefits to Administrative Expenses and Contracted Services;
- $1,209,000 reprogrammed away from the Operating Budget, Employee Pay and Benefits, to the Capital Budget for high-priority projects;
- $1,545,000 reprogrammed within the Capital Budget from lower-priority projects to higher-priority projects, including $300,000 from the 2018 Capital budget and $1,245,000 from the 2019 Capital Budget;

- $162,000 reprogrammed within the Share Insurance Fund Administrative Budget from Contracted Services to Employee Pay and Benefits; and,
- Rename the Office of Public and Congressional Affairs to the Office of External Affairs and Communications and authorize four new staff positions, including one position at the Senior Staff Position-01 (SSP-01) level. Make corresponding name changes in NCUA regulations and Delegations of Authority.

ATTACHMENT: 2019 Mid-Session Budget Review.