



BOARD ACTION MEMORANDUM

TO: NCUA Board

DATE: November 17, 2011

FROM: Chief Financial Officer

SUBJ: FY 2012 Budget

ACTION REQUESTED: Board approval of the fiscal year 2012 operating and capital budgets.

DATE ACTION REQUESTED: November 17, 2011

OTHER OFFICES CONSULTED: All Regional and Central Office Directors

VIEWS OF OTHER OFFICES CONSULTED: All concur

BACKGROUND: The budget was prepared from requests submitted by all offices within NCUA. All submissions 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.

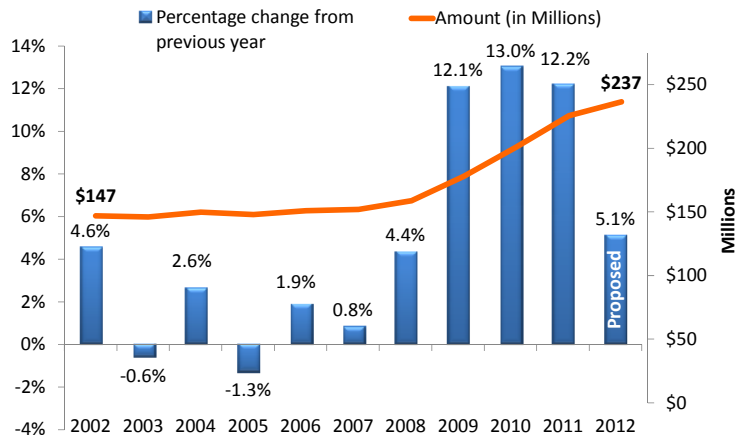
BUDGET IMPACT: Presented below

RESPONSIBLE STAFF MEMBERS: Executive Director David M. Marquis and Chief Financial Officer Mary Ann Woodson

SUMMARY: The 2012 budget of \$236,854,786 represents an increase of \$11,450,798 or 5.1 percent over the 2011 budget of \$225,403,988. This modest increase was mitigated by a \$7.9 million savings resulting from NCUA's commitment to adhere to a federal pay freeze based on a Presidential Executive Order that is not statutorily applicable to NCUA. The total authorized staff requested for 2012 is 1,259.50. Total positions increase by 33, of which 26 positions directly support examination-related activities. Newly authorized staff include specialists in lending, capital markets, information systems, supervision, and troubled institutions. The most significant budgetary changes are related to the agency's collective bargaining agreement and to examination travel.



HISTORICAL BUDGETS



Mindful of the increasing cost to credit unions, the budget process strove to cut costs where possible. Zero-based budgeting techniques were used. Each office/region started with zero authorized funds and justified every line item in its budget. One benefit of zero-based budgeting

is that prior year budget funding levels do not automatically roll over. All requests were vetted to ensure the appropriate balance between protecting credit unions and restraining costs.

The 2012 budget continues to build resources required for the previously approved annual examination program. This program incorporates more frequent onsite contacts with all federal credit unions, with emphasis on problem credit unions and enhanced offsite monitoring of credit unions – all of which strengthens prudential regulation. Increased examiner resources are required for examination every year of every federal credit union and every federally insured state chartered credit union with assets greater than \$250 million.

Budget

The components of the 2012 budget are:

<u>Category</u>	2011 Budget	2012 Budget	\$ Change	Percent of Total Budget
Employee Pay and Benefits	\$ 163,189,623	\$ 170,814,790	\$ 7,625,167	72%
Travel	24,451,215	27,065,764	2,614,549	11%
Rent, Communications & Utilities	5,128,023	5,478,384	350,361	2%
Administrative	13,472,386	13,462,192	(10,194)	6%
Contracted Services	<u>19,162,741</u>	<u>20,033,656</u>	<u>870,915</u>	9%
Total	<u>\$ 225,403,988</u>	<u>\$ 236,854,786</u>	<u>\$ 11,450,798</u>	100%

SIGNIFICANT BUDGETARY CHANGES:

- 1) On November 1, 2011, the second collective bargaining agreement between NCUA and the National Treasury Employees Union (NTEU) was executed. The agreement makes the employee benefits package competitive with the other federal financial regulatory agencies as required by law. Among the benefit changes are contributions to the NCUA Savings Plan (i.e., 401(k) plan) and supplemental premiums for health, dental, and vision. These benefits are consistent with §1206 of the Financial Institutions Reform, Recovery and Enforcement Act (12 U.S.C. §1833b). The \$6.1 million cost of extending these benefits to all staff is more than offset by the \$7.9 million savings resulting from applying the pay freeze to all staff.
- 2) Staffing increases by 33 full-time equivalents (FTE) and \$1.5 million, including 26 FTEs in direct support of examination-related programs. The budget adds 15 specialists (lending, capital markets, information systems, supervision, and troubled institutions), 8 examiners, and 3 supervisory examiners. Attachment 1 shows the FTE changes by office.
- 3) Travel expenses, in support of the safety and soundness program, increase by \$2.6 million or 11 percent for a total budget of \$27.1 million. Increased time spent at credit unions is the primary driver, followed by travel related to mandatory examiner training and inflation.

- 4) Rent, Communication, and Utilities expenses are increasing by \$350,000 for a total budget of \$5.5 million. The largest increase is \$186,000 for communication expenses (e.g., phone, email, broadband). Other smaller increases include office lease escalation clauses.
- 5) Administrative expenses are decreasing by \$10,000 for a total budget of \$13.5 million. While there are additional costs, such as \$155,000 for small printers and other peripheral devices for examiners, savings in various other categories (e.g., subscriptions, supplies, recruitment, material loss reviews, furniture, membership dues) have more than offset increases.
- 6) Contracted Service expenses are increasing by \$871,000 for a total budget of \$20.0 million. Growth has been minimized by reallocating budgetary resources or ending initiatives. For instance, funding has ended for the NCUA deposit insurance campaign featuring Suze Orman. However, the campaign's public service announcements can be used until August 2012 without additional cost. Contracted Services includes multiple initiatives by the Office of Examination and Insurance to strengthen the consistency of examinations and operations across the nation as well as increases in other offices for security initiatives, administration of employee benefits, and financial audits.

Capital Acquisitions

An itemized listing of all capital acquisitions, totaling \$3.4 million, is provided by attachment 2.

- 1) To maintain a current, stable, and secure network environment across the nation, \$950,000 is requested for data processing.
- 2) To reorganize office space for new staff, increase security, and maintain premises, \$295,000 is requested for capitalizable building improvements, repairs, and maintenance.
- 3) To acquire laptops for NCUA and State Supervisory Authorities (SSA) staff, \$2.1 million is requested. Every three years, laptop computers are replaced to keep pace with advancing technology. The current laptop lease expires in March 2012. The acquisition of laptops is anticipated to be by a three-year lease with estimated annual disbursements of \$820,000. Costs will be split between the Operating Fund and the National Credit Union Share Insurance Fund based upon laptops distributed to NCUA staff and SSA staff. Approximately 1,500 laptops will be acquired with approximately 400 laptops distributed to SSA staff.

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

1. The fiscal year 2012 budget of \$236,854,786 and 1,259.50 FTEs, as presented in attachment 1.
2. The 2012 capital acquisitions budget, as presented in attachment 2.

Chief Financial Officer

Attachments

2012 PROPOSED BUDGET

By Office	Budget			Full-Time Equivalents		
	2011	2012	Change	2011 ⁽¹⁾	2012	Change
Office of the Board	\$ 2,675,950	\$ 2,672,781	\$ (3,169)	12.00	12.00	-
Office of the Executive Director	3,228,313	3,019,463	(208,850)	11.00	13.00	2.00
Office of Minority and Women Inclusion	1,034,200	959,282	(74,918)	6.00	5.00	(1.00)
Office of the Chief Economist	1,024,753	1,171,305	146,552	5.00	5.00	-
Office of Consumer Protection	4,840,975	6,613,219	1,772,244	38.00	39.00 ⁽²⁾	1.00
Office of the Chief Financial Officer	19,024,960	19,252,292	227,332	37.00	39.00	2.00
Office of the Chief Information Officer	14,854,408	15,632,100	777,692	33.00	34.00	1.00
Office of Corporate Credit Unions	8,183,167	8,113,550	(69,617)	37.00	37.00	-
Office of Small Credit Union Initiatives	5,406,844	5,535,133	128,289	26.00	27.00	1.00
Office of Examination & Insurance	8,253,330	9,324,033	1,070,703	43.50	44.50 ⁽³⁾	1.00
Office of General Counsel	5,713,580	5,819,370	105,790	27.60	28.40	0.80
Office of Inspector General	4,295,171	4,050,081	(245,090)	9.00	9.00	-
Office of Human Resources	11,738,738	13,054,462	1,315,724	40.00	42.00	2.00
Office of Public and Congressional Affairs	1,519,289	1,137,514	(381,775)	6.00	6.00	-
Region I - Albany	24,257,070	24,645,163	388,093	165.00	165.00	-
Region II - Capital	35,553,329	36,871,121	1,317,792	230.00	233.00	3.00
Region III - Atlanta	25,132,043	26,892,676	1,760,633	169.00	177.00	8.00
Region IV - Austin	26,030,016	27,100,254	1,070,238	176.50	182.60	6.10
Region V - Tempe	17,842,699	19,449,856	1,607,157	117.00	123.00	6.00
Asset Management & Assistance Center	4,795,153	5,541,130	745,977	38.00	38.00 ⁽⁴⁾	-
Total	\$ 225,403,988	\$ 236,854,786	\$ 11,450,798	1,226.60	1,259.50	32.90

(1) Includes 18.00 FTE that were added through Board actions during 2011.

(2) The Office of Consumer Protection, created in 2010 to support the Dodd-Frank Act, was staffed up in 2011. The 2012 budget represents the office at full performance,

(3) This office contains 7.50 FTE related to other NCUA funds; 3.50 FTE are paid for by the Central Liquidity Facility and 4.00 FTE are paid for by the Temporary Corporate Credit Union Stabilization Fund. Amounts for 2011 include the Office of Capital Markets.

(4) This office contains 1.00 FTE paid for by the Temporary Corporate Credit Union Stabilization Fund.

2012 CAPITAL ACQUISITIONS

Contracting Office	Description	Useful Life in Years	Acquisition Value	Method	Cash Outlay in 2012
OCIO	Data and voice network upgrades: Hardware upgrades, backplane upgrades, switches, router replacements, network printers, projectors, monitors, and central office/regional office infrastructure upgrades	3	\$ 500,000	Purchase	\$ 500,000
OCIO	Data processing upgrades: Upgrades of servers, storage systems, and implementing appropriate server virtualization	2	250,000	Purchase	250,000
OCIO	Security: Network and physical security, upgrades to firewalls, intrusion detection system and VPN	3	200,000	Purchase	200,000
	OCIO Purchase Subtotal		950,000		950,000
OFCO	Capital building improvements, repairs, and maintenance	10	295,000	Purchase	295,000
	Total Purchases		1,245,000		1,245,000
OCIO	Laptop Computer Lease, NCUA Staff	3	1,540,000	Lease	600,000
OCIO	Laptop Computer Lease, State Supervisory Authorities	3	560,000	Lease	220,000
Various	Photocopier Leases	5	72,000	Lease	20,000
	Total Leases		2,172,000		840,000
	Total Purchases and Leases		3,417,000		2,085,000