FDIC
Federal Deposit Insurance Corporation
550 17th Street, NW, Washington, DC 20429

November 23, 2005

TO: Board of Directors

FROM: Steven O. App
Deputy to the Chairman and
Chief Financial Officer

SUBJECT: Proposed 2006 Corporate Operating Budget

Proposal

This memorandum requests that the Board of Directors approve a 2006 Corporate Operating Budget totaling $1,050,075,522, including $975,075,522 for ongoing operations and $75,000,000 for receivership funding.[1] The proposed budget for ongoing operations is approximately 5 percent lower than the approved 2005 budget for ongoing operations. The proposed 2006 budget for receivership funding is unchanged from the approved 2005 budget for receivership funding.

When combined with updated estimates of 2006 spending from multi-year investment project budgets previously approved by the Board, 2006 spending is expected to total approximately $1.069 billion, as follows:

	(Dollars in Millions)		
Budget Component	Approved 2005	Proposed 2006	Change
Corporate Operating Budget:			
Ongoing Operations	$1,026	$975	($51)
Receivership Funding	75	75	0
Subtotal	$1,101	$1,050	($51)
Estimated Investment Spending[2]	77	19	(58)
Total	$1,178	$1,069	($109)

Background

[1]The proposed 2006 Budget Resolution delegates to the Chief Financial Officer (CFO) the authority to adjust the Board-approved 2006 Corporate Operating Budget, as necessary, to account for changes in estimated 2006 Salaries and Benefits expenses due to certain factors that have not yet been determined. These include pay and benefit changes for bargaining unit employees included in a new Compensation Agreement that is currently being negotiated with the FDIC's employee union (and any pay and benefit changes approved by the Board for non-bargaining unit employees); changes in 2006 locality pay differentials that have not yet been issued by the U.S. Office of Personnel Management; and changes that may be required due to employee choices during the various benefits "open seasons" that are currently in process. Each of those factors could materially impact the estimated expenses reflected in the proposed 2006 budget for Salaries and Benefits.
[2]Reflects the portion of approved multi-year investment project budgets currently estimated to be spent in the years shown.

The proposed 2006 budget was developed based on an analysis of the projected 2006 workload for each of the Corporation's three major business lines—Insurance, Supervision, and Receivership Management—as well as projected workload and expenses for the Corporation's major program support functions. As part of the Corporation's annual strategic planning process, corporate workload assumptions and guidance on both cost savings/efficiencies to be realized and the inclusion of funding for numerous planned 2006 initiatives were established by FDIC management prior to the initiation of the 2006 budget formulation process. Divisions and offices used those workload assumptions, identified efficiencies, and planned initiatives to determine their 2006 budget requirements.

The number of FDIC-insured financial institutions is expected to continue to decline, from a projected 8,829 insured institutions at the end of 2005 to 8,673 insured institutions by the end of 2006. Although the total number of supervised institutions is also expected to decline, from a projected 5,208 at the end of 2005 to 5,137 at the end of 2006, projected 2006 examination workload will not change significantly due to year-to-year scheduling differences. The proposed 2006 budget includes the resources required to conduct an estimated 2,445 risk management (safety and soundness) examinations and 2,182 compliance examinations at FDIC-supervised institutions. The proposed budget also provides funding for the platform staffing adopted last year to address future resolutions and receivership management workload requirements. Those platform staffing levels are expected to be more than sufficient to handle the most likely scenarios for the failure/near failure of insured institutions in 2006, and the Corporation has in place contingency plans to respond to a larger number of failures/near failures, if necessary.

Funds for 2006 expenses will come from several sources: the Bank Insurance Fund (BIF), the Savings Association Insurance Fund (SAIF), and the FSLIC Resolutions Fund (FRF). Expenses are allocated to those funds based upon various workload measures. In addition, receiverships will be billed for services provided by the Corporation in accordance with established service billing procedures.

2006 Budget Highlights

The largest component of the proposed 2006 Corporate Operating Budget continues to be personnel-related expenses, although the proposed budget for salaries and benefits is about $66 million, or almost 10 percent, lower than the approved 2005 budget due to the substantial staffing reductions approved by the Board a year ago. The Salaries and Compensation category represents about 60 percent of the proposed 2006 budget, down from 63 percent in the 2005 budget. The cost of contractor-provided services is the second largest component of the proposed budget and is about $13 million, or 8 percent, higher than the approved 2005 budget, largely due to substantial increases in spending for information technology support. The Outside Services–Personnel category represents about 22 percent of the proposed 2006 budget, up from 20 percent in 2005. Estimated facilities-related expenses for 2006 are down about $6 million, or 8 percent, from the approved 2005 budget due largely to savings on leasing expenses.

The proposed 2006 budget includes funding for a number of new initiatives. This includes several consumer protection and education initiatives, including an identity theft media campaign ($2.0 million), participation in an interagency financial literacy media campaign ($440,000), and development of Spanish language versions of a deposit insurance video and on-line calculator. The proposed budget also includes funding for several employee learning and development initiatives, including continued implementation of the new Corporate Employee Program, implementation of personal learning accounts for all employees, expanded professional certification programs, and the initial development of a new corporate skills inventory. The largest proposed funding increases are in the information technology area. These include the continued phase-in of an ongoing infrastructure replacement and upgrade allowance, increased funding for the Corporate Privacy Program, funding for a new enterprise architecture initiative, and funding for numerous systems development and enhancement projects.

The proposed 2006 budget also reflects a projected reduction in 2006 leasing expenses, due largely to the move from leased facilities in the downtown Washington area to the new Seidman Center Phase II facility; the realization of substantial cost savings from the Corporation's ongoing transformation of its information technology (IT) program, including cost savings attributable to the implementation of a streamlined management structure, the contracting out of selected IT functions, and the retirement of numerous outdated application systems; and significant reductions in projected 2006 document storage and litigation expenses as the goodwill litigation effort winds down.

The proposed 2006 budget does ***not*** include any funding to implement the deposit insurance legislation that is currently pending in the Congress. However, FDIC staff has developed a detailed estimate of the funding that would be required for this purpose, based upon the versions of the legislation that have been passed by the House of Representatives and the Senate. That analysis indicates that approximately $10 million would be required to implement deposit insurance reform, if it is enacted. This includes an estimated $8 million to make required system changes (mostly related to the merging of the insurance funds and the implementation of a new assessment process); $1.7 million would be required for new deposit insurance brochures and signage that the Corporation provides to insured institutions; and $300,000 would be required to add two staff in the Division of Insurance and Research to handle the analytical workload associated with a new risk-based premium system. If deposit insurance reform is enacted, a case will be presented to the Board requesting a supplemental increase to the 2006 Corporate Operating Budget to cover these expenses.

Proposed 2006 Staffing Authorization

In conjunction with approval of the proposed 2006 Corporate Operating Budget, the Board is requested to authorize staffing of 4,600 for 2006 (declining to 4,594 by the end of the year). This is a reduction from the current year-end 2005 staffing authorization of 4,751, approved by the Board a year ago in conjunction with its consideration of the proposed 2005 Corporate Operating Budget. This further reduction in staffing is primarily the result of authorized staffing reductions in the Division of Supervision and Consumer Protection (56 fewer positions, with no change in authorized field examiner staffing), the Office of the Inspector General (30 fewer positions), the Division of Administration (28 fewer positions), and the Legal Division (21 fewer positions). These revised staffing levels were in each case determined by the senior management in each organization, based upon their projected workload and staffing requirements. Required staffing reductions have already been completed in most organizations through the abolition of vacant positions (many resulting from the highly successful 2004-2005 buyout program), although small reductions-in-force are expected to be necessary in several organizations during 2006 to address remaining employee surpluses.

The proposed 2006 staffing authorizations also reflect the transfer of 120 positions from the Division of Supervision and Consumer Protection (DSC) to the Corporate University (CU) in conjunction with the implementation of the Corporate Employee Program. Although housed in CU for the first year of that program, employees encumbering these positions will continue to perform examination functions throughout the year as trainees under the direction of DSC's field supervisors.

Overview of Attached Exhibits

Attachment 1 displays the proposed 2006 Corporate Operating Budget by major expense category. Attachments 2 and 3 display the proposed budget by division/office. Attachment 4 shows the proposed budget by program and fund. Attachment 5 shows proposed 2006 authorized staffing for each division/office.

As noted above, total 2006 spending is projected to be approximately $1.069 billion, including spending from previously-approved multi-year investment project budgets. Attachment 6 provides updated estimates of annual spending for each of those projects previously approved by the Board.

Attachments

RESOLUTION

WHEREAS, the Board of Directors ("Board") of the Federal Deposit Insurance Corporation ("FDIC" or "Corporation") has given careful consideration to the programs of the Corporation and the estimated resources required in support thereof for the period beginning January 1, 2006, and ending December 31, 2006; and

WHEREAS, in order to more accurately reflect the actual cost of operations for the Corporation, the 2006 Corporate Operating Budget is divided into two distinct components -- Ongoing Operations and Receivership Funding -- that will be accounted for and monitored separately from one another; and

WHEREAS, the expenditures proposed for the 2006 Corporate Operating Budget, in the total amount of $1,050,075,522, as detailed in the attached Memorandum to the Board of Directors from Steven O. App, Deputy to the Chairman and Chief Financial Officer ("Chief Financial Officer"), dated November 23, 2005 ("November 23, 2005, Board Memorandum"), appear to properly reflect the funding requirements as currently projected for calendar year 2006 for: (1) ongoing operations of the FDIC's various divisions, offices and related programs and activities irrespective of the FDIC's receivership activities; and (2) receivership funding in connection with the failure of FDIC-insured financial institutions and the management of receiverships related thereto; and

WHEREAS, planned staffing levels reflected in the Ongoing Operations component of the 2006 Corporate Operating Budget appear to properly estimate the personnel requirements of the FDIC's various divisions and offices for calendar year 2006; and

WHEREAS, certain factors that can affect the salaries and compensation expense category of the 2006 Corporate Operating Budget have not yet been determined and may require later adjustments to the budget; and

WHEREAS, the FDIC's 2006 Corporate Operating Budget includes planned expenditures for the Office of Inspector General, which are subject to approval through the Congressional appropriations process; and

WHEREAS, the FDIC is responsible for billing individual receiverships on a fair and equitable basis for the services provided to them by the Corporation; and

NOW, THEREFORE, BE IT RESOLVED, that the Board hereby approves and adopts the FDIC's 2006 Corporate Operating Budget and authorized 2006 staffing levels, as detailed in the November 23, 2005, Board Memorandum, which is incorporated herein by reference.

BE IT FURTHER RESOLVED, that due to certain factors that have yet to be determined which may affect the salaries and compensation expense category of the 2006 Corporate Operating Budget, the Chief Financial Officer, or designee, is hereby authorized, when those factors are finally determined, to make necessary administrative adjustments to the salaries and compensation expense category of the 2006 Corporate Operating Budget, which may result in a change to the total amount of that budget, provided that any such changes to the 2006 Corporate Operating Budget must be reported to the Board in writing not later than 45 days after such changes are made.

BE IT FURTHER RESOLVED, that budget authority may not be reallocated between the Ongoing Operations and Receivership Funding components of the approved 2006 Corporate Operating Budget; and that budget authority approved by the Board for a specific component shall be expended solely for the purposes of that component.

BE IT FURTHER RESOLVED, that the Chief Financial Officer, or designee, may reallocate budget authority among, or make changes to, the Ongoing Operations or Receivership Funding components of the approved 2006 operating budgets of individual divisions and offices or to the authorized 2006 staffing levels of those divisions and offices; provided, however, that such reallocations or changes shall not increase the total amount approved for either the Ongoing Operations or Receivership Funding component of the 2006 Corporate Operating Budget.

BE IT FURTHER RESOLVED, that division and office directors may reallocate budget authority among major expense categories and accounts within the Ongoing Operations or Receivership Funding components of their approved 2006 operating budgets;

provided, however, that such reallocations may not change the total approved division or office budget and that the division or office director must notify the Chief Financial Officer, or designee, of any such reallocation, in accordance with procedures prescribed by the Chief Financial Officer, before said reallocation~~s~~ shall take effect.

BE IT FURTHER RESOLVED, that the Chief Financial Officer, or designee, is hereby directed to make available to FDIC managers, as soon as practicable after the close of each month, budget management reports showing by major expense category and account the actual expenditures incurred to date and the amounts available for future expenditures for the Corporate Operating Budget and the approved project budgets in the Investment Budget.

BE IT FURTHER RESOLVED, that the Chief Financial Officer, or designee, is hereby directed to report to the Board as soon as practicable after the close of each calendar quarter, on significant budget variances and, if applicable, the exercise of the reallocation authority delegated herein for the 2006 Corporate Operating Budget.

BE IT FURTHER RESOLVED, that the Chief Financial Officer, or designee, is hereby authorized on a continuing basis to approve the rates to be charged by the Corporation for services it provides to individual receiverships.