



BOARD ACTION MEMORANDUM

TO: NCUA Board **DATE:** July 16, 2009
FROM: Chief Financial Officer **SUBJECT:** FY 2009 Mid-Session Budget Review

ACTION REQUESTED: Board approval of the reprogrammed 2009 operating and capital budgets as documented in the Board Action Memorandum and attachments.

DATE ACTION REQUESTED: July 16, 2009

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 no increase to the FY 2009 Board approved budget.

RESPONSIBLE STAFF MEMBERS: Chief Financial Officer Mary Ann Woodson

BACKGROUND: A mid-session budget review involving the participation of all NCUA offices was conducted. The purpose of this review is to assess the agency's budget at mid-year, to project spending through the end of the fiscal year, and to request Board approval of any proposed items that were not included in the original 2009 budget. Historically, the mid-session review has resulted in an overall budget reduction primarily due to unused funds as a result of vacancies.

The 2009 budget implemented various initiatives, including the Twelve Month Program and the National Examination Team, that deployed significant staffing resources. While the mid-year budget resource utilization is lower than past years, the current hiring trends related to the agency's Twelve Month Program indicate the full utilization of budgeted pay and benefits. However, should any funds remain unused at year-end, which is determined by Operating Fund cash in excess of a one (1) month operating reserve, NCUA's policy is to return excess funds to Federal Credit Unions through a reduction in the Operating Fee Assessment in the following year.

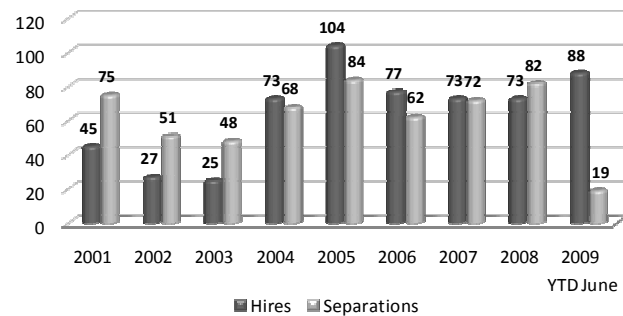
SUMMARY: Total budgeted operating and capital costs for the 12-month period ending December 31, 2009, are projected to remain the same as the original budget, **\$184,167,977**. Among the regional and central offices, there are increases, decreases, new requests, and revised estimates. There is also an increase of 7.00 full-time equivalents (FTE) resulting in the total staffing level of 1023.05.

Operating Budget	Board			Revised
	Approved	Reductions	Increases	Budget
	Budget			Needs
Employee Pay & Benefits	\$ 130,167,806	\$ (1,197,055)	\$ 1,489,605	\$ 130,460,356
Travel	20,677,769	(1,235,045)	379,648	19,822,372
Rent/Communications/Utilities	4,388,796	(288,977)	118,000	4,217,819
Administrative	11,284,954	(272,500)	1,895,453	12,907,907
Contracted Services	11,344,357	(2,069,349)	1,087,220	10,362,228
Total	\$ 177,863,682	\$ (5,062,926)	\$ 4,969,926	\$ 177,770,682
Capital Budget	6,304,295		93,000	6,397,295
	\$ 184,167,977	\$ (5,062,926)	\$ 5,062,926	\$ 184,167,977

Actual spending for the first six months of the year was \$80,734,000, resulting in an under-budget variance of 8.6 percent. However, spending is typically at least seven (7) percent higher during the second half of the year. Additionally, the continuing implementation of the Twelve Month Program has resulted in hires far exceeding separations and is projected to fully utilize the agency's budget for pay and benefits.

As seen in the bar chart, the agency's 2009 hires, for the first six months, are more than 2008 hires for the entire year. Attrition is also trending below average. Therefore, based on expenditure projections, the mid-session review resulted in maintaining the current overall budget level.

Comparison of Hires to Separations



In an environment where additional budgetary resources may be needed for unforeseen events, a rigorous budget review was performed to ensure adequate funding remains available for core program needs as well as to identify savings, efficiencies, and reductions in other budget items. Unallocated savings, efficiencies, and reductions will be held as contingency funding. It is available, if needed, for the remaining months of 2009. If not needed, it will be returned in the form of a reduction to the next Operating Fee Assessment.

Attachments to this document provide the following information:

- Attachment 1 shows a breakdown of budget requests by office;
- Attachment 2 shows capital acquisitions will increase by \$93,000; and
- Attachment 3 shows an increase in total staffing by 7.00 FTE.

The following budget reductions primarily represent savings, revised estimates, and/or program changes. These \$5.0 million in reductions may be used to offset agency mid-session needs, which are discussed separately.

Employee Pay and Benefits (\$1,197,000)

1. Certain offices and regions provided **\$1.2 million** in reductions due to vacancies. While offices and regions strive to be 100 percent staffed, turnover in staffing results in unused funding.

Travel (\$1,235,000)

2. Agency-wide submissions provided **\$1.2 million** in reductions in Travel. The Office of Human Resources, Division of Training and Development, led the decrease with \$650,000 by examining and prioritizing its programs, especially in support of the Twelve-Month Program (See item 10 below for additional information). The remaining reduction is primarily the result of modifying the assumption that inflationary pressures seen in 2008 would continue into 2009. Certain inflationary trends reversed in 2009 and resulted in lower budgetary needs than originally planned. For instance, the standard mileage rate decreased to \$0.55 from \$0.585, and the average lodging rate per night decreased to \$102 from \$113.

Rent, Communications, and Utilities (\$289,000)

3. The Office of the Chief Information Officer provided a **decrease of \$131,000** in its \$1,683,368 telephone/data communication budget due to delaying the installation of communication upgrades until the fourth quarter.
4. The Office of Human Resources, Division of Training and Development, provided a **decrease of \$50,000** in rental costs due to cost saving initiatives such as eliminating non-essential meetings and conferences as well as reducing budgets where costs were less than originally planned.
5. Communication costs for examiners, including cell phone and wireless broadband, were **decreased by \$44,000** as costs incurred were less than originally budgeted.
6. The remaining **decrease of \$64,000** is due to a number of small decreases to budgets in various offices for items including rent (\$32,000) and telephone (\$18,000).

Administrative (\$273,000)

7. The Office of the Chief Financial Officer provided a **decrease of \$192,000** in interest on the \$18 million King Street Station note payable to the Share Insurance Fund, resulting in a planned annual interest expense of \$570,000. The interest rate on the note is tied to the rate of return on the Share Insurance Fund investment portfolio.

Due to lower market yields, the expected rate of return, which is the loan interest rate, fell to 3.0 percent.

8. The Office of Human Resources, Division of Training and Development, provided a **decrease of \$50,000** related to refreshments due to cost saving initiatives such as eliminating non-essential meetings and conferences.
9. The remaining **decrease of \$31,000** is attributed to decreases in various offices for supplies (\$30,000) and printing (\$1,000).

Contracted Services (\$2,069,000)

10. The Office of Human Resources examined and prioritized its consulting needs to provide a **decrease of \$1,872,000** in its \$2,468,104 budget. The reductions resulted primarily from a decision not to use contractors to provide on-the-job training to new examiners. Rather, experienced field staff were tapped to train multiple new examiners at the same time, which resulted in significant savings when compared to the original plan. Additional reductions were realized by cancelling non-essential conferences.
11. The Office of the Inspector General provided a **decrease of \$60,000** to its compliance audit services for the Federal Information Security Management Act due to savings recognized on competing a new contract.
12. The remaining **decrease of \$137,000** is due to a number of small decreases to budgets in various offices for items including outside training (\$85,000).

The following budget increases, submitted by the central and regional offices, were compared against forecasted values for reasonableness and vetted with executive management to ensure that such requests were supportive of core programs and agency goals. The increases include revised estimates and justified requests not included or foreseen in the original budget. These increases require no additional funding and are completely offset by the reductions discussed above.

Employee Pay, Benefits, and Travel (\$1,728,000)

13. The central offices requested **\$557,000** to add 7.00 FTE, including staff to support:
 - accounting activities for long term needs in the Office of the Chief Financial Officer, 2.00 FTE;
 - centralized chartering in the Office of Small Credit Union Initiatives, 1.00 FTE;
 - corporate examining in the Office of Corporate Credit Unions, 1.00 FTE;
 - establishing the Office of the National Examination Team, 2.00 FTE; and
 - loan underwriting, processing and administration for the Central Liquidity Facility/Office of Capital Markets and Planning, net 1.00 FTE.

14. The implementation of staffing plans by Region III (Atlanta) and Region IV (Austin) resulted in these regions filling all their vacancies. The original budget assumed staffing at 98 percent. Both regions intend to continue to meet their staffing plan and, accordingly, request **\$682,000** to fully fund hiring. In addition, there are a number of small increases in various offices for pay, benefits, and travel, including overtime and travel bonus, totaling **\$234,000**.
15. To support program travel, especially to other regions, Regions II (Capital) and III (Atlanta) request **\$111,000** and **\$144,000**, respectively.

Relocation Expenses (\$1,550,000)

16. The Office of the Executive Director requests an **increase of \$1,550,000** for relocation expenses for a total budget of \$3,050,000. The increase is based on an increase in the number and cost of current year-to-date relocations, which have exceeded \$1.2 million compared to the annual budget of \$1.5 million.

Outreach and Communications (\$455,000)

17. To inform the credit union community and the general public on insurance, stabilization, and other topics, the Office of the Chairman requests **\$100,000** to conduct across-the-nation town hall meetings and outreach events, and the Office of the Executive Director requests **\$100,000** to conduct nation-wide webinars and similar communications.
18. Due to increased external requests for insurance related brochures as well as internal requests for general printing, the Office of the Chief Financial Officer, Division of Procurement and Facilities Management, requests:
- an **increase of \$100,000** for outside printing for a total printing budget of \$433,000;
 - an **increase of \$60,000** for postage for a total budget of \$530,000; and
 - an **increase of \$45,000** for the internal print center for a total print center budget of \$381,000.
19. The Office of Examination and Insurance requests **\$50,000** for outside consultants as part of developing computerized tools to enhance the usability of the Examiner's Guide. The project includes updating the guide's content as well as organizing all instructions, bulletins, supervisory letters, letters to credit unions, and reference material into a single location that is easily searchable.

Capital Acquisitions (\$93,000)

20. The Asset Management & Assistance Center requests **\$60,000** to update its general ledger system, which is used to account for transactions of liquidated credit unions.
21. The Office of the Chief Financial Officer, Division of Procurement and Facilities Management, requests **\$33,000** to upgrade the security card access system.

External Consultants (\$370,000)

22. The Office of Human Resources is in the process of restructuring its programs and requests **\$370,000** in external consultants to meet various needs, for a total budget of \$587,000. Consultants will assist in areas that include:

- recruiting and hiring initiatives;
- auditing of the Delegated Examining Unit, which is the agency's authority to hire candidates from outside the federal government; and
- measuring goals under the Human Capital Assessment and Accountability Framework (HCAAF) plan.

Other (\$867,000)

23. The Office of the Chief Financial Officer requests:

- **\$39,000** to engage an architect to perform planning on various areas of the aging King Street Station building, including the Office of the Inspector General; and
- an **increase of \$50,000** to the transportation subsidy, for a total budget of \$96,000, due to the required legislative increase in the monthly reimbursement rate to \$230 from \$120.

24. The Office of the Inspector General requests an **increase of \$101,000** to the agency's annual financial statement audit budget, resulting in a total budget of \$601,000. The increase is primarily the result of competing a new contract for financial audit services.

25. The remaining **increase of \$424,000** consists of a number of small increases in various offices for items including rent (\$30,000), shipping (\$30,000), subscriptions (\$22,000), and temporary labor (\$51,000).

26. After considering and vetting all requested adjustments to the Operating and Capital budgets, **\$253,000** remained available for agency needs and is, accordingly, held as a contingency reserve for unforeseen needs by the Office of the Executive Director.

RECOMMENDATION

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

1. The reprogramming of the fiscal year 2009 operating budget with a decrease of \$93,000 to result in a budget of \$177,770,682, as presented in Attachment 1.
2. The reprogramming of the fiscal year 2009 capital acquisitions budget with a increase of \$93,000, as presented in Attachment 2, to result in a budget of \$6,397,295.
3. The increasing of total full-time equivalent (FTE) staffing by 7.00 FTE for the fiscal year 2009 to result in an authorized level of 1023.05, as presented in Attachment 3.
4. Upon an individual assuming a Board Member office, the Executive Director is authorized to establish a budget for travel, refreshments/outreach, and representation funds for such office for the remaining portion of the year that will allow the execution of duties associated with the office. The remaining budget shall be established with the advice and consent of the Board Member and shall not exceed the original budget for the office. This reprogramming cannot increase the agency's overall budget.

Chief Financial Officer

Attachments

Attachment 1
Mid-Session 2009

BUDGET

	Original Budget				Revised Budget	% Change
		Decreases	Increases	Net Change		
1 Office of the Board	2,250,183	(132,000)	100,000	(32,000)	2,218,183	-1.42%
2 Office of the Executive Director	1,690,388	(250,000)	374,353	124,353	1,814,741	7.36%
3 Office of the National Examination Team	0	0	351,297	351,297	351,297	100.00%
4 Office of Capital Markets and Planning	2,257,686	(235,000)	95,000	(140,000)	2,117,686	-6.20%
5 Office of Corporate Credit Unions	6,982,864	0	0	0	6,982,864	0.00%
6 Office of the Chief Financial Officer	16,026,548	(310,000)	2,158,274	1,848,274	17,874,823	11.53%
7 Office of the Chief Information Officer	12,305,079	(169,000)	13,000	(156,000)	12,149,079	-1.27%
8 Office of Examination and Insurance	4,864,940	(300,000)	50,000	(250,000)	4,614,940	-5.14%
9 Office of the Inspector General	2,412,907	(59,749)	100,835	41,086	2,453,993	1.70%
10 Office of Small Credit Union Initiatives	4,640,332	(51,000)	86,733	35,733	4,676,065	0.77%
11 Office of General Counsel	4,958,937	(20,000)	75,000	55,000	5,013,937	1.11%
12 Office of Public and Congressional Affairs	712,740	0	50,000	50,000	762,740	7.02%
13 Office of Human Resources	9,727,079	(2,761,600)	389,990	(2,371,610)	7,355,469	-24.38%
14 Region I (Albany)	19,902,439	(33,060)	10,000	(23,060)	19,879,379	-0.12%
15 Region II (Capital)	20,624,272	(245,062)	153,348	(91,714)	20,532,558	-0.44%
16 Region III (Atlanta)	20,786,078	(108,287)	626,196	517,909	21,303,987	2.49%
17 Region IV (Austin)	21,676,741	(285,162)	275,900	(9,262)	21,667,479	-0.04%
18 Region V (Tempe)	23,151,939	(58,006)	0	(58,006)	23,093,933	-0.25%
19 Asset Management and Assistance Center	2,892,530	(45,000)	60,000	15,000	2,907,530	0.52%
Total	177,863,682	(5,062,926)	4,969,926	(93,000)	177,770,682	-0.05%

CAPITAL ACQUISITIONS CHANGES

Office	Description	Useful Life Months	Months Used This Yr	Deprec Exp This Yr	Cash Outlay All Years
AMAC	Upgrading general ledger accounting system	60	4	4,000	60,000
OCFO/ KSS	Upgrading the King Street Station building security card access system	60	4	2,200	33,000
TOTAL				6,200	93,000

Attachment 3
Mid-Session 2009

AUTHORIZED FULL-TIME EQUIVALENT (FTE)

<i>by Office</i>	2009	Change	Revised
Office of the Board	11.00	0.00	11.00
Office of the Executive Director	6.00	0.00	6.00
Office of the National Examination Team	0.00	2.00	2.00
Office of Capital Markets and Planning	11.50	(0.25)	11.25
Office of Corporate Credit Unions	35.00	1.00	36.00
Office of the Chief Financial Officer	29.00	2.00	31.00
Office of the Chief Information Officer	32.00	0.00	32.00
Office of Examination and Insurance	25.90	0.00	25.90
Office of Inspector General	9.00	0.00	9.00
Office of Small Credit Union Initiatives	26.00	1.00	27.00
Office of General Counsel	26.20	0.00	26.20
Office of Public and Congressional Affairs	5.00	0.00	5.00
Office of Human Resources	31.00	0.00	31.00
Region I - Albany	141.75	0.00	141.75
Region II - Capital	148.35	0.00	148.35
Region III - Atlanta	147.40	0.00	147.40
Region IV - Austin	155.50	0.00	155.50
Region V - Tempe	155.95	0.00	155.95
Asset Management & Assistance Center	18.00	0.00	18.00
Subtotal Operating Fund	1,014.55	5.75	1,020.30
Central Liquidity Facility	1.50	1.25	2.75
Total NCUA	1,016.05	7.00	1,023.05