



BOARD ACTION MEMORANDUM

TO: NCUA Board

DATE: November 16, 2016

FROM: Office of the Chief Financial Officer

SUBJ: FY 2017 - 2018 Budget

ACTION REQUESTED: Board approval of the 2017 - 2018 Operating Fund Budget, Capital Budget, and Temporary Corporate Credit Union Stabilization Fund Budget.

DATE ACTION REQUESTED: November 17, 2016

OTHER OFFICES CONSULTED: All Regional and Central Offices

VIEWS OF OTHER OFFICES CONSULTED: Concur

SUBMITTED TO INSPECTOR GENERAL FOR REVIEW: Yes

RESPONSIBLE STAFF MEMBERS: Chief Financial Officer Rendell L. Jones

AUTHORITY: Per the Federal Credit Union Act, the management of the Administration is vested in the National Credit Union Administration Board. It is the Board's responsibility to determine the expenses necessary to carry out its responsibilities under the Act. The Board is authorized to expend such funds and perform such other functions or acts as it may deem necessary or appropriate in accordance with the rules and regulations or policies established by the Board. § 1766(i)(2). At the end of the calendar year, NCUA's financial transactions are subject to audit in accordance with Generally Accepted Accounting Principles. §§ 1783(b) & 1789(b).

Upon determination of the budgeted expenses, using a Board-approved methodology, the Chief Financial Officer calculates a fee schedule with respect to federal credit unions. This schedule gives consideration to the expenses of the Administration in carrying out its responsibilities in connection with federal credit unions and the ability of federal credit unions to pay a fee. § 1755(a)-(b).

That fee schedule is documented in Attachment 2. Fees collected are required to be deposited with the Treasurer of the United States for the account of the Administration, and expended by the Board to defray the expenses incurred in carrying out the agency's operations, including the examination and supervision of federal credit unions. § 1755(d). On a monthly basis, funds from the National Credit Union Share Insurance Fund are transferred to the Operating Fund to account for budgeted expenses related both to federal credit unions and federally insured, state-chartered credit unions, in accordance with its authority to use the Share Insurance Fund to carry out its responsibilities. § 1783(a).

Public Law 111-22, the Helping Families Save their Homes Act of 2009, created the Temporary Corporate Credit Union Stabilization Fund to accrue the losses of the corporate credit union system and, over time, assess the credit union system for the recovery of such losses. Pursuant to the Federal Credit Union Act, the NCUA Board administers the Stabilization Fund. 12 U.S.C. § 1790e(a)- (b). The Board must submit certifications and annual reports to Congress, and the Stabilization Fund's operations are subject to audit in accordance with GAAP. §§ 1789(b) & 1790e(b)(2), (g). The NCUA Board adopts an annual budget in connection with anticipated payments for administration of the Stabilization Fund under 12 U.S.C. § 1790e(a) and (b)(1).

Operating, Capital and Stabilization Fund Budgets

The revised 2017 Budget was prepared to support the 2017 - 2021 Strategic Plan and its stated goals. The Strategic Plan integrates the agency's mission of "providing, through regulation and supervision, a safe and sound credit union system, which promotes confidence in the national system of cooperative credit" with clear goals and objectives for the next five years.

The revised 2017 Budget is an update of the 2017 Board Approved Budget from November 2015. An enhanced budget justification document has been prepared (Attachment 1) to provide a comprehensive justification of NCUA's Operating Fund Budget, Stabilization Fund Budget, and Capital Budget. Overall, the 2017 Operating Budget is \$298.2 million and 1,230 FTEs, and the 2018 Operating Budget is \$312.1 million and 1,208 FTEs; the 2017 Capital Budget is \$15.8 million and the 2018 Capital Budget is \$15.4 million; and the 2017 budget of \$4.1 million and 2018 budget of \$4.2 million is requested for oversight of the Temporary Corporate Credit Union Stabilization Fund as required by the Corporate System Resolution Program. Details of NCUA's Budgets are outlined in Attachment 1.

NCUA held a public budget briefing on October 27, 2016 in order to provide greater budget transparency to stakeholders and the public. Comments received from stakeholders have been posted on [NCUA's website](#). Further refinements were made to the budget, resulting in a \$1 million expense reduction associated with travel and training. These adjustments have been reflected in the Budget Justification Document provided in Attachment 1.

As a result of public feedback, the Budget Justification document has been further enhanced with additional disclosures regarding NCUA's Capital Budget. Many other topics will be addressed with updated Frequently Asked Questions regarding the Budget and will be posted on NCUA.gov within 60 days. OCFO will continue to expand the information available in prospective budget documents as we seek to enhance the quality of public information published concerning NCUA's budget.

All the recommendations from the [Exam Flexibility Initiative](#) (EFI) Working Group are integrated in the estimates for the 2017 Revised Budget and the 2018 Requested Budget. The goals of EFI include improving the ability to adapt to economic changes and emerging issues, while ensuring staff have the resources they need to appropriately examine and supervise credit unions. Through careful and deliberate analysis, the Working Group developed ten recommendations for the

Board's consideration as listed in Attachment 3. Some of the Working Group's objectives impacting the budget include:

- Determining the future examination cycle for federally insured credit unions;
- Improving coordination with state supervisors in the examination of federally insured, state-chartered credit unions;
- Taking advantage of new technology to make exams more efficient and to reduce onsite presence; and
- Identifying program areas where the added flexibility and hours from an extended examination cycle should be repurposed to mitigate risk from an extended cycle and ensure the agency's supervision program remains effective.

Operating Fee

The Board delegated authority to the Chief Financial Officer to administer the methodology approved by the Board for calculating the Operating Fees, and to set the fee schedule as calculated per the approved methodology outlined in Attachment 2. Attachment 2 provides the calculated change based on federal credit union asset growth assumption of 5.1 percent. The total fee collections required in the amount of \$104.8 million represent 0.016% of the estimated federal credit union assets for December 2016. To illustrate the rate impact, a small federal credit union with just over \$1 million in assets would see its annual fee increase by \$46 from \$183 to \$229, or 0.023% of total assets.

The Operating Fee will be assessed to federal credit unions based on estimated year-end assets. Credit unions with assets less than \$1 million will not be assessed an Operating Fee. To set the assessment scale for 2017, federal credit union asset growth is projected to December 31, 2016. Based on the June 30, 2016, 5300 data, annual growth is projected to be 5.1 percent at year end. The asset level dividing points will be increased by this same projected growth rate. Assets are indexed annually to preserve the same relative relationship of the scale to applicable asset base.

To establish the rate applicable to each asset level, the factors outlined in Attachment 2 result in an average Operating Fee rate increase of 25.5 percent for natural person federal credit unions.

The corporate federal credit union rate scale remains unchanged from prior years. Attachment 2 shows the proposed Operating Fee scale.

The **first step** in determining the aggregate Operating Fee amount requirement is subtracting payments from the SIF and other income (e.g. interest income, rents, publication sales) from the proposed Operating Budget. For 2017, the proposed Operating Budget is \$298.2 million. **Second**, the net balance (line five) is adjusted for cash and non-cash needs. Cash needs include additions for capital acquisitions and the repayment of the King Street Station note payable. Non-cash needs include deductions for accrued annual leave and depreciation. **Third**, determine the Operating Fund cash reserve levels. **Fourth**, the total budgeted Operating Fee requirements on line 11 represent Operating Fees for both natural person, and corporate credit unions. The natural

person federal credit union Operating Fee requirement is determined by deducting the corporate federal credit union Operating Fees from the total budget Operating Fee requirements (line 13).

Next, the current Operating Fee schedule is updated with the projected federal credit union asset growth rate. The assets are indexed annually to preserve the same relative relationship of the scale to the applicable asset base. The December 31 year end federal credit union assets are projected on line 14 using the estimated growth rate. The estimated growth rate of 5.1 percent is used to adjust the 2016 Operating Fee schedule. For 2017, since the estimated collections of \$83.5 million are less than the planned Operating budget requirement of \$104.8 million, the average rate increase of 25.5 percent will be reflected in the revised Operating Fee schedule. Attachment 2 includes an illustrated outline of the calculation methodology.

Summary of Changes

The major budget changes highlighted include:

- 2017 Operating Budget: \$298.2 million (1.6 percent reduction from 2017 Board Approved Budget and 2.5 percent increase from the 2016 Board Approved Budget), with 1,230 full-time equivalents (1.4 percent reduction from 1,247 Board authorized FTE level).
- 2018 Operating Budget: \$312.1 million (3.0 percent increase from 2017 Board Approved Budget and 4.7 percent increase from 2017 Revised Budget), with 1,208 full-time equivalents (1.8 percent reduction from 1,230).
- 2017 Corporate Stabilization Fund Budget: \$4.1 million (0.1 percent reduction from 2017 Board Approved Budget and 0.8 percent reduction from 2016 Board Approved), with five full-time equivalents (no change).
- 2018 Corporate Stabilization Fund Budget: \$4.2 million (2 percent increase from 2017 Board Approved Budget and 2017 Revised Budget), with five FTEs.
- 2017 Capital Budget: \$15.8 million and 2018 Capital Budget: \$15.4 million

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

1. The 2017 Operating Budget of \$298.2 million and 1,230 FTEs, and the 2018 Operating Budget of \$312.1 million and 1,208 FTEs; the 2017 Capital Budget of \$15.8 million and the 2018 Capital Budget of \$15.4 million; and the 2017 budget of \$4.1 million and 2018 budget of \$4.2 million for oversight of the Temporary Corporate Credit Union Stabilization Fund as required by the Corporate System Resolution Program.
2. The ten recommendations outlined in the Examination Flexibility Initiative Report included as Attachment 3.

3. Direct the Chief Financial Officer to realign EFI budget reductions among the Regions in conformance with workload estimates and realign the travel and training budget reduction of \$1 million based on actual spending

ATTACHMENTS:

1. 2017 - 2018 Budget Justification
2. Operating Fee Schedule, Rates and Methodology
3. Exam Flexibility Initiative Report