

Narrative Information—DA 400

Division of the Budget

State of Kansas

Agency - Department of Credit Unions - 159

Program _____

September 12, 2023

Mr. Adam Proffitt, Chief Budget Officer
Division of the Budget
Landon State Office Building
900 SW Jackson, Suite 504
Topeka, Kansas 66612

Dear Mr. Proffitt:

The budget for the current Fiscal Year (2024) and the biennial budget for Fiscal Year (2025) have been prepared per your instructions. This document cites the Department's mission, philosophy, goals and objectives, plan for financing, explanation of expenditures and other required work papers.

Fee income collected for FY 2024, and projected fee income for FY 2025 will cover the requested expenditures for both fiscal years. The agency is requesting an enhancement package for FY 2024 and FY 2025 which will also be covered by agency fee funds. Our intention is to utilize the extra expenditures for 1) travel associated with a fully staffed examination team to conduct onsite examinations and 2) additional training opportunities for examination staff to further develop expertise in emerging and complicated areas. Our agency has shared our intentions with our credit unions, and they believe that those expenses would benefit their organizations by way of more in-depth reviews with better recommendations from examiners.

My staff and I are prepared to provide any additional information that you or your budget analyst may require.

Sincerely,

Julie Murray
Administrator

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AGENCY MISSION

The mission of the Kansas Department of Credit Unions is to protect Kansas citizens from undue risk by ensuring safe and sound operation of state-chartered credit unions.

AGENCY PHILOSOPHY

The Kansas Department of Credit Unions will act in accordance with the highest standards of fairness, accountability, efficiency, honesty and integrity. We affirm that the funds deposited in Kansas-chartered credit unions shall be protected to the best of our abilities.

PROGRAMS ESTABLISHED TO ASSIST WITH AGENCY MISSION

- Examination of Credit Unions
- Supervisory Call Backs (visits)

STATUTORY HISTORY

The Kansas Department of Credit Unions was established in 1968 under K.S.A. 17-2234. Information related to the agency, and credit unions in general, may be found in K.S.A. 17-2201 through K.S.A. 17-2268.

EXTERNAL/INTERNAL ASSESSMENT

Credit unions pay an annual operation fee based on asset size, the amount of which is determined by the Agency Administrator in consultation with the Kansas Credit Union Council and based on expenditure limits approved by the Legislature.

Kansas has 49 natural-person, member-owned, state-chartered credit unions under the Department's supervision. The total assets were \$6,266,349,246 as of 3/31/2023 compared to \$6,017,399,588 as of 3/31/2022. Kansas has one corporate credit union under the Department's supervision average assets of the corporate credit union were in excess of \$1.2 Billion as of 6/30/2023. The Department also assesses fees to out-of-state, non-federally chartered credit unions based on their deposits within the borders of Kansas.

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While the number of credit unions is declining due to mergers, the asset size continues to grow. This growth comes with increased complexity on the credit union's balance sheets and more innovative products and services delivered to members. The continued growth trend also facilitates stable revenue to the agency as the number of credit unions decline.

The examination cycle is an average 15 months, which falls within statutory requirements of examining each credit union at least one time each 18 months. The examination workload for the Department is managed with a statewide examination team with examiners stationed in four areas of the state: Wichita, Topeka, Kansas City and Salina. Our current examination protocol is that of a hybrid exam team, with half of the team working onsite at the credit union and the remaining working remotely. This practice allows the agency to conserve resources that would be spent on travel and promotes a better work/life balance for the examination team in an effort to retain employees on a longer term.

The Department of Credit Unions remains as an accredited agency through the National Association of State Credit Unions Supervisors (NASCUS).

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GOAL 1: EXAMINATION OF CREDIT UNIONS

Ensure that all state-chartered credit unions are examined at least every 18 months (K.S.A. 17-2206 (b)).

Objective 1: Examination Cycle

- (a) Maintain an actual examination cycle averaging 18 months or less between each examination.
- (b) Administrative and field staff complete the examination report in less than 60 days.

Strategies 1:

- (a) Administrative personnel will monitor actual performance by reviewing/monitoring reports.
- (b) Administrative staff will continue to review staffing needs.
- (c) Examiners will continue to use the National Credit Union Administration Risk Focused Examination procedures on all state-chartered credit unions.
- (d) Credit unions with problems will be examined no less often than every 12 months. Stable credit unions with favorable CAMEL and risk ratings will be examined at slightly longer intervals but within the Department's statutory 18-month examination requirement.

Outcome Measures:

- (a) The outcome measurement is assessed by date of last examination and is monitored through a quarterly report. The statute requirement is based on the number of months that have elapsed from the date of last examination.
- (b) The Department is presently completing the examination report on a 30-day timeframe prescribed by Department policy.

Output Measures: Examinations Performed

FY2019	FY2020	FY2021	FY2022	FY2023	FY2024	FY2025
Actual	Actual	Actual	Actual	Actual	Estimated	Estimated
60	46	59	42	36	38	38

The number of examinations continue to decrease as credit unions continue to merge. While there are a smaller number of credit unions to examine, the complexity of credit unions products and services have increased. This coupled with increased scrutiny on regulatory issues and current economic factors increases the time spent with credit unions on examinations and follow up contacts, which balances out the reduction in examination numbers.

Action Plans:

- (a) Conduct regular meetings to review all monitoring reports.
- (b) Review and research any late reports and determine cause of delay.
- (c) Review staffing needs on a continual basis.
- (d) Review Department policies annually.

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GOAL 2: SUPERVISORY CALLBACKS:

Provide for timely supervisory callbacks (on-site visits) and monitoring of problem credit unions.

Objective 2:

- (a) Provide a supervision program for problem credit unions through a call back program.
- (b) Provide the time necessary for this program to work effectively.
- (c) Maintain detailed records of call back records and results.

Strategies 2:

- (a) Determine from examination reports and quarterly call reports, which credit unions will be monitored and those that will need a periodic call back. Callbacks will be done semi-annually, quarterly, monthly or as often as needed by onsite or remote examiner visitation. Timely callbacks will be arranged by reviewing travel schedules and other records. The reports submitted from the field staff will be assembled on a spreadsheet for review by the Administrator.

Outcome Measures:

All CAMEL “3” or “4”-rated credit unions have received a call back within the required time frame as needed. Monthly reports are also reviewed in the office. receive ongoing training to ensure they remain current on corrective actions and measures available for problem resolution related to the credit unions they examine.

- (a)

Output Measures: Callbacks Performed

FY2019	FY2020	FY2021	FY2022	FY2023	FY2024	FY2025
Actual	Actual	Actual	Actual	Actual	Estimated	Estimated
15	10	9	8	9	13	13

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Expenditure Justification

5100: Salaries and Wages

The Department's major expenditures in this category are to compensate our examiners and include salaries/wages/department-paid benefits. The increase in the FY2024 salaries/wages/department-paid benefits (over FY2023's actuals) is attributed to vacancies that the department has experienced in recent years. The agency has funded the vacant positions as it expects to fill them and be fully staffed this year.

The Department has 12.0 FTE positions, including an Administrator, a Financial Examiner Administrator (FEA), six Financial Examiners (FE), one Administrative Officer and one Administrative Specialist position. The Department currently has two FTE Financial Examiner (FE) positions open and plans to fill those openings in the FY2024.

5200: Contractual Services

The Department's major expenditures in this category are for travel and subsistence to accomplish credit union examinations and call backs, training for Financial Examiners, rental of office space and copying equipment, communication expenses, fees and dues to professional associations and job-related training.

Expenses related to contractual services show an increase between actual FY 2023 and FY 2024. The projected increase over the previous budget is to recognize the anticipated changes in travel expenses. Most recently, budget cycles actuals have concluded under our approved figures. The 2020 and 2021 cycles were lower due to reduced travel during COVID-19; The most recent FY showed reduced expenses due to vacancies in the agency. The current estimates are figured for 8 traveling employees with 50% travel requirements. Those affected areas include in 525180 Meals and Lodging in State, 525510 Private Vehicle Miles, 526610 Job Related Training & Conference Registration, and 529100 Dues and Subscriptions.

5300: Commodities

The Department expenditures in this category are expected to remain stable.

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5400: Capital Outlay

Expenditures in this category would be related to the purchase of office equipment, office furniture and other fixed tangible assets, such as Department vehicles.

FY 2024 Current Service Level and FY2025- The biggest budgeted expense FY 2024 and FY 2025 is for the retirement and replacement of one vehicle for each of the two fiscal years: one vehicle being 13 years old and one being 9.

REVENUE ESTIMATES

The Department receives revenues from only one source—fees—the assessment of which is based on the March 31st asset size of the state-chartered credit unions that we examine and supervise. K.S.A. 17-2206(e), as amended, provides that “each credit union shall pay to the Administrator a fee for examination established in accordance with this subsection.” Prior to June 1st of each year, the Administrator, after advising the Credit Union Council, shall establish such annual fees as the Administrator determines to be sufficient to meet the budget requirements of the Kansas Department of Credit Unions.

Fees are assessed according to a fee schedule which currently is similar to the schedule established by the National Credit Union Administration, and which applied to all federally chartered credit unions. The fee schedule for state-chartered corporate credit unions consists of a formula consist with fees assessed on federal corporate credit unions. Credit unions chartered in other states that have physical facilities in Kansas also pay fees based upon their deposits in Kansas. During FY 2023, the agency provided a one-time reduction of 30% in fee assessments to the credit unions. This reduction was given to offset the higher-than-normal balance in the fee fund, which occurred due to staffing shortages and reduced travel during the pandemic.

During FY 2023, the Department’s revenues exceeded expenditures, even after the \$100,000 required contribution to the state general fund. Department’s carryover funds as of June 30, 2023, increased to \$878,358. The National Association of State Credit Union Supervisors (NASCUS) recommended reserve of one quarter’s expenses in its carry over fund.

Natural-Person Credit Union Fees

	FY 2022 Actual	FY 2023 Actual	FY 2024 Estimate	FY 2025 Estimate
March 31 Assets	6,047,891,000	6,031,357,000	6,227,684,000	6,414,514,000

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Asset Growth	8.4%	-2.5%*	3.25%	3%
Fees	1,211,337.60	835,469**	1,247,299	1,284,718
Out of State CU Fees	158,000	312,000	325,000	334,750

*Asset size reduction was due to a state-chartered credit union converting to a federal charter

** fee reduction was by design, the agency passed on a one-time reduction in fees to compensate for reduction in expenses realized over the previous years for reduced travel costs.

Corporate Credit Union Fees				
	FY 2022 Actual	FY 2023 Actual	FY 2024 Estimate	FY 2025 Estimate
March 31 Assets	\$1,347,159,021	\$1,492,725,062	\$1,211,782,097	\$1,302,665,754
Growth	30.08%	10.80%	-23.18%	7.5%
Fee	\$30,673	\$0	\$25,000	\$25,000

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	FY 2022 Actual	FY 2023 Actual	FY 2024 Estimate	FY 2025 Estimate
Total Fees	1,369,337	1,147,469**	1,572,299	1,619,468
General Fund	(\$100,000)	(\$100,000)	(\$100,000)	(\$100,000)
Net Fees	\$1,269,337.60	\$1,047,469	\$1,472,299	\$1,519,468