

DCU BULLETIN
Division of Credit Unions
Washington State Department of Financial Institutions

November 13, 1995

No. 95-5

PROPOSED DIVISION BUDGET

The purpose of this bulletin is to provide information regarding the proposed fee increase for the Division. Please review it before the interactive television session on the morning of Thursday, November 16, 1995.

General Background

In 1994, the Division's fund fell into the red, due primarily to significant expenses for tort litigation defense, the loss of S&L revenue upon creation of the DFI, and expenses for computers and additional staffing. In response, beginning in early 1995, several measures were taken to reduce Division expenses. Among other things, staff was reduced, expenses were deferred where possible, and examiner travel schedules were reorganized. In addition, the Division enacted rules which provide for a schedule of automatic annual increases in fees and assessments, within the limits of Initiative 601. At the present time, even with an Acting Assistant Director on half time, the Division's revenues are barely adequate to pay the cost of its operation, without regard to expenses for tort litigation defense. See Exhibits A-1 and A-2, enclosed, for detail on the Division's fiscal-year budgets for fiscal years 1994 through 1996. All fiscal years referred to in these materials, whether or not so stated, are state government fiscal years, which run from July 1 through the following June 30.

Current revenue levels are also inadequate to pay for certain critical needs of the Division: to provide one additional assistant analyst, more examiner training, information systems upgrades, etc. These expenditures are critical for the Division to maintain a professional regulatory staff that is able to meet the regulatory challenges of the changing credit union movement.

In response to this problem, the Division has also reviewed its current fee structure. One of our conclusions was that our fee structure must be more comparable to the cost of a federal charter, particularly for credit unions with under \$20 million in total assets.

With these considerations in mind, we are proposing to revamp our current fee and assessment structure. At present, credit unions fund the operation of the

Division primarily through the payment of hourly examination fees and semi-annual asset assessments. The Division is proposing to eliminate the hourly exam fee and increase the rate of the semi-annual asset assessments for credit unions over \$20 million in total assets. (The total fees for those under this benchmark would be reduced.) In addition, we are proposing to charge credit unions a one-time special assessment in fiscal 1997, to pay non-recurring costs incurred by the Division.

Need for Legislation in 1996

In order to implement the proposed budget and fee structure, which will exceed Initiative 601 limits, it will be necessary for authorizing legislation to be passed. It is important that the proposed fee structure be put into effect on July 1, 1996, in order for the Division to resolve these problems by the end of the current fiscal biennium (June 30, 1997). Consequently, to meet this timeframe, the Division and credit union movement will need to seek passage of a bill in the 1996 legislative session. We expect to implement the legislation through the adoption of rules effective July 1, 1996.

Input from WCUL Committees

The Division has been working with committees of the Washington Credit Union League (WCUL) since early 1995 to review our current budget and the proposed budget and fee structure. We provided detailed data to the individuals on these committees and worked with them extensively to answer their questions. We appreciate their input and the time and energy they have put into this process. The proposals set forth in this Bulletin were developed as a consensus with these individuals.

Proposed Budget

The essence of the proposed budget is as follows:

1. The Division needs to increase expenditures for an additional assistant analyst, examiner training, information systems upgrades, payment of litigation expenses in the Aitken lawsuit, and the establishment of a contingency reserve.
2. In order to provide for these needs:
 - a. The projected fiscal 1995-97 biennial budget will increase to \$2,300,348 from the fiscal 1993-95 biennial budget of \$2,010,393.
 - b. The projected 1997 fiscal year budget will increase to \$1,120,296 from the projected 1996 fiscal year budget of \$1,006,208.
 - c. A one-time special assessment of \$173,844 will be charged to credit unions in fiscal 1997.

See Exhibits A-1 and A-2 for detail on the proposed budget. Relatively speaking, these increases will put the Division on more of a par with the budgets of the Division of Banking and the NCUA, but certainly not in excess of expenditures by these other regulators.

Proposed Fee Structure

The essence of the proposed fee structure is as follows:

1. Credit unions will no longer pay hourly fees for examinations.
2. Credit unions will continue to pay semi-annual asset assessments, at revised rates, based on total assets. The rates will be structured in eight different asset tiers. See Exhibit B for detail on the proposed fee structure.
3. Each credit union will continue to pay an hourly fee for the Division's time in processing its community charter applications.
4. Each credit union will continue to pay for assistant attorney general's time in providing written legal opinions for the credit union and for representing the Division in enforcement matters against the credit union, on a pass-through basis from the attorney general's office.
5. In fiscal 1997 only, credit unions will pay a special assessment to cover the cost of certain non-recurring costs, including attorney general's expense incurred in the Aitken lawsuit, and 1994 moving expenses of the Division. This special assessment totals \$173,844. It will be assessed to credit unions pro rata on the basis of their total assets. Credit unions will be allowed to pay the assessment in more than one installment over the 1997 fiscal year (July 1, 1996 through June 30, 1997).

See Exhibit C for detail on the bill and rules necessary to implement the proposed budget and fee structure.

Importance of State Charter for Credit Unions

Underlying all of this is our belief that a strong state charter for credit unions is critical to help meet the financial services needs of the consumers of the state of Washington. Indeed, the Washington Legislature has made this clear on several occasions, most particularly in the Credit Union Act, Chapter 31.12 RCW, as well as in the legislation creating the DFI. Our statutory mission is to maintain a viable and competitive state credit union movement and to recognize the uniqueness of state credit unions. Without a strong state charter for credit unions, the credit union marketplace will be dominated by federal charters, and the consumer will lose choice and innovation in shopping for financial services.

Moreover, we believe that, as a charter option, a state credit union charter offers several advantages over the competing charter:

1. Local, accessible legislature and legislators
2. Local, accessible regulator
3. More expansive set of state powers and authorities (FOM, etc.)
4. Better understanding of local economy and local credit union business
5. Faster response to applications and interpretation questions

6. Less bureaucratic
7. Announced Division plans to develop consensus on modernization of the Washington Credit Union Act and Division rules
8. Announced Division plans to develop consensus on ways to streamline regulatory burden for small credit unions
9. Announced Division plans to develop consensus on issues related to FOMs.

In order to maintain and enhance the state charter, it is necessary to have a professional and credible state regulatory function. This will help ward off incursions by the NCUA and Congress on state powers, which would diminish the attractiveness and viability of the state charter.

The nature of the movement is changing, however, with more competition, risk-taking, and reliance on technology. In order to maintain a strong state regulatory function in the face of such change, we must increase spending in certain areas, to provide for additional examiner training, to achieve salary parity with Banking Division examiners, to secure accreditation by NASCUS, to upgrade and maintain information systems, to maintain adequate staffing, to pay attorney general expenses for tort litigation defense, and to establish reasonable reserves. We have not asked for all of these things to be funded in the current budget proposal, but we believe that, with time, all of these important goals must be achieved. Moreover, we may need to seek additional fee increase if revenues do not meet our projections, or if extraordinary expenses (e.g., litigation expenses) must be incurred.

Input from all Credit Unions

All credit unions will be given the opportunity on November 16, 1995, from 9-11 a.m., to provide input to Division staff regarding the proposed budget and fee structure. We have scheduled an interactive television session for this purpose from four sites state-wide: Lacey, Lynnwood, Seattle, and Spokane. (Information was mailed previously under separate cover.) Although the format may be somewhat intimidating, please feel free to ask questions during the interactive television sessions.

Credit unions should also feel free before and after the television session, up through the rule-making process on the fee structure early next year, to provide input to the Division on the proposal. If credit unions from the Vancouver or Yakima/Wenatchee areas find it too inconvenient to make it to the nearest site, we could arrange a visit to a Chapter meeting in these areas to discuss the proposed budget and fee structure.

Please feel free to give Parker Cann or Linda Jekel a call at (360) 902-8778 or 8753, respectively, to discuss the proposed budget and fee structure.

Exhibit A-1 DCU Annual Revenues

**(Fiscal year = July 1 to June 30)
1993-1995 Biennium (actual)**

Actual revenues	FY 1994 12 mo.	FY 1995 12 mo.	Biennium 93-95 24 mo.
S&L exams fees	-		-
S&L asset fees (from 7/93-9/93)	21,882		21,882
S&L misc. (from 7/93-9/93)	2,332		2,332
S&L Sub-Total	24,214	-	24,214
CU Safety & Soundness exams	434,318	472,596	906,914
CU EDP exams	-	45,546	45,546
CU Compliance exams	-	-	-
CU CUSO exams	-	500	500
CU Com Charter applications	-	-	-
CU Miscellaneous	3,601	12,625	16,226
CU Sub-Total	437,919	531,267	969,186
*One Time Income	-	207,648	207,648
CU Assessments	423,786	385,559	809,345
TOTAL	885,918	1,124,475	2,010,393

* early asset assessment collected April 1995

1995-1997 Biennium (estimated and proposed)

Projected revenues from CUs	Status quo FY 96	Proposed FY 97	One time assessment FY 1997	Proposed Biennium 95- 97
CU Safety & Soundness exams	496,840	-		496,840
CU EDP exams	47,882	-		47,882
CU Compliance exams				-
CU CUSO exams	525	-		525

CU Com Charter applications	included below			
CU Miscellaneous	13,272	-		13,272
Sub-Total	558,519	no hourly billing	558,519	
*One Time Income			173,844	173,844
CU Assessments	447,676	1,120,296		1,567,972
TOTAL	1,006,195	1,120,296	173,844	2,300,335

**Exhibit A-2DCU Annual Expenditures
(Fiscal year = July 1 to June 30)
1993-1995 Biennium (actual)**

Actual expenditures	FY 1994 12 mo.	FY 1995 12 mo.	Biennium 93-95 24 mo.
Salaries - (inc. some admin. overhead)	619,770	623,970	1,243,740
Benefits - (inc. some admin. overhead)	146,803	144,187	290,990
Travel	64,625	67,099	131,724
Goods and service without training	22,363	19,954	42,317
Training	7,192	3,495	10,687
Capital outlays	60,337	-	60,337
Noncapitalized fixed	9,297	7,282	16,579
Debt service	-	3,887	3,887
95 NASCUS past due bill	-		-
94 moving balance	-		-
Tort bill	-		-
Tort fund	-		-
salary parity	-		-
salary parity - benefit cost	-		-
Info. System costs	-		-

Contingency reserve fund			
Accreditation			
Other	-	612	612
Fixed revolving accounts	85,834	58,634	144,468
Admin. Overhead	110,653	117,875	228,528
TOTAL	1,126,874	1,046,995	2,173,869

1995-1997 Biennium (estimated and proposed)

Projected Expenditures	Status quo FY 96 12 mo.	Proposed FY 1997 12 mo.	One time assessment FY 1997	Proposed Biennium 24 mo.
Salaries - (inc. some admin. overhead)	540,204	610,514		1,150,718
Benefits - (inc. some admin. overhead)	143,245	152,628		295,873
Travel	76,076	77,000		153,076
Goods and service	21,983	25,807		47,790
Training	4,502	6,502		11,004
Capital outlays	1,391	1,391		2,782
Noncapitalized fixed	3,934	3,934		7,868
Debt service			21,200	21,200
NASCUS dues		2,400	2,400	4,800
94 moving balance			29,356	29,356
Tort bill debt			85,088	85,088
Tort bill - Aitken appeal		20,000	20,000	
salary parity				-
salary parity benefit cost				-

Info. System costs	13,391	33,450	15,800	62,641
Contingency reserve fund	25,000	20,000		45,000
Accreditation				-
Other				-
Fixed revolving accounts	54,884	56,434		111,318
Admin. Overhead	115,391	130,227		245,618
TOTAL	1,000,001	1,120,287	173,844	2,294,132

Exhibit BDCU Proposed Fee Structure

Credit union asset size category	Total assets in that category	Semi-annual factor or fee
over \$500M	1,971,684,438	\$10,207 + \$26,507 + .03 per thousand over \$500,000,000
over \$100 M to \$500 M	2,934,787,968	\$10,207 + .0666268 per thousand over \$100,000,000
over \$20 M to \$100 M	1,178,823,841	.10207 per thousand of total assets
over \$10 M to \$20 M	282,673,682	\$2,250 per semi-annual assessment
over \$2 M to \$10 M	166,617,996	\$1,500 per semi-annual assessment
over \$200 K to \$2 M	14,850,250	\$1,000 per semi-annual assessment
under \$200 K	-	no fee
WCCCU	198,419,251	.0504 per thousand of total asset
Total	6,747,857,426	

M = million
K = thousand

Exhibit C Key Provisions of Bill and Rules

Bill

1. In general, authorizes Division to set reasonable fees, which will pay for costs of operation of Division, and cover the establishment of reasonable reserves.
2. Authorizes Division to increase fees for fiscal 1997 in excess of the Initiative 601 limits. Fee increases for other years must be within I-601 limits.
3. Fee changes for fiscal 1997 may not increase projected 1995-1997 biennial revenues in excess of 115% of 1993-1995 biennial revenues.

Rules

1. Hourly examination fees eliminated.
2. Semi-annual assessment rates revised effective July 1, 1996.
3. Special assessment of \$173,844 to be paid during fiscal 1997. Assessment to cover certain one-time Division costs (Aitken defense costs to date, Division's 1994 moving costs, etc.). The assessment may be paid in installments during the July 1, 1996-June 30, 1997 period.
4. Current schedule for automatic annual increases in fees is eliminated.
5. The size of the contingency reserve will be capped at four months' operating expenses. When the cap is reached, fees will be credited toward future fee assessments to prevent the reserve from exceeding these levels.
6. Contingency reserves will only be used to meet extraordinary expenses, such as litigation defense expenses, costs associated with resolution of troubled institutions, etc.
7. The Division will provide annual budget figures to the WCUL for its review.
8. Each credit union will continue to pay an hourly fee for our time in processing its community charter applications.
9. Each credit union will continue to pay for assistant attorney general's time in providing written legal opinions for the credit union and for representing the Division in enforcement matters against the credit union, on a pass-through basis from the attorney general's office.
10. Each third party service provider examined by the Division will be billed hourly for examinations.

Exhibit D

Timeline for Implementation of Proposed DCU Budget and Fee Structure

November 16, 9-11 a.m. Interactive television session for all state credit unions to provide input on the proposed budget and fee structure, at the following sites: Lacey, Lynnwood, Seattle, and Spokane. (Information previously provided under separate cover.)

January 1996: introduction of bill in Legislature

February: initiation of rule-making process to adopt implementing rules

June: effective date of bill

July 1: effective date of rule to implement new fee structure.