

### Program Budget Comparison

The following table summarizes the total proposed budget by year, type of expenditure, and source of funding.

Program Budget Comparison								
Budget Item	Base Fiscal 2014	Approp. Fiscal 2015	Budget Fiscal 2016	Budget Fiscal 2017	Biennium Fiscal 14-15	Biennium Fiscal 16-17	Biennium Change	Biennium % Change
FTE	37.00	37.00	34.80	34.80	37.00	34.80	(2.20)	(5.95)%
Personal Services	2,736,740	2,870,477	3,324,391	3,326,938	5,607,217	6,651,329	1,044,112	18.62 %
Operating Expenses	861,750	1,016,511	983,928	916,317	1,878,261	1,900,245	21,984	1.17 %
<b>Total Costs</b>	<b>\$3,598,490</b>	<b>\$3,886,988</b>	<b>\$4,308,319</b>	<b>\$4,243,255</b>	<b>\$7,485,478</b>	<b>\$8,551,574</b>	<b>\$1,066,096</b>	<b>14.24 %</b>
State/Other Special Rev. Funds	3,598,490	3,886,988	4,308,319	4,243,255	7,485,478	8,551,574	1,066,096	14.24 %
<b>Total Funds</b>	<b>\$3,598,490</b>	<b>\$3,886,988</b>	<b>\$4,308,319</b>	<b>\$4,243,255</b>	<b>\$7,485,478</b>	<b>\$8,551,574</b>	<b>\$1,066,096</b>	<b>14.24 %</b>

### Program Description

The Banking and Financial Division (division) licenses, supervises, regulates, and examines financial institutions doing business in Montana. Those institutions include:

- Banks and trust companies and related branch banks
- Credit unions
- Consumer finance companies
- Sales finance companies
- Escrow companies

The division also licenses and examines residential mortgage loan service providers.

Supervision of regulated depository financial institutions is accomplished primarily through examinations. The safety and soundness of Montana state chartered banks and credit unions, which hold over \$28 billion in assets as of July 2014, are supervised by the division. Banks are statutorily required to be examined at least once every 24 months. Credit unions are examined at least every 18-months. Consumer lenders, mortgage companies, and deferred deposit lenders may be examined at any time. Escrow companies and sales finance companies are examined as necessary.

The State Banking Board is administratively attached to the division. The board is responsible for making final determinations on applications for new bank charters and trust companies; hearing appeals of division decisions on branch bank, merger, or relocation applications; and may also act in an advisory capacity with respect to the duties and powers given by statute to the department when requested by the division.

### Program Highlights

<b>Banking and Financial Division Major Budget Highlights</b>
<ul style="list-style-type: none"> <li>• Executive proposes increasing 2017 biennium budget 14.2% compared to the 2015 biennium budget</li> <li>• Majority of the increases are due to changes in personal services costs</li> </ul>
<b>Major LFD Issues</b>
<ul style="list-style-type: none"> <li>• Fees charged to banking and financial institutions are not commensurate with the costs of providing program services</li> </ul>

**Program Discussion -***Comparison of FY 2015 Legislative Base to FY 2015 Adjusted Base*

The Banking and Financial Institutions Division did not change the FY 2015 legislative appropriations. The number shown in the program budget comparison table above reflects the budget approved by the 2013 Legislature.

*Comparison of the FY 2014 Actual Expenditures to FY 2015 Legislative Appropriations*

Actual FY 2014 expenditures are \$288,498 lower than the FY 2015 legislative appropriation. The primary reasons for the difference include:

- Vacant positions within the division
- Usage of information technology and professional consulting services lower than anticipated in the budget

*Executive Request*

Personal services increase between biennia for two main reasons:

- High turnover in the division during FY 2014
- Pay and benefit changes provided in FY 2015 through HB 13 that are annualized in FY 2016

In FY 2014, 18.9% of the division's 37 positions were vacant at least 50% of the year with one, a financial operations supervisor/manager, vacant all year. It should be noted that this is an improvement from FY 2012 when 32.4% of the positions were vacant at least 21.7% of the year. According to the division significant recruitment and retention problems exist within the division in part due to:

- Significant travel associated with examinations
- Workplace conditions, as bank examiners may generate concern and anxiety among bank employees being examined
- High workloads due to recurring vacancies
- Competition with private and federal entities for the same workforce

The division has put several measures in place to address the issue, including:

- Career tracks for bank examiners
- Alternate work schedules
- Compensation based on the number of nights an individual is on the road

In addition, the pay increases contained in HB 13 have allowed pay for bank examiners to move into the market ranges for their positions. As of June 5, 2012, 40% of the workforce's salaries were below 80% of the market midpoint for the position,

including a number of financial examiners. With the pay increase slated to begin on November 15, 2014, all of the financial examiners will be above the minimum of the occupational wage range.

**Funding**

The following table shows proposed program funding by source from all sources of authority.

Department of Administration, 14-Banking and Financial Institutions Division Funding by Source of Authority					
Funds	HB2	Non-Budgeted Proprietary	Statutory Appropriation	Total All Sources	% Total All Funds
General Fund	0	0	0	0	0.00 %
02077 Financial Institutions Div	8,551,574	0	0	8,551,574	100.00 %
<b>State Special Total</b>	<b>\$8,551,574</b>	<b>\$0</b>	<b>\$0</b>	<b>\$8,551,574</b>	<b>100.00 %</b>
<b>Federal Special Total</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>0.00 %</b>
<b>Proprietary Total</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>0.00 %</b>
<b>Total All Funds</b>	<b>\$8,551,574</b>	<b>\$0</b>	<b>\$0</b>	<b>\$8,551,574</b>	

The division is funded solely by state special revenues generated from assessments, application fees, and examination fees paid by the regulated financial institutions.

**LFD  
ISSUE**

Fees Not Commensurate with Cost of Providing Services

The state budgeting system shows that the division's state special revenue account fund balance is projected to increase, from \$2.1 million at the beginning of FY 2014 to \$2.9 million at the end of FY 2017. The projections are shown in the figure below.

Department of Administration Banking and Financial Division				
	Actuals FY 2014	Appropriated FY 2015	Proposed FY 2016	Proposed FY 2017
Beginning Fund Balance	\$2,114,347	\$2,493,601	\$2,898,974	\$2,883,888
<b>Revenues</b>				
Licenses and Permits	1,371,661	1,250,000	1,250,000	1,250,000
Charges for Services	2,594,605	3,000,000	3,000,000	3,000,000
	0	30,000	30,000	30,000
Grants/Transfers/Misc	<u>7,577</u>	<u>13,000</u>	<u>13,000</u>	<u>13,000</u>
<b>Total Revenues</b>	<b>3,973,843</b>	<b>4,293,000</b>	<b>4,293,000</b>	<b>4,293,000</b>
<b>Expenditures</b>				
Personal Services*	2,732,925	2,870,477	3,324,158	3,326,711
Operating Expenses	<u>861,664</u>	<u>1,017,150</u>	<u>983,928</u>	<u>916,317</u>
<b>Total Expenditures</b>	<b>3,594,589</b>	<b>3,887,627</b>	<b>4,308,086</b>	<b>4,243,028</b>
<b>Ending Fund Balance</b>	<b><u>\$2,493,601</u></b>	<b><u>\$2,898,974</u></b>	<b><u>\$2,883,888</u></b>	<b><u>\$2,933,860</u></b>

Reasonable reserves

At the end of FY 2014 the fund balance was more than four times a level sufficient to finance 60 days of costs, or \$591,000. A 60-day working capital reserve is generally recognized as a reasonable level of fund balance for state government operations and is used to evaluate internal services funds within the agency. The figure on the previous page shows continued increasing fund balance in spite of increased costs for personal services and operating expenses, with the ending fund balance still four times above the level of 60 days of costs, or \$708,000.

The majority of the revenues collected by the division are fees set in rule. During the 2013 Legislative Session the division indicated it was expecting a significant change in the number of state-chartered banks and would review the assessment rates after the impact of the change was known. The change occurred in FY 2012.

Based on the increasing fund balance, fees are not commensurate with costs of providing the program. In the past the division provided for a one-time 50% reduction in the fees. This, however, did not result in a corresponding reduction in fund balance as the costs of operating the program were also lower due to the number of vacant positions. The legislature may wish to discuss with the division which assessment fees should be permanently changed to reduce the fund balance in the state special revenue account to a more reasonable level.

Another option would be to transfer the excess fund balance into the general fund. An issue to explore when considering this option is whether fees paid by a select industry should go into the general fund, which can be then used for other purposes that may or may not benefit that industry.

Legislative Option

If the legislature wishes to ensure assessment fees on financial institutions are commensurate with the costs of the banking and financial division it may wish to consider:

1. Discussing permanent changes in bank assessments and other fees assessed financial institutions with the division; or
2. Reducing the fund balance to \$708,000 at the end of FY 2017 by transferring up to \$2.2 million into the general fund

**Budget Summary by Category**

The following summarizes the total budget utilizing the FY 2015 Legislative base, present law adjustments, and new proposals.

Budget Item	-----General Fund-----				-----Total Funds-----			
	Leg. Budget Fiscal 2016	Leg. Budget Fiscal 2017	Leg. Biennium Fiscal 16-17	Percent of Budget	Leg. Budget Fiscal 2016	Leg. Budget Fiscal 2017	Leg. Biennium Fiscal 16-17	Percent of Budget
2015 Budget	0	0	0	0.00 %	3,886,988	3,886,988	7,773,976	0.00 %
PL Adjustments	0	0	0	0.00 %	421,331	356,267	777,598	0.00 %
New Proposals	0	0	0	0.00 %	0	0	0	0.00 %
<b>Total Budget</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>		<b>\$4,308,319</b>	<b>\$4,243,255</b>	<b>\$8,551,574</b>	

**Present Law Adjustments -**

The "Present Law Adjustments" table shows the changes from FY 2015 legislative appropriation to the budget proposed by the executive. PSPL adjusts all personal services. LGPL provides for adjustments to other expenditures such as operating expenses. Each is discussed in the narrative that follows. Total funds in the Present Law Adjustments table do not include proprietary funds budgeted in House Bill 2.

Present Law Adjustments										
-----Fiscal 2016-----					-----Fiscal 2017-----					
FTE	General Fund	State Special	Federal Special	Total Funds	FTE	General Fund	State Special	Federal Special	Total Funds	
DP 98 - LEG. Personal Services Present Law										
0.00	0	453,914	0	453,914	0.00	0	456,461	0	456,461	
DP 99 - LEG. Present Law										
0.00	0	(32,583)	0	(32,583)	0.00	0	(100,194)	0	(100,194)	
<b>Grand Total All Present Law Adjustments</b>										
<b>0.00</b>	<b>\$0</b>	<b>\$421,331</b>	<b>\$0</b>	<b>\$421,331</b>	<b>0.00</b>	<b>\$0</b>	<b>\$356,267</b>	<b>\$0</b>	<b>\$356,267</b>	

DP 98 - LEG. Personal Services Present Law -

The Personal Services Present Law Adjustments (PSPL) in the table below includes all present law adjustments related to personal services, including statewide present law personal services adjustments. This adjustment has been broken out by some of its component parts for a more detailed understanding of the adjustments. FY 2016 and FY 2017 contain the reductions in FTE made by the executive to implement the boilerplate language in HB 2.

Personal Services Present Law Adjustments					
FY 2016					
	FTE	General Fund	State Special	Federal Special	Total Funds
CP 98 PSPL Item					
State Share Health Insurance	34.80	\$0	\$16,913	\$0	\$16,913
Executive Implementation of 2015 Pay Increase		-	57,350	-	57,350
Fully Fund 2015 Legislatively Authorized FTE		-	95,306	-	95,306
Other		-	284,345	-	284,345
<b>Personal Services Present Law Adjustments</b>	<b>34.80</b>	<b>\$0</b>	<b>\$453,914</b>	<b>\$0</b>	<b>\$453,914</b>
FY 2017					
	FTE	General Fund	State Special	Federal Special	Total Funds
CP 98 PSPL Item					
State Share Health Insurance	34.80	\$0	\$16,913	\$0	\$16,913
Executive Implementation of 2015 Pay Increase		-	57,350	-	57,350
Fully Fund 2015 Legislatively Authorized FTE		-	95,306	-	95,306
Other		-	286,892	-	286,892
<b>Personal Services Present Law Adjustments</b>	<b>34.80</b>	<b>\$0</b>	<b>\$456,461</b>	<b>\$0</b>	<b>\$456,461</b>

Funding included in the remainder of other includes support for market, strategic pay, training assignment progression adjustments, and longevity.

**LFD COMMENT** Although the division has used the situational pay scale every year since FY 2008, additional funding to support situational pay was not requested and thus not included as part of the division’s personal services budget. It should be noted that differential pay adjustments such as these are removed from the base budget and are not provided in adjustments for personal services for the next biennium. Funding, if needed, must be requested each biennium. The division has been able to fund the cost for situational pay using savings generated due to the high level of vacant positions occurring each year. While the vacancies have decreased since their peak, vacancies in FY 2014 still generated sufficient savings to fund the situational pay costs.

DP 99 - LEG. Present Law -

As shown in the present law table the executive is proposing reductions in other expenditures when compared to the 2015 legislative base budget. As shown in the program budget comparison, FY 2014 actual spending was lower than the FY 2015 base for a number of operating expenses including SITSD costs and professional and consulting services. The LGPL captures these reductions as, for the most part, the executive included them in the 2017 biennium.